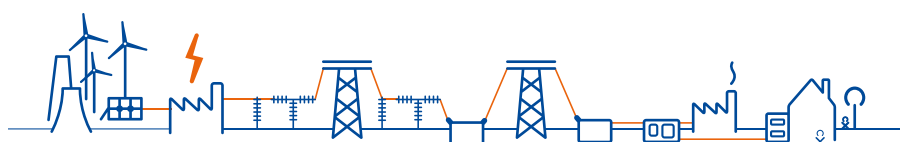


# SUSTAINABILITY REPORT

## OF THE SGB-SMIT GROUP



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# EDITORIAL – STATEMENT OF THE CEO

2016 was an important year for the SGB-SMIT Group. In the fiscal year 2016, our more than 2,500 employees realized a turnover of approx. 729 million euros.



The requirements to be met by transformers have changed; reduced losses and acoustic emissions are expected and an increasing percentage of renewable energies is to be generated. Thanks to our unique design, our know-how spanning several decades and the use of cutting-edge production methods, the SGB-SMIT Group is capable of manufacturing high-quality transformers for our customers.

Our growth strategy is based on the fulfilment of our customers' requirements even at the highest level, supported by investments, innovation and the further development of our product portfolio and our processes. Over the past few years, we have invested increasingly in our factories, thus creating the basis for organic growth.

Innovation and sustainability are important factors of our strategy. In order also to be able to provide our customers with products in future which are specifically designed to meet their demands, we have expanded our Research & Development continuously and will increase our team by another 30% by 2018.

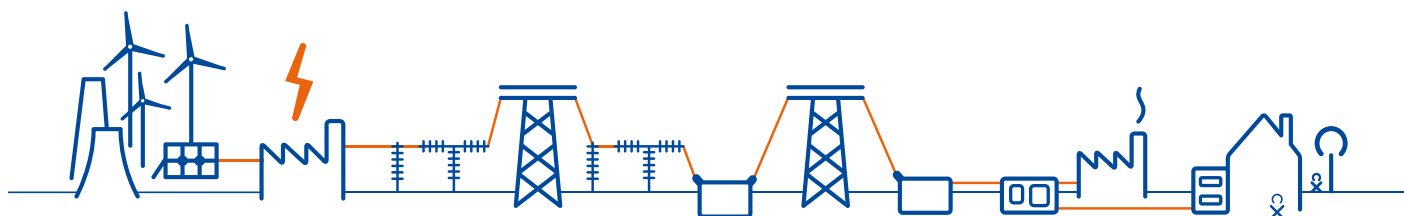
The SGB-SMIT Group is a responsible employer whose staff can rely on a healthy and health-promoting working environment. Whether ergonomic workplaces or accident prevention, our employees' safety and health is our number one concern.

Sustainability is one of our fundamental values which reflects our responsibility towards people and environment. Innovative transformers, customer-oriented actions, staff responsibility and environmental protection – in all these fields, the SGB-SMIT Group applies maximum standards and envisages continuous and durable improvement.

**“We have already chosen a successful approach which we will continue to follow consistently. Please convince yourself by reading our current Sustainability Report of the SGB-SMIT Group.”**

A handwritten signature in blue ink, which appears to read 'Jan Ölscher'. The signature is fluid and stylized.

Jan Ölscher, CEO SGB-SMIT Group



# SGB-SMIT AT A GLANCE

Combined, more than

415 

## YEARS OF EXPERIENCE

Basis for know-how and for know-why

Worldwide

9 

## SITES

take care for global accessibility (in June 2017)

In 2016

2,522 

## EMPLOYEES

took care of your projects

Up to now

18,652 

## TRANSFORMERS

produced within the SGB-SMIT Group

In more than

80 

## COUNTRIES

satisfied customers

More than

729 

## MILLION € TURNOVER

have been generated up to now



## READY FOR YOUR MARKET

The SGB-SMIT Group manufactures transformers for applications worldwide. Sales and service centers on all continents ensure optimum processes.

Our products meet the requirements in accordance with the applicable national standards.



## PRODUCTS

- large power transformers
- medium power transformers
- large liquid-cooled distribution transformers
- liquid-cooled distribution transformers
- cast resin transformers
- shunt reactors
- series reactors
- phase shifters
- Lahmeyer-Compactstationen®

Transformers from 50 kVA up to incl. 1,200 MVA in the voltage range up to 765 kV.

# 1. ABOUT US

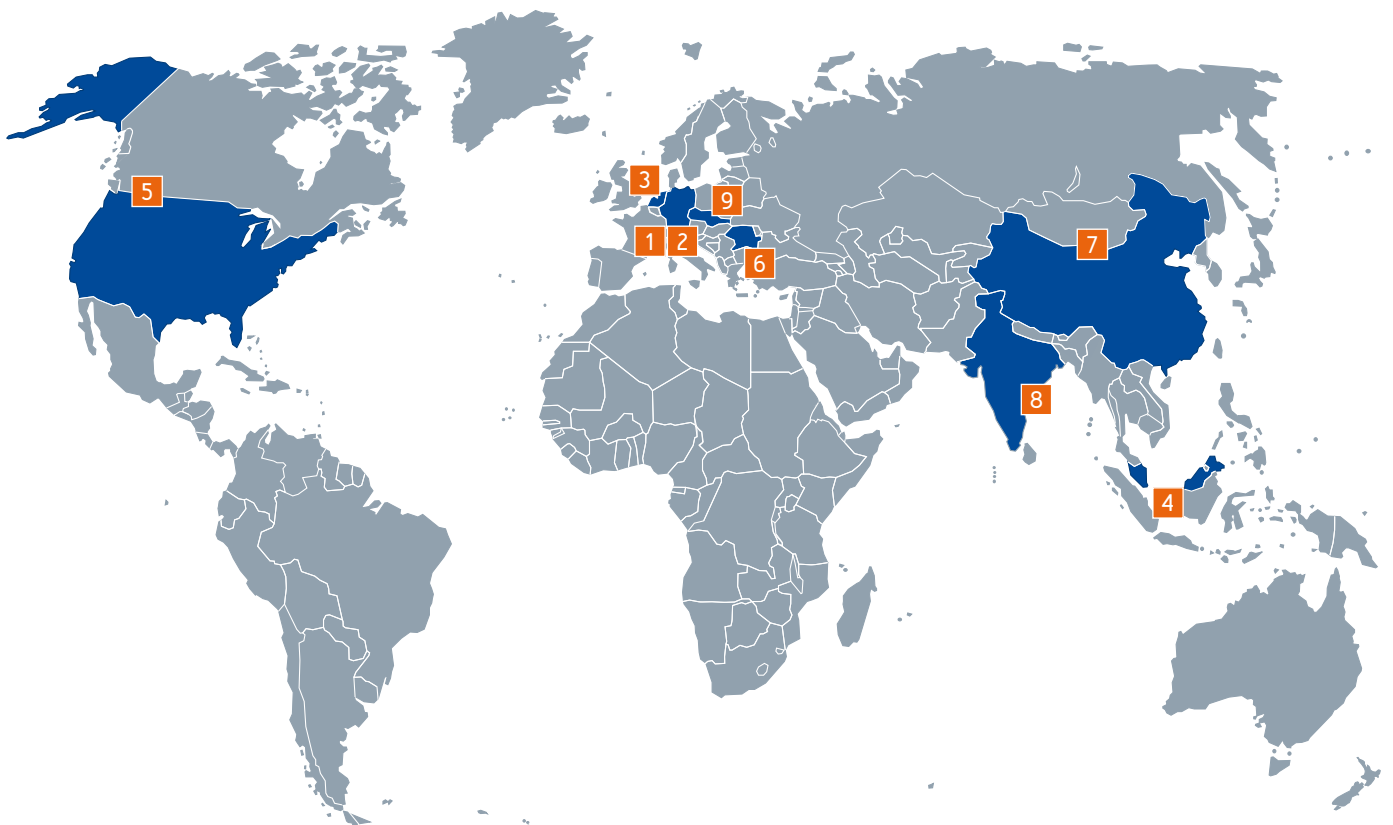
SGB-SMIT Management GmbH has its headquarters in Regensburg. Shareholder is a Private Equity Fund.

## OUR PRODUCTION AND SERVICE LOCATIONS

- 1** Starkstrom-Gerätebau GmbH, Regensburg (Germany)
- 2** Sächsisch-Bayerische Starkstrom-Gerätebau GmbH, Neumark (Germany)
- 3** Royal SMIT Transformers B.V., Nijmegen (The Netherlands)
- 4** SGB MY Sdn. Bhd., Nilai (Malaysia)
- 5** SGB-USA Inc. & OTC Services Inc., Louisville (USA)
- 6** RETRASIB SA, Sibiu (Romania)
- 7** SGB China, Yancheng (China)
- 8** SGB TRANSFORMERS INDIA, Chennai (India)
- 9** SGB CZECH TRAFKO, Frydek Mistek (Czech Republic)

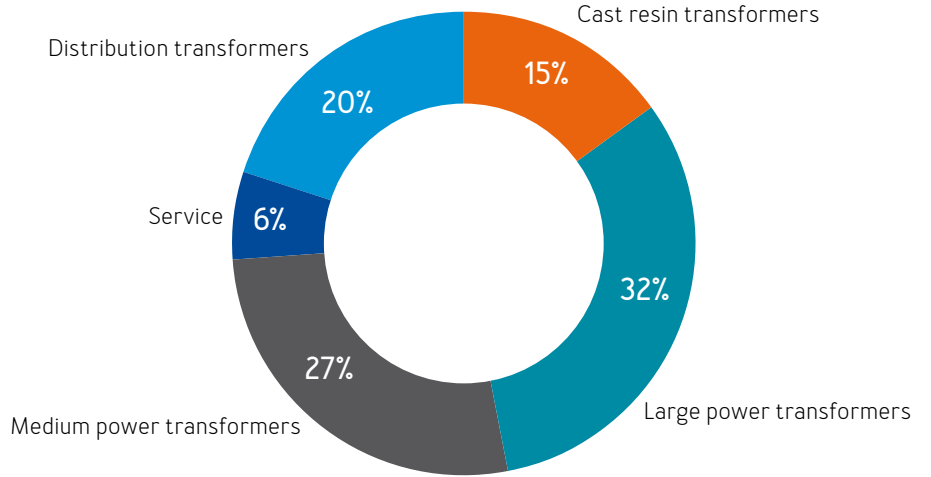


[Status: June 2017]

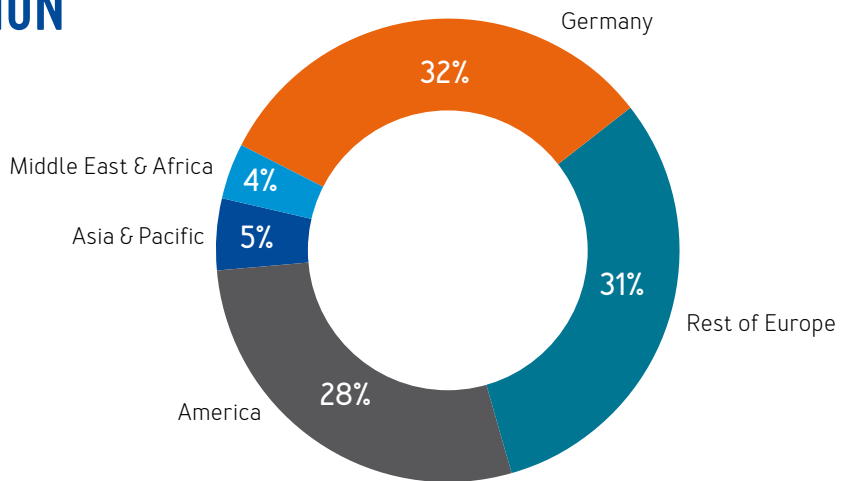


# 2. COUNTRIES - MARKETS - CUSTOMER

## PRODUCTS



## GEOGRAPHIC DISTRIBUTION



## END-MARKET



Our end customer market is divided in:

- Energy supply utilities
- Renewable energy sector
- Industry

# 3. ENVIRONMENTAL, OCCUPATIONAL SAFETY AND HEALTH & QUALITY MANAGEMENT



**COMPANIES**

in June 2017



**INTEGRATED  
MANAGEMENT SYSTEM**

Occupational health & safety, environmental protection and quality are some of the essential themes of our group. High product quality, compliance with legal requirements and environmental as well as OHSAS legislation are our number one priority.

An integrated management system for quality, occupational health and safety as well as environmental management help us continuously improve these issues. Of course, we dispose of the appropriate certifications to ensure our compliance with these standards is verified externally as well.



certified according to	SGB Regensburg	SBG Neumark	Royal SMIT Nijmegen	SGB MY Nilai	SGB CR Nilai	SGB-USA Louisville	OTC Louisville	Retrasib Sibiu	SGB China Yancheng	SGB Czech Transformers Frydek Mistek	SGB Transformers India Chennai
ISO 9001:2015	X	X	X	X	X	X	X	X	X	*	**
ISO 14001:2005	X	X	X	X	X	X	X	X	**	**	**
OHSAS 18001/ ILO	X	X	X	X	X	-	-	X	**	**	**
KTA 1401	-	-	X	-	-	-	-	-	-	-	-
SCC** [VCA**2008]	-	-	X	-	-	-	-	-	-	-	-
ISO 50 001	X	X	-	-	-	-	-	-	-	-	-
§19 WHG	X	X	X	-	-	-	-	-	-	-	-

\*Certification planned for Q3 / 2017

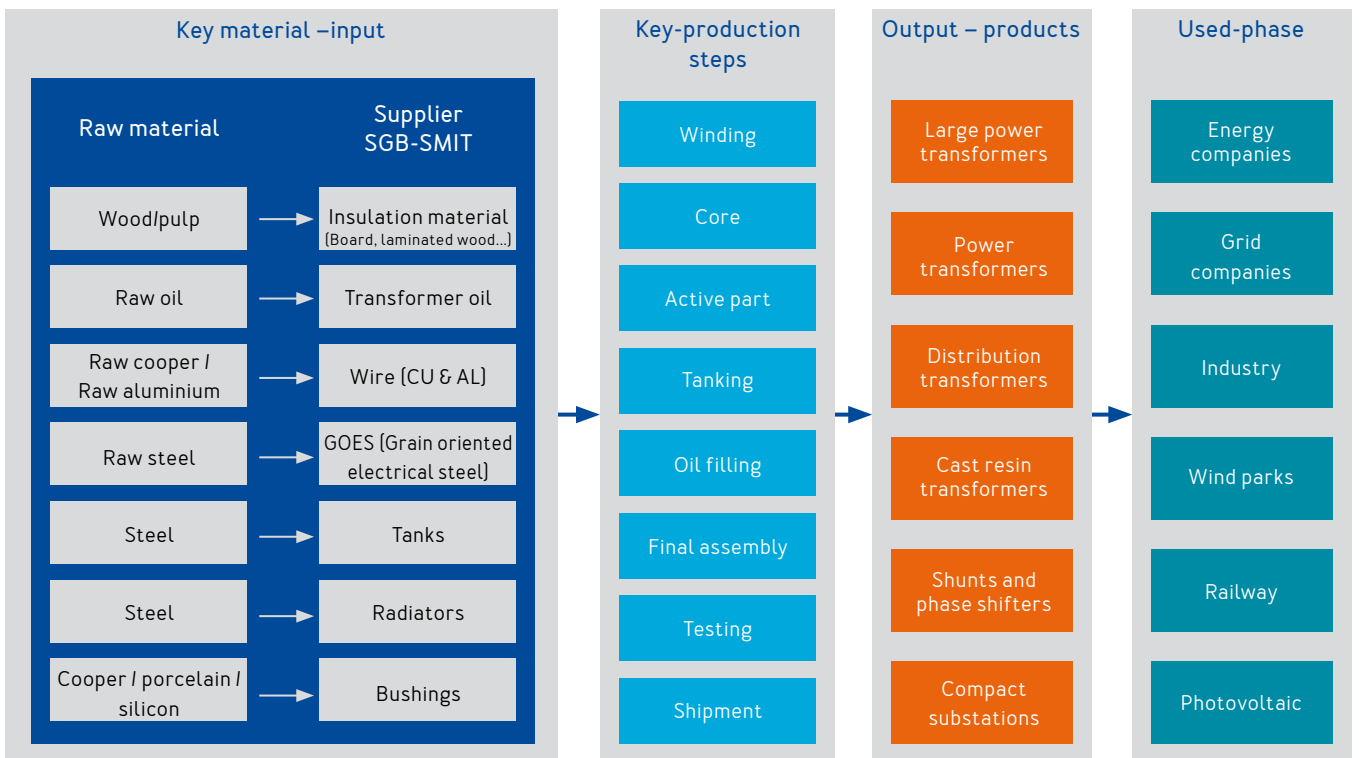
\*\* Certification planned for Q2 / 2018

# 4. OUR SUPPLY CHAIN

We procure our parts from suppliers in 14 countries. The majority is procured from Europe, but we receive certain parts supplied from Asia and the USA. The appropriate local suppliers are especially preferred at our locations outside of Europe.

**Locations of our suppliers (key products) are:**

Germany, Italy, Croatia, Austria, the Netherlands, Switzerland, Spain, France, Slovakia, Poland, Turkey, Japan, China, South Korea, USA, India.





# 5. DIALOG WITH STAKEHOLDERS

## MATERIALITY ANALYSIS

This Report is the first instance in which we have geared our materiality analysis in line with the requirements of the current reporting standards of the Global Reporting Initiative (GRI), GRI G4. For establishing and updating our materiality analysis, the dialog with our stakeholders is an important basis. We assess the relative significance of the fields of activities from the point of view of our stakeholders and compare these results with our assessment regarding the potential influence of the SGB-SMIT Group. We have obtained our internal assessments in the scope of a group-wide process, involving the appropriate responsible members of the group’s management team in validation.

These results will be weighted according to the relevance of sustainability topics and the alignment of our strategy verified. Based on personal talks, customer and staff surveys, exchanges with suppliers, municipality, local councils and other statements, we evaluate the stakeholder expectations.

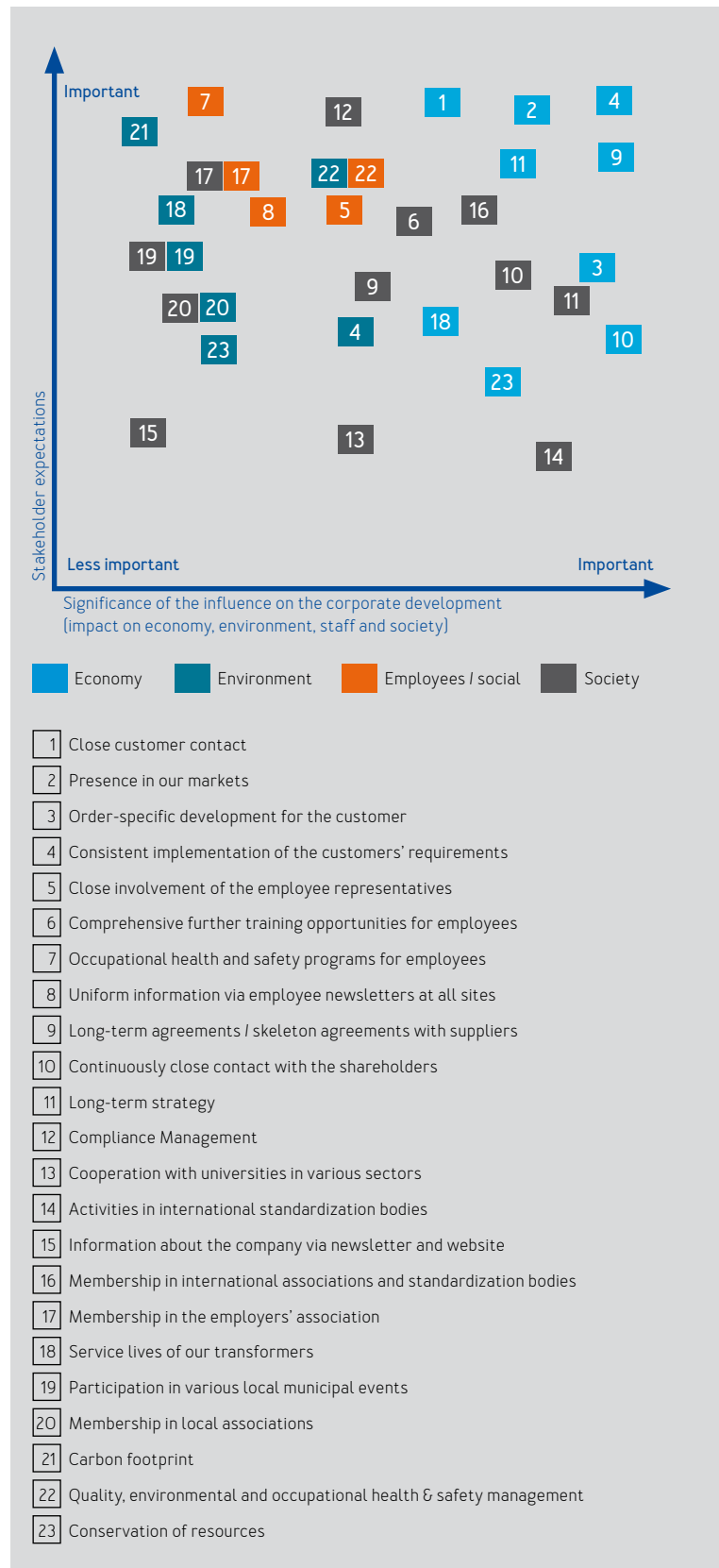
The views of the stakeholders provide us with information about the influence of our corporate activities on society. We include additional factors from our company and our industry into the strategic alignment. When assessing sustainability topics, we also include the internal assessment. This is based on a comprehensive inquiry within the SGB-SMIT Group.

## STAKEHOLDER ENGAGEMENT MATRIX

We have performed the materiality analysis according to the GRI G4 standard as follows:

- the vertical axis represents the stakeholders’ expectations.
- the horizontal axis shows the significance of the aspect concerned for the effects of the development of the SGB-SMIT Group.

The following matrix represents the significance determined for our fields of activities which have been rated by a relative scale in the categories “Less important” and “Important”.



Key Stakeholder	Significance of the relationship	What does the stakeholder expect of the SGB-SMIT Group?	What do we perform in this respect?
Customers	Continuous dialogue with our customers is indispensable for the long-term success of the company	<ul style="list-style-type: none"> <li>- High-quality products</li> <li>- Flexibility</li> <li>- Individual solutions</li> <li>- Long service life</li> <li>- Compliance with legal provisions</li> <li>- Quality, environmental and occupational health and safety organization</li> </ul>	<ul style="list-style-type: none"> <li>- Close customer contact</li> <li>- Presence in our market segments</li> <li>- Order-specific development</li> <li>- Consistent implementation of the customers' requirements</li> <li>- Integrated Management System (quality, environment, occupational health &amp; safety)</li> </ul>
Employees	A good and undisturbed relationship between the company and the staff and among the employees are a decisive factor for achieving the company targets in terms of quantity and quality.	<ul style="list-style-type: none"> <li>- Reliable contractual employment provisions</li> <li>- Further training opportunities</li> <li>- Fair treatment</li> <li>- Communication-based corporate culture</li> </ul>	<ul style="list-style-type: none"> <li>- Close involvement of the employee representatives</li> <li>- Comprehensive further training opportunities</li> <li>- Collectively agreed payments and payments above the general pay scale</li> <li>- Social benefits (e.g. company pension scheme, company catering)</li> <li>- Personal development (specialist and management career)</li> <li>- Vocational training</li> <li>- Flexible workplace design (flexitime, part-time, telework)</li> <li>- Health management &amp; occupational health &amp; safety programs</li> <li>- Employee newsletters at all sites</li> </ul>
Suppliers	High quality and faultless, timely delivery of the materials, components and services by our suppliers is an essential condition for keeping our flows efficient.	<ul style="list-style-type: none"> <li>- Fair framework conditions</li> <li>- Long-term partnerships with cooperation and "error culture" based on mutual trust</li> <li>- Payment runs within the agreed time limits</li> </ul>	<ul style="list-style-type: none"> <li>- Long-term agreements / skeleton agreements</li> <li>- Development opportunities regarding suppliers</li> <li>- Benefit of returnable packaging/ reusable packaging</li> </ul>
Shareholders	Our corporate policy is geared to reaching our strategic objectives and continuous growth	<ul style="list-style-type: none"> <li>- Clear strategic orientation</li> <li>- Continuous growth</li> <li>- Compliance with all rules and legal regulations</li> <li>- Sustainable handling of resources</li> </ul>	<ul style="list-style-type: none"> <li>- Close continuous contact with the shareholders</li> <li>- Long-term strategy</li> <li>- Intensive market observation</li> <li>- Compliance management</li> <li>- Sustainability reporting</li> </ul>
Research	Close exchange with universities and other research institutes creates new approaches for innovative solutions	<ul style="list-style-type: none"> <li>- Exchange between science and practical application</li> <li>- Funding research projects</li> <li>- Support in the development of standards</li> </ul>	<ul style="list-style-type: none"> <li>- Cooperation with universities in various sectors</li> <li>- Participation in and organization of symposia</li> <li>- Activities in international standardization bodies</li> </ul>

Key Stakeholder	Significance of the relationship	What does the stakeholder expect of the SGB-SMIT Group?	What do we perform in this respect?
Media	Positive perception of our company in public is necessary to visualize the appeal as employer and the presence of our corporate sites in the customer's perspective	<ul style="list-style-type: none"> <li>- Information about our sites, our company and significant events</li> <li>- Open corporate culture</li> </ul>	<ul style="list-style-type: none"> <li>- Information about the company via newsletter and website</li> <li>- Corporate advertising on means of public transport</li> <li>- Reports in the regional media (press, broadcasting, TV) about significant events of public interest</li> <li>- Utilization of the media for employer branding and employee recruiting</li> </ul>
NGOs / interest groups	Memberships in various associations help us to contribute to the shaping of public opinion regarding industry-specific themes and provide a platform for exchange within the industry.	<ul style="list-style-type: none"> <li>- Participation in cross-industry meetings</li> <li>- Cooperation in association work</li> <li>- Support in standardization and standards</li> </ul>	<ul style="list-style-type: none"> <li>- Member of IEEE / IEC / Cigre</li> <li>- Participation in transformer-specific events</li> <li>- Activities in standardization body</li> </ul>
Local municipalities	Cooperation with the local municipalities contributes to the positive visibility of our companies. Good cooperation is important for the long-term development	<ul style="list-style-type: none"> <li>- Presence as a local employer</li> <li>- Compliance with legal regulations and laws</li> </ul>	<ul style="list-style-type: none"> <li>- Participation in various local municipal events (e.g. development of mission statement for CO<sub>2</sub> reduction in the city of Regensburg)</li> <li>- Membership in local associations</li> </ul>
Politics	A reliable political framework is important for the long-term development of our corporate policy	<ul style="list-style-type: none"> <li>- Exchange on various questions and issues</li> <li>- Presence as (local) employer</li> <li>- Reduction of the CO<sub>2</sub> emissions</li> </ul>	<ul style="list-style-type: none"> <li>- Member of the employers' association</li> <li>- Determination of the carbon footprint of our sites</li> </ul>
Trade Unions	Good cooperation with the Trade Unions and the Works Council is important for the sustainable development of our companies.	<ul style="list-style-type: none"> <li>- Safe workplaces</li> <li>- Good working conditions</li> <li>- Taking the employees' interests into account</li> </ul>	<ul style="list-style-type: none"> <li>- Commitment to the collective bargaining agreement in the German companies</li> <li>- Open cooperation with the operational co-determination bodies on a partnership basis</li> <li>- Information of the bodies on a regular basis (works council, commercial committee etc.) by the management</li> <li>- Information of the staff in works or employee meetings on a regular basis, in writing and on the intranet</li> </ul>
Banks	A reliable partnership with banks ensures that we dispose of the financial means required for us to reach our targets.	<ul style="list-style-type: none"> <li>- Fair framework conditions</li> <li>- Long-term partnerships with a cooperation based on mutual trust</li> <li>- Safe capital investments with an appropriate ROI</li> </ul>	<ul style="list-style-type: none"> <li>- Long-term agreements (renewal of the ReFi 2016 for 5 years)</li> </ul>

# 6. OUR EMPLOYEES

2,522



EMPLOYEES

worldwide

85



TRAINING LESSONS

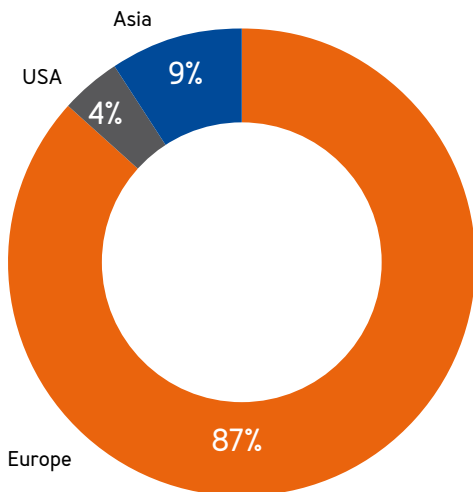
average per employee

Without motivated staff who identify with their employer, it is almost impossible to reach high targets. Thus, we are especially proud of having members of staff some of whom have been working with us for several decades, even for their entire professional life.

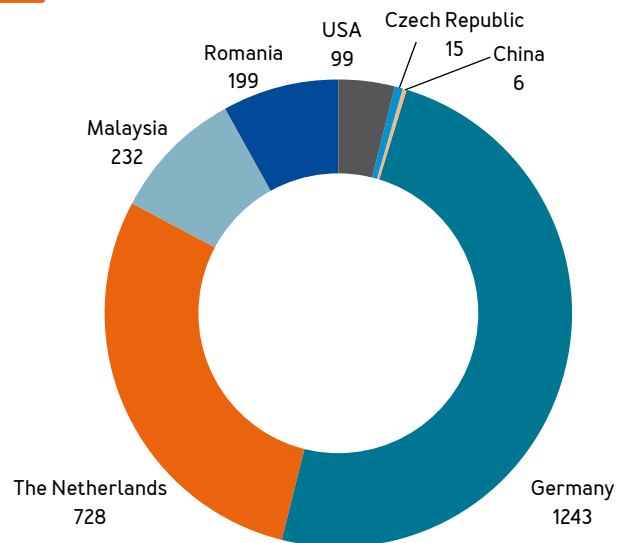
At the end of 2016, our headcount comprised 2,522 in 7 countries. This corresponds to an increase of just below 10 % versus 2015.



## EMPLOYEES BY REGIONS



## NUMBER OF EMPLOYEES BY COUNTRIES



331

**NEW EMPLOYEES**

comparison 2015 - 2016

2.8

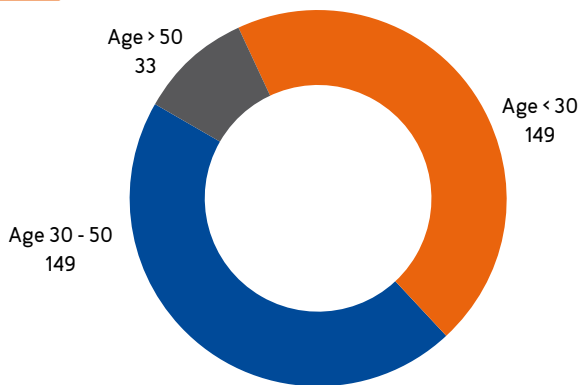
**% FLUCTUATION RATE**

at the 3 major sites

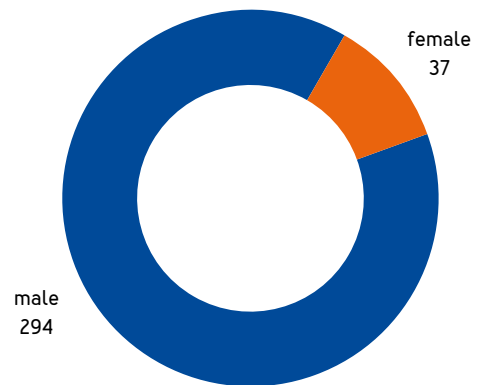
Due to our growth strategy, we were able to recruit a total of 331 new employees to our group in 2016. At the three major sites of our group – SGB Regensburg, Royal SMIT Nijmegen, SBG Neumark – with 1971 employees and thus approximately one-third of our total headcount, the fluctuation rate amounts to only 2.8%. Due to our newly added sites and re-alignments at the smaller locations, the rate of fluctuation within the entire Group is 7%.

81% of our employees within the Group are covered by appropriate collective bargaining agreements. The percentage of women is 10% on average, whereas almost half of the part-time workers are women. These values can be partially explained with the generally low portion of women in mechanical engineering.

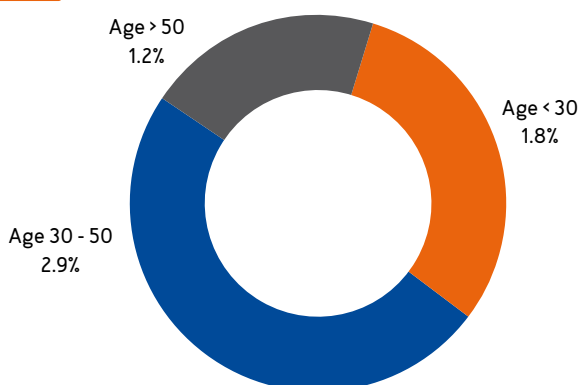
**NUMBER OF NEW EMPLOYEES BY AGE**



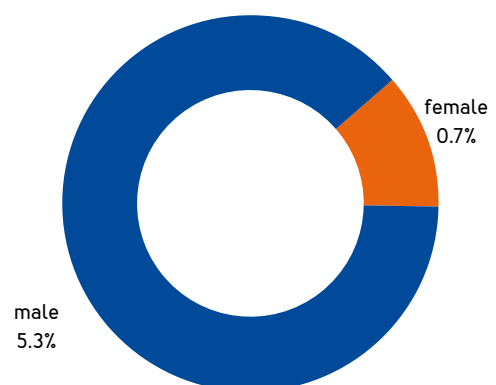
**NUMBER OF NEW EMPLOYEES BY GENDER**



**FLUCTUATION RATE BY AGE IN %**



**FLUCTUATION RATE BY GENDER IN %**



# 7. COMPLIANCE MANAGEMENT

The SGB-SMIT Group conducts its activities based on legally and ethically sound principles. The group insists on compliance with these principles also on the part of its employees, business associates, contractors, suppliers and within other legal relationships.

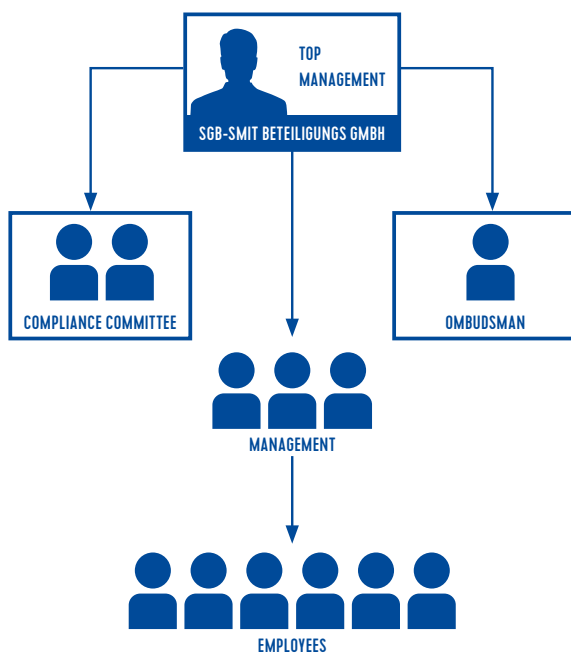
To implement and to monitor this fundamental principle, we have introduced appropriate compliance guidelines for all factories, compliance training workshops and last, but not least, a compliance committee.

Moreover, an independent ombudsman is available for all employees of the SGB-SMIT Group who wish to report a legal infringement or other criminal offences and infringements upon internal rules and codes of conduct within the SGB-SMIT Group. Moreover, it provides advice on questions as to how to handle potential suspicions and hazardous situations.

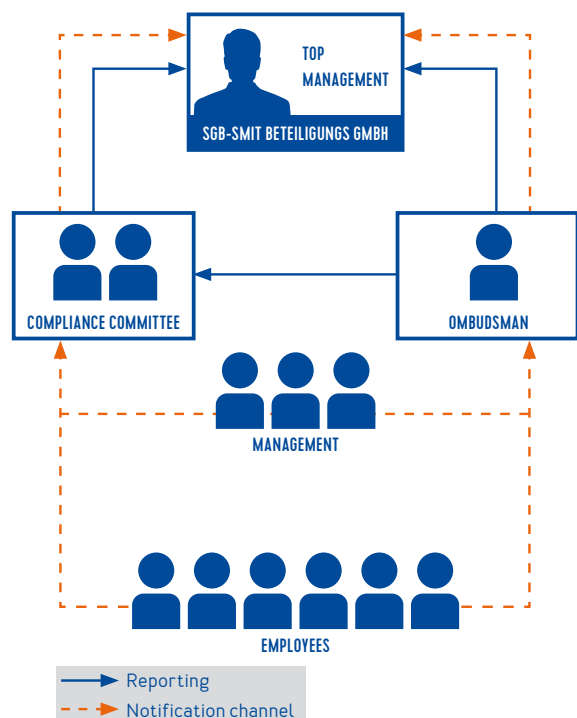
Identification, analysis and examination of compliance risks is an important part of compliance management. To this effect, a risk management system has been installed which is also described in our compliance management manual.



## COMPLIANCE ORGANIZATION OF THE SGB-SMIT GROUP



## REPORTING AND NOTIFICATION CHANNELS



# 8. OCCUPATIONAL HEALTH & SAFETY

**-11**

**ACCIDENTS AT WORK**

comparison 2015 - 2016

**0**

**FATAL ACCIDENTS**

2015 - 2016

**1**

**HEALTH & SAFETY GUIDELINE**

guideline valid group-wide

Occupational health & safety is an essential issue within our group. The following table shows our accident statistics and OHSAS key figures. We aim to continue the positive trend of the past four years.

Since 2015, we have had an intra-group “Health & Safety Guideline” which has been implemented on all sites.

The guideline is implemented at all new sites in line with the incorporation in our “Integrated Management System”.



	2012	2103	2014	2015	2016
Accidents at work (> 1 day)	52	75	74	66	55
LTIF (1 million working hours)	18.51	25.51	22.00	18.39	14.32
Severity	0.3083	0.2599	0.2436	0.2372	0.1708
Fatal accidents	0	0	0	0	0
Days of absence	866	764	820	851	656

# 9. RESOURCES AND ENERGY

10%

REDUCTION  
CO<sub>2</sub> EQ / MVA

2014 - 2015

50%

REDUCTION OF  
WATER CONSUMPTION

comparison 2013 / 2016

To save natural resources, we handle them as economically as possible. We reduce our material consumption as well as the consumption of energy and water. To verify progress, the ratios regarding energy and water consumption have been recorded for several years, and a detailed Carbon Footprint has been recorded since 2009. Thus, our efforts can be tracked and targeted measures taken. We procure water at all sites from the regional water supply.

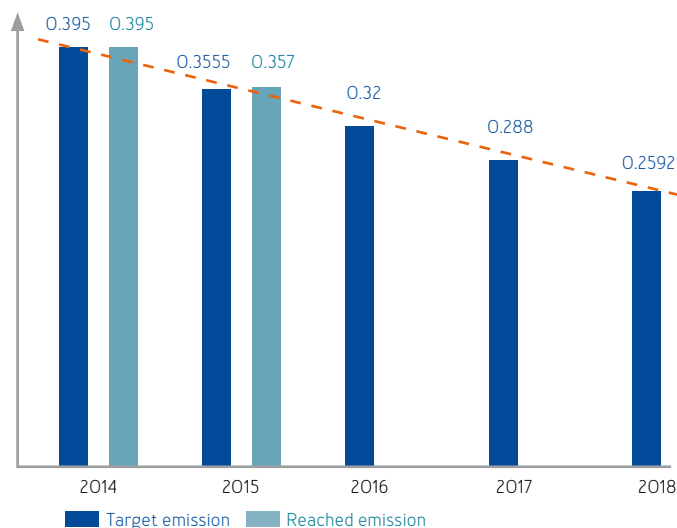
The production of transformers is energy-intensive. Thus, it is important to keep an overview of the consumption of fossil energy carriers and electrical power. As a consequence, we have been surveying the relevant energy conservation factors for quite some time. Current consumption appeared to be the most important factor in the energy sector, fossil fuels, on the other hand, are of only minor importance.

Reducing greenhouse gas emissions is an important target of the energy policy at European level and on the part of the appropriate countries and it is one to which we also want to contribute. Our group aims to reduce noxious greenhouse gas emissions by 2018 to a maximum emission of 0.259 CO<sub>2</sub> eq/ transformer power [MVA] produced. With the actual value of 0.357 CO<sub>2</sub> eq/MVA produced, we have approximately reached our 2015 target value.

To this effect, comprehensive actions are under way at all our sites. As the major part of the greenhouse gas is generated in the energy-intensive production of our transformers, we focus essentially on energy-saving measures such as the introduction of an energy management system acc. to ISO 50001, set-up of a cogeneration unit (SGB Regensburg), refurbishing of buildings and the use of the latest energy-saving machines.

Energy carrier	2012	2103	2014	2015	2016
Fuel oil (t/a)	506	488	446	487	498
Natural gas (1000 Nm <sup>3</sup> /a)	1,863	2,435	2,174	2,403	2,283
Electrical power (MWh/a)	27,359	30,029	30,148	30,338	29,399
Diesel (1000 l/a)	43	39	49	34	37

## CO<sub>2</sub> TARGET EMISSION





# 10. ABOUT THIS REPORT

This sustainability report follows to a large extent the requirements of the Guideline of the Global Reporting Initiative (GRI). Compared to the previous report in line with the GRI G3 standard, the recently issued report follows the new GRI G4 standard.

Rewordings and changes only refer to the new requirements of the GRI G4 standard.

As “In accordance” option, we have selected the GRI G4 option “Core”. An external audit has not taken place. The reporting period is focused on the fiscal year 2016, but also takes activities of the years 2015 and earlier into account. The facts and figures published in this report refer to all production sites of the SGB-SMIT Group.

This report will be published biennially in future.



# 11. GRI G4 – INDEX

G4 Index	General standard disclosures	Page / information
<b>Strategy</b>		
G4-1	Strategy and analysis	Page 3
<b>Organizational profile</b>		
G4-3	Name of organization	SGB-SMIT Management GmbH (SGB-SMIT Group)
G4-4	Products and services	Page 4/5
G4-5	Headquarters	Regensburg, Germany
G4-6	Number of countries in which we are operating	Page 5
G4-7	Nature of ownership and legal form	Page 5
G4-8	Markets supplied by us	Page 6
G4-9	Size of our organization	Page 4
G4-10	Total headcount	Page 13
G4-11	Percentage of employees covered by collective bargaining agreements	Page 13
G4-12	The supply chain of our organization	Page 8
G4-13	Important changes	Page 3
G4-14	Precautionary approach or principle	Page 7, 14
G4-15	Economic, environmental and social charters	Page 10
G4-16	Membership in associations	Page 10
<b>Identified material aspects and boundaries</b>		
G4-17	List of our entities	Page 5
G4-18	Process for defining aspects / the report contents boundaries	Page 9
G4-19	Material aspects - stakeholder analysis	Page 9
G4-20	Material aspects - boundary within the organization	Page 9 - 11
G4-21	Material aspects - boundary outside the organization	Page 9 - 11
G4-22	Restatements in the report	Page 17
G4-23	Changes in scope	Page 17
<b>Stakeholder engagement</b>		
G4-24	List of stakeholder groups engaged by the organization	Page 10/11
G4-25	Basis for identification	Page 9
G4-26	Report the organization's approach to stakeholder engagement	Page 9
G4-27	Key topics and concerns	Page 9 - 11
<b>Report profile</b>		
G4-28	Reporting period	2016 and before
G4-29	Date of most recent previous report	2011
G4-30	Reporting cycle [such as annual, biennial].	Biennial (as of this report)
G4-31	Contact point for questions regarding the report	Andreas Schützner andreas.schuetzner@sgb-smit.group
G4-32	Selected "In Accordance" option	„Core" option
G4-33	External audit of the report	No external audit

G4 Index	General standard disclosures	Page / information
<b>Governance</b>		
G4-34	Governance structure of the organization	Refer to the financial statements
<b>Ethics and integrity</b>		
G4-56	Values, principles, standards and norms of behavior	Page 14

G4 Index	Specific standard disclosures are listed in the Annex “GRI G4-indicators”
<b>Economically efficient</b>	
G4-EC1	Direct economic value generated and distributed
<b>Environmental</b>	
G4-EN3	Energy consumption within the organization
G4-EN8	Total water withdrawal by source
G4-EN15	Direct greenhouse gas (GHG) emissions (scope 1)
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (scope 2)
G4-EN17	Other indirect greenhouse gas (GHG) emissions (scope 3)
G4-EN23	Total weight of waste by type and disposal method
G4-EN29	Significant fines and total number of non-monetary sanctions for non-compliance with environmental laws
<b>Social</b>	
G4-LA1	Total number and rates of new employee hires and employee turnover
G4-LA9	Average hours of training and ongoing training
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category
G4-LA16	Number of grievances about labor practices filed
G4-HR3	Total number of incidents of discrimination and corrective actions taken
G4-HR12	Number of grievances about human rights impacts filed
G4-SO3	Total number and percentage of operations assessed for risks related to corruption

 **STARKSTROM-GERÄTEBAU GMBH**  
Regensburg • Germany

 **SÄCHSISCH-BAYERISCHE  
STARKSTROM-GERÄTEBAU GMBH**  
Neumark • Germany

 **ROYAL SMIT TRANSFORMERS B.V.**  
Nijmegen • The Netherlands

 **SMIT TRANSFORMER SERVICE**  
Nijmegen • The Netherlands

 **RETRASIB S.A.**  
Sibiu • Romania

 **SMIT TRANSFORMER SALES INC.**  
Summerville, SC • USA

 **SGB-USA INC.**  
Louisville, OH • USA

 **OTC SERVICES INC.**  
Louisville, OH • USA

 **SGB MY SDN. BHD.**  
Nilai • Malaysia