

Corporate Social Responsibility Report 2013





Our CSR Mission

Our Deep-Rooted Drive for Sustainability

2013 was a year of many milestones — the most important of these benefiting our customers, our community, and our planet. We achieved new strides in air and chemical filtration, expanded our alternative power support, and created new efficiencies in packaging.

This year, our efforts are even more meaningful. In January, we were one of 14 companies to become an Illinois Benefit Corporation, the same day B Corp legislation went into law. This distinction requires us to conduct business based on environmental implications, and meet higher standards for transparency and accountability. We also must demonstrate a material positive impact on society, uphold a fiduciary obligation that is in the interests of our staff and community; and publicly report on the same — as we are doing in this Corporate Sustainability Report (CSR).

Indeed, Solberg engineers, manufactures, and delivers solutions for the equipment that powers our lives. And we do so with conscience. From compressors to turbines, vacuum pumps to reciprocating engines, our environmentally sound products are used on the world’s most challenging applications.

◀ Illinois Benefit Corporation meeting with Illinois state representatives



2013 Achievements

2013 Race to the Top Award – Solberg was one of 7 companies (out of 850) to receive B Lab’s Race to the Top award. This honor recognizes B Corps that exemplify the spirit to improve their impact on society and the environment by engaging employees at all levels to make meaningful change.

ASQ’s Pathways to Sustainability – Solberg was featured in Pathways to Sustainability from the American Society for Quality (ASQ), for its leading sustainability initiatives. Solberg was also interviewed for a video, discussing how to leverage quality management principles to generate greater social, environmental, and financial results.

GOOD/USPS posting – In May, Solberg was featured by GOOD for its innovative approach to complying with heightened environmental mandates, while achieving corporate prosperity. The post showcased some of Solberg’s practices in alternative power generation and air/gas filtration.

Our Philosophy

Solberg harnesses the support of our talented staff to ensure a “conscious culture.” Every employee contributes to our “P7 Tree,” bringing positive, responsible change across Product, People, Planet, Property, Power, Prosperity, and Philanthropy.

Our philosophy dictates that we factor in seven key ideas associated with the Triple-Bottom-Line business practice — “People, Planet, and Profit” — and our Guiding Principles:

- **We Succeed as a Family** – We are committed and accountable to our business family. Our ability to connect and care for each other ensures our well-being.
- **We Do the Right Thing** – We can be trusted to keep our promises and treat others as we would like to be treated.
- **We Endeavor to be the Best** – We attract, develop, and empower great people. We continually seek ways to improve everything we do.
- **We Take Care of the Customer** – We partner with our customers by innovating and responding to their needs. We do whatever it takes to ensure their satisfaction.
- **We Play Hard to Win** – We rise to every challenge. Our strong work ethic and desire to succeed drive us to outperform the competition.
- **We Love Our Planet** – Every day we all do our part to lessen the environmental impact of our business. We actively seek ways to protect and preserve our environment.

Our P7 Tree





Product

Sustainability across the Supply Chain

As an environmentally conscious manufacturer, Solberg knows that it is not just what you manufacture but how you manage its production and delivery. Our packaging is becoming just as well-planned as our products, and we strive to incorporate smart and responsible principles throughout our supply chain.

- **High-Quality, Sustainable Packaging** – In 2013, we sold 11% more units than the previous year, with every product piece equaling one unit. To put this into perspective, 16 of our 62 product types experienced a record sales month some time during the year. To respond to this growth, we added 14 new full-time production jobs.
- In 2013, we received 34 reports of product damage – effectively reducing damage by 17%. This was achieved by doing things like obtaining another corn packaging sheet and by double-boxing fragile shipments. Additionally, we changed from individual cardboard boxes to recyclable plastic bags for a key customer, and were able to entirely eliminate their damage complaints while saving them freight costs.

In 2012, we reported 6 damaged shipments, but later learned of a discrepancy. We have since revised our 2012 number to 41.

Amount of Shipments

2013	34 damages in 33,023 shipments
2012	41 damages in 31,025 shipments

We worked closely with another client to revamp its bulk packaging program. Instead of sending 21 bulk skids to California where they were repackaged, Solberg is now handling the initial 6-per-box packaging, reducing shipments to 14 skids, while saving on repackaging and freight costs.

Many of our customers have inventory needs that dictate exacting quantities and shipping schedules. Being able to deliver our products securely, cost-effectively, and environmentally consciously is a hallmark of our business. As we increase sales, we remain vigilant in identifying new and better methods to continuously improve the integrity and sustainability of every package shipped.

Solberg remains a supplier of choice. We drove sales growth in 2013 through new ideas and product enhancements:

- **Growing Our Power Generation Sales** – Solberg is responding to alternative power needs by developing products that can cut operational costs and environmental effect. We achieved 13% global sales growth, due to increasing demand for our crankcase ventilation systems and static demisters in the U.S., Brazil, and France.
- **Complying with RICE/NESHAP Standards** – With 2013 deadlines for compliance with the EPA’s RICE/NESHAP (Reciprocating Internal Combustion Engine National Emission Standards for Hazardous Air Pollutants) Standards, Solberg received 50+ new orders for upgrades and retrofits. Our team mobilized both open and closed crankcase ventilation systems to help customers meet compliance. These products can capture oil exhaust at 0.3 microns up to 99.97% and recirculate it back to the crankcase. They also protect the engine’s turbo and intake system, optimizing system performance and reducing repairs.



◀ In 2013, we sold more than one million replacement elements. From compressors to turbines, vacuum pumps to reciprocating engines, Solberg products are continually chosen for our customers’ most challenging applications.



People

Elevating Our Staff to New Heights

Solberg strives not just to be an entity people want to work with, but also to be a company where people want to work at. Our respect for people helps us attract top talent. We are proud to have added another 17 team members this year, rounding out our staff to 127. We are mindful of showing our appreciation by offering professional development, health and wellness, safety, and social opportunities that enrich their lives.

Improved Personal Safety – We worked to accommodate product demand in 2013, while mobilizing the same number of manufacturing personnel. While many non-OSHA recordable incidents represented minor cuts, we consider them an important measure of our performance. We are taking measures to reduce this number, with a focus on attaining zero incidents in the near term.

Year	Production hours	Production employees	# of safety incidents	Days lost due to incident
2013	145,012	69	4	0
2012	130,384	61	6	18
2011	127,281	58	4	0



We are developing a process for improving our safety controls and have identified a number of issues and precautions (including a Safety Violation form) that we can integrate for the coming year. We have also tightened up requirements for personal protective equipment (PPE), requiring every worker to be equipped to safely perform their jobs.

In addition, we collaborated with a longtime employment agency partner to ensure any temporary or seasonal hire is prepared with gear that fully complies with OSHA requirements.

Solberg continues to make strides in improving its facilities and conditions:

- **Improvements in Manufacturing** – In 2013, the UK branch installed ventilated paint spray booths equipped with Solberg panel filters to improve manufacturing air quality and eliminate harmful aerosols. Additionally, we put in economizers on two office units in order to increase the amount of outside air coming in for ventilation in Itasca.
- **Progressive Working Conditions** – Solberg made a number of workplace improvements, including adding a stretch-wrap machine to avoid excess movement and anti-fatigue mats. These additions will help reduce our employees’ physical strain on the job, and thereby reduce safety incidents.
- **Annual Employee Health Screening** – Every year, Solberg administers one free health screening for all employees. The screening checks cholesterol, blood pressure, and nutrition, while testing for various diseases. Our CEO, Charlie Solberg, Jr., was active in encouraging employees to take part in this initiative, and we continue to increase participation.

Year	Total employees participating in biometric screening	Total employed	Percentage participation
2013	65	127	51%
2012	63	113	56%
2011	43	110	39%

Employee Loyalty Events – We are deeply appreciative of our many talented employees and conducted a number of social events in 2013, including our Hawaiian-theme summer party and our Christmas celebration.

◀ Anthony in the UK using the site’s custom paint spray booth



Planet

Making a Difference in Our Communities and World

Solberg is committed to our planet, implementing responsible practices that benefit our society. In 2013, we made many positive gains:

- Landfill Diversion** – In 2013, Solberg maintained our near 90% diversion of waste from landfills. While we are pleased with this figure, we aim to achieve even higher rates in coming years. Our staff has become more adept at recognizing potential recycling opportunities. In fact, our fall cleaning activity resulted in the collection of three gaylords of recyclable materials. We have improved our initiatives consistently since our base year, meaning that we continue to seek avenues to divert all waste and minimize our impact on society.

	Base year 2011 (88%) diversion rate	2012	2013
	35,157 lbs Metal	3% increase	43% decrease
	54,327 lbs Cardboard	9% increase	19% increase
	8,134 lbs Paper	27% decrease	69% increase
	5,405 lbs Plastic	58% decrease	No pickups this year

- CSR Purchasing Guideline** – We continued to build on our CSR purchasing guideline adopted in 2011. In 2013, we edged over 60% total LEED-accepted sustainable purchases and were able to meet recycled content standards with minimal cost increase. This was achieved by doing things such as getting refills for pens and markers rather than purchasing new ones and using refurbished toner cartridges. Other changes include seventh-generation chemical-free dish cleaner, 80% tree-free copy paper, and recycled content trash and product packaging bags.

Alicja and Mimosa ►
having fun pressing apples

- Lowering Our Transportation Carbon Footprint** – The carbon footprint tracker implemented in 2012 has helped us uncover direct trucking and freight routes, which save costs and reduce emissions. Additionally, we've found rail transport opportunities, where we can combine shipments and gain efficiencies. We are encouraging customers to move shipments to rail transport, where and when it results in economical and environmental advantage.
- The Garden Club** – The Garden Club again increased its surface area by 15% over the year. This unique land area grows more than 15 different fruits and vegetables, which we offer to our employees to improve nutrition and encourage healthy food choices. The drought in Illinois brought down our tomato crop this year, but we made up for it with vitamin-rich green peppers. The popularity of this program led to add two more people to work in the garden. Our biggest draw this year was our bumper crop of apples. In fact, we had so many apples, we decided to use our family apple cider equipment to make fresh cider at work for our employees. The experience brought many smiles and fun, and we created more than 13 gallons of cider from our harvest.
- Company Picnic** – Our annual employee picnic went eco-friendly this year, hiring green caterer Tasty Catering. We also supported our community by having our picnic locally, bringing our families and environmental focus to the Chicago Park District. Indeed, we were careful to have left the property cleaner than when we arrived as if we were using the campaign slogan “Leave No Trace.”





Property

Our Sustainable Work Environment

While we have steered away from LEED accreditation to achieve virtual, non-accredited status, we have gained a number of benefits from efforts undertaken as part of the LEED program. We are implementing improvements in our facilities around the globe in our further attempt to be more accountable:

- **Enhancing Our Corporate Responsibility** — Over the year, we adopted a written Landscape Plan specifically focusing on our property and what we can do with it. This includes manufacturing activities and employee areas, as well as our gardens and orchard. The guiding document will help us as we plan for new initiatives. Our agricultural areas are a key focus, as they provide nutritious foods and other earthly benefits. Our Itasca, IL, orchard added two new apricot trees, encouraging other facilities to follow suit.
- We have also been active in other parts of the globe. Our U.K. branch constructed its first garden, dedicating it to Charlie Solberg Sr. and Alzheimer's awareness. The garden was constructed on top of rocky land and pavement, posing some challenge. However, our team championed this initiative with great forethought, adding soil elements that will drive long-term richness for the garden. We look forward to seeing what they can harvest in the coming years.
- Our Slovakia location implemented measures to reduce energy consumption. These included the installation of insulation inside all its walls, ceilings, and floors — an effort expected to show a return on investment quickly.
- **Energy Conservation** — Our 1151 building maintained its ENERGY STAR® certification, maintaining our score of 81. However, it is important to note that the ENERGY STAR rating excludes milestones we have completed through our adoption of the Department of Energy's (DOE's) *Better Buildings, Better Plants program*.
- We converted two toilets to a lower flowing fixture. We will be assessing conservation results over the year, and if successful, we will be converting additional units.
- We adopted a "green pest policy," whereby zero hazardous chemicals are used to combat insects.
- We wrote a Green Cleaning Manual, establishing guidelines for purchasing low-/no-VOC products. Our current janitorial product purchasing goal is that 65% of chemicals, equipment, and paper products meet one of the specified sustainability criteria. We plan to improve this percentage to 85% by 2015.
- We made a general building operating plan that establishes what temperature to set thermostats in various seasons, how to use MERV 8 filtration in rooftop units, and the amount of outside air to enter buildings.
- We added safer, more environmentally friendly warehouse cleaning chemicals. We also now wash our production and warehouse floors with TOUGH GREEN, a cleaning solvent that meets the highest environmental standards, being non-toxic, non-corrosive, non-combustible, and biodegradable. This includes changing our ice melt to a magnesium-based system instead of chlorine.

▼ UK employee garden



◀ Slovakia location insulating floors, walls, and ceilings



Power

Smarter Practices for Saving Power

We continue to reduce our energy intensity and are on track to achieve our 10-year reduction goal of 25% by 2018 through practices implemented in our main manufacturing buildings.

680 Building

- Energy-Saving Efforts** — We recouped costs and energy by enacting some simple changes. Shutting compressor tank valves at night has limited air losses in factory piping. Additionally, because our second shift has fewer workers, we found that we could use a lower horsepower compressor, while still meeting manufacturing needs. The increase in production paid its toll on our electricity numbers, since we do not have solar panels. However we have still offset our energy with wind RECs, going from 359,750 kwh in 2012 to 384,960 kwh in 2013.
- New Technology for New Progress** — This year's numbers represent a 30% increase in natural gas consumption due to our higher production volumes and a failed attempt to achieve a more uniform air flow distribution throughout the chamber of the curing oven. Various improvements are slated for 2014 that we believe will bring this back into balance. While custom and coalescing filter elements will continue to be cured on a hot plate, larger elements will be moved to a new, energy-efficient oven, scheduled to be in operation by the end of 2014. We believe this will notably affect our results. We will continue to investigate ways to distribute the heat to blow more uniformly from the top and bottom of the current aging curing oven.

Greenhouse Gas Emissions

■ CO₂-e (metric tons)
● Metric ton of CO₂ per unit manufactured



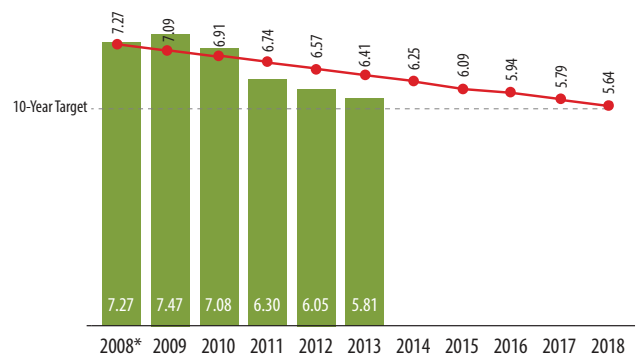
1151 Building

- Small Changes, Big Impact** — Just as in years past, we challenged our employees to identify any area where they saw opportunity to put socially responsible thinking into practice. Specific actions for 2013 included relocating fans to busier production areas, installing energy-efficient lighting in our quality control/customer areas, and utilizing house ceiling fans to destratify the air. Combined, these changes reduced energy intensity by 6.2% — and consumption to 265,136 kwh.
- Changes in Heating for 2014** — Seasonal temperature changes can have a significant impact on heating expenses. While our U.S. facilities still use space heating, our international locations are accommodating seasonal temperature fluctuations by layering clothing and other innovative measures.
- Overall, we are pleased with the groundwork we have laid in reducing our energy intensity. Having said that, we are updating our methods and assessing our performance according to the DOE's *Better Buildings, Better Plants program*. As the below graph indicates, SMI has effectively reduced its energy intensity by 3% from 2012, attaining essentially a 20% reduction from the 2008 baseline year.

Energy Intensity Reduction 10-Year Target

(Itasca, IL, facilities only)

■ Actual Energy Intensity ● Target Energy Intensity





Prosperity

A Greener Bottom Line

In 2013, we had record sales months for 16 of our 62 product types that we track. Increasing demand for our replacement filters, high-efficiency crankcase ventilation systems, and static demisters continue to drive new sales. The growth that we realized is attributed mostly to our company mission: We partner with our customers, colleagues, and suppliers to help them innovate and discover new possibilities. When a customer or prospect needs something, we do as much as we can to assist. We use the term prosperity because it is more encompassing and fits our guiding principles better than saying profit. It is a circle and reinforces the systematic and synergistic life of our business.

▼ Solar panels still working during the winter with significant snow



Gaining New Solar Energy Benefits — We saved \$28,427 from generating solar energy in 2013 — nearly 44% more than the previous year. This is a direct result of adding 111 more panels at the end of January. Assuming consistency in the REC and utility market, we expect to see a return on investment in just 6 years, 4 years ahead of our original plan. Thus far, our solar panels have offset roughly 2,064 trees, generating 222 megawatts. We are also reducing costs through our corporate sustainability measures.

Year	Total \$ saved
2013	\$28,427
2012	\$19,700
2011	\$13,555
2010	\$3,600 from 5 months of operation

Saving through Smarter Logistics — In 2013, we enacted a number of initiatives to reduce costs and carbon emissions by adopting more direct travel routes, repackaging skids, and switching carrier types. For a customer in Belgium, we were able to reduce their overall freight expenses by 17%. The reduction was achieved largely by working closely with our shipping companies on both sides of the Atlantic. Because of the large number of units shipped, this represented significant savings. This is only for direct shipments to Continental Europe.

Year	Total percentage reduction in per-capita freight cost
2013	(-17%)
2012	(-14%)
2011	(-13%)
2010	Base Year



◀ Kids at company picnic racing in potato sack race



Philanthropy

Enhancing Our Communities and Our World

Our people continue to carry out the passions of our founder, Charles Solberg Sr., by giving their time, talent, and resources to improve our society.

- **Sharing Our Good Fortune** — In accordance with our Annual Charitable Donations Guideline, every year, we donate 1% of our total sales to charity. As our revenues increased 9% for the year, we happily increased our donations by the same amount. Our charter for donations is to distribute 50% to environmental causes, 40% to humanitarian causes, and 10% to arts and natural disasters.
- **Beautifying Our Communities** — Solberg employees took part in a number of community and garbage pickup drives. This year, we were proud to have more employees participating than ever. Our “Take Me to the River” program was especially beneficial, as it included a litter pickup, blood drive, food can drive, garage sale, and major cleanup of company spaces. We were able to collect an estimated 160 pounds of food for the Itasca Food Pantry, which went to benefit 75 local underprivileged families.

- **Alzheimer’s Benefit** — This year, Solberg hosted a jam-packed Alzheimer’s fundraiser, with employees in various departments initiating activities, games, homemade food sales, and even a water-balloon toss. We were thrilled with the overwhelming turnout, and raised \$3,300. Our founder Charles Solberg Sr.’s passing from Alzheimer’s makes the cause especially dear to us.
- **Toys for Tots** — This year, our planning committee chose to add a Toys for Tots donation for needy children. We collected more than 150 new toys to share. Efforts like these have been a great extension of our employee programs. We are proud to see team members from all levels of the organization come together and help Solberg give back to our communities.
- **LifeSource Blood Drive** — Solberg held its first blood drive this year. We had a total of 27 donors, which according to LifeSource, resulted in 72 lives saved. We hope to get more employees and colleagues involved in years to come.
- **Other Notable Support** — In addition to large, organized initiatives, Solberg employees were active throughout the year in cleaning up industrial park litter, planting native and rare prairie plants, and more.

▼ Design group picking up litter in Itasca Industrial Park



Community Giving

Year	Employees who participated
2013	24
2012	3



◀ Manny feeling good about giving blood