Sustainable Value Report 2011 of the SGB-SMIT Group
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Dear Reader,

Welcome to our second Sustainable Value Report. This Report is to inform you about the activities and changes which took place within the SGB-SMIT Group in 2011.

The year 2011 was an eventful one for the energy industry, characterized by the incident in the Fukushima nuclear power plant and the continuing strong capacity expansion figures regarding renewable power in Europe. Our many years of experience, but also our flexibility in meeting new challenges have enabled us to position ourselves within an environment subject to rapid change. One of our major concerns is that social and ecological issues related to our activity are not sacrificed to the insecurities conditioned by such change. Thus, we have enhanced our efforts especially as regards the environment.

For the years 2009 and 2010 we had already had detailed greenhouse gas balances prepared so as to be in a better position to view our climate-related emissions, to improve comparison of the various locations and to evaluate measures to reduce the greenhouse gas potential. This evaluation was continued into 2011 and then extended to include the Golden (US) location. From the findings thus obtained, steps can be derived for the reduction of energy consumption which affects the climate.

Our customers, the power supply companies, impose increasingly high demands to be satisfied by the suppliers of the most important components which include transformers. The environmental aspect is increasingly taken into consideration. To record the high degree of environmental capacity of our products, we had a carbon footprint prepared for four selected transformers in the past year. It provides information about the most important sources of emissions during the products’ entire service life, to make products comparable with one another. Moreover, our processes are certified in accordance with the quality and environmental standards ISO 9001 and ISO 14001.

Not only the environment, but also the working climate and the well-being of our staff are our concern. In addition to flexible working hours and performance-related remuneration, we especially offer a family-like working atmosphere. The open-door principle is just as much a matter of course for us as are unbureaucratic communication channels. Our staff warrant our success - independent of hierarchies. Thus, I would like to take this opportunity of cordially thanking our staff for their commitment.

This Report was prepared to a large degree according to the GRI Standard (Global Reporting Initiative - GRI). This standard ensures the quality of the indicators determined, makes different companies comparable and permits verification of the efficiency of measures taken. It is especially to help communicate our values and in future also the development of our sustainability performance towards our most important stakeholders, the customers, trade unions, suppliers and employees.

Thank you for supporting our company and for demonstrating trust and interest by reading this Report.

Günther E. Vötsch
CEO of the SGB-SMIT Group
Who we are

SGB-SMIT Group is a leading international provider of power engineering applications with locations in Germany, the Netherlands, Malaysia and the USA.

With a total headcount of approximately 1,400, we develop and manufacture oil distribution, cast resin and power transformers, special equipment and compact stations.

Our clientele includes power supply and industrial companies, switchgear manufacturers and energy producing companies both in the conventional and renewable fuel sectors.
1. About us

Power, power generation and power distribution probably count among the most important challenges for the future. The SGB-SMIT Group provides key technologies and tools worldwide to capture markets and to shape the future.

“Best of both worlds”: The SGB-SMIT Group is the result of a merger of locally operating, highly successful medium-sized companies and represents an efficient international network today.

A combination which links the best of both worlds for our customers: globally speaking, we offer world-class quality and market acceptance. Locally speaking, you benefit from customer focus, lean structures and short distances.

This applies to planning, product engineering and all service activities alike.

All this not only provides us with a considerable competitive edge but, due to close cooperation with our customers, results in focused development, ongoing structural improvements and optimization of the corresponding service.

Especially when it comes to innovative products such as the connection of offshore wind power plants, the interlinking of international networks or products with special licenses, we are driven by our customers’ increasingly sophisticated requirements.
1.1. Locations

The managing company – SGB-SMIT Management GmbH – has its headquarters in Regensburg.

The production sites are located in 4 countries:

- Smit Transformatoren B.V., Nijmegen (Netherlands)
- Starkstrom-Gerätebau GmbH, Regensburg (Germany)
- Sächsisch-Bayerische Starkstrom-Gerätebau GmbH, Neumark (Germany)
- AM SGB Sdn. Bhd., Nilai (Malaysia)
- SGB Cast Resin Sdn. Bhd., Nilai (Malaysia)
- SGB-USA Inc., Golden (USA)

Our production sites:

SGB-USA, INC.
13051 West 43rd Drive · Golden, CO 80403 · USA

AM SGB SDN. BHD.
PT 16688 & 16689 · Jalan Permata Dua
Arab-Malaysian Industrial Park · 71800 Nilai · Malaysia

STARKSTROM-GERÄTEBAU GMBH
Ohmstraße 10 · D-93055 Regensburg · Germany

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STARKSTROM-GERÄTEBAU GMBH
Ohmstraße 10 · D-93055 Regensburg · Germany
1.2. Our products

The SGB-SMIT Group produces transformers with extremely low no-load losses and minimum noise emissions. Thus, we contribute actively to the reduction of CO₂ emissions and cost containment. The overall ecological calculation, however, also means that our transformers excel thanks to their especially high manufacturing quality and operating reliability. Transformers from the SGB-SMIT Group are synonymous with a long service life with an extremely low disturbance level, ecologically and economically speaking.

**Off-shore and in-time**
The SGB-SMIT Group is a partner to the wind power industry and a technology supplier for offshore wind power plants. Depending on the performance profile, cast-resin or liquid-filled transformers are used. We are also able to provide efficient medium-power or large transformers when it comes to connecting wind parks to the grid.

**Sunny times – a service which secures returns**
Also when it comes to photovoltaic plants: extraordinary know-how and a service ensuring many sunny moments in solar power generation. Transformers and compact stations for easy connection of solar power to the grid.

**Energy from nature, know-how from experience**
Biomass power plants are becoming increasingly important in the future energy mix. Compact stations by the SGB-SMIT Group provide convincing quality from tradition, building a bridge between innovative technology and reliable energy distribution.

**Power for what drives us**
Mobility is one of the basic concerns of mankind – and one of the major challenges of our future. Finding economic and ecological alternatives to individual traffic is one of the most pressing tasks – in industrial countries, in order to reduce the strain on the environment, and in the emerging countries to fulfill the requirement for mobility and to enable the construction of necessary infrastructures. The SGB-SMIT Group cooperates with railway operators world-wide and develops power distribution concepts according to customer specifications and the market environment.

**Power for what drives us tomorrow**
The future of individual traffic is electric. The SGB-SMIT Group has been advancing research and design for many years to drive this exciting, demanding development forward. A close network of power filling stations, high-voltage connectors for quick-charging and feed-in of current from the most diversified sources, all increase the efficiency of alternative power generation modes.
We manufacture the following products:

**Large power transformers of all types and classes. phase shifters, fixed-rating and controllable shunt reactors**
in  Nijmegen, Netherlands  
Power: up to 1,200 MVA / up to 800 kV

**Medium-power transformers and special transformers for railway and industrial applications**
in  Regensburg, Germany  
Power: up to 120 MVA / up to 245 kV  
Neumark, Germany  
Power: up to 10 MVA / up to 66 kV  
Nilai, Malaysia  
Power: up to 30 MVA / up to 36 kV

**Oil distribution transformers**
in  Neumark, Germany  
Nilai, Malaysia  
Power: up to 2.5 MVA / up to 36 kV

**Cast Resin Transformers**
in  Regensburg, Germany  
Golden, USA (SGB USA) 
Nilai, Malaysia  
Power: 50 kVA - 25 MVA / up to 36 kV

**Compact-Substations**
in  Neumark, Germany  
for transformers up to 2.5 MVA / up to 36 kV
2. Global solutions for the world of tomorrow

The comparison of various companies was limited, until a short time ago, to economic key data. These were considered as the be-all and end-all regarding the performance of a company. In the meantime, criteria have changed and new aspects beyond mere economic performance have appeared. In this context, the term “sustainability” has increasingly become the focal point of interest over the years.

Sustainable management means finding a balance between economic success, social responsibility and environmental protection. Systematic acquisition of economic, ecological and social key data permits tracking of progress and points out the areas where action is required.

To identify the relevant figures, SGB-SMIT is in close interchange with its various stakeholders. These include not only customers, but also members of staff, suppliers, communities at the sites of production and naturally the shareholders. As a global player with a long tradition at the various sites, the SGB-SMIT group member companies are especially committed within their regions at a social level and wish to express this accordingly.

We support sports associations, auxiliary fire brigades, kindergartens, schools and universities, social initiatives and charitable institutions, along with the advancement and integration of severely handicapped people in special workshops for disabled persons (e.g.: “Lebenshilfe Regensburg” or “BREED” in Nijmegen). These workshops provide the mentally handicapped with jobs under pedagogic and psychological care. The SGB-SMIT Group supports these facilities by awarding them a considerable amount of orders.

This meaningful occupation provides the mentally handicapped with a certain degree of self-affirmation, autonomy, social acceptance and life within the community. Experience made on the job may promote their personal and social development.
3. Environmental responsibility

As a responsible company, we consider it as important to meet the various demands of our stakeholders. Thus, it is our concern to keep customer satisfaction at a high level with quality and personal contact, to ensure the safety and well-being of our staff and to approach society, especially the communities where our sites are located, in an environmentally conscious and responsible manner.

Thus, we have been able to reduce, for example, acoustic nuisance for our immediate neighbours in Nijmegen by installing a low-noise generator and by building a noise barrier in front of our test area transformer.
3.1. Quality and customer satisfaction

Our products represent the quality of our company. They are used daily, worldwide, and must provide full performance over a long service life. This calls for continuous further development and optimization as regards various technical requirements from the customers’ end, but also in view of environmental compatibility.

To be able to prove and verify quality in products and processes, appropriate certifications are indispensable. Thus, almost all locations have been certified together in accordance with DIN EN ISO 9001. Certification of the environmental management system acc. to DIN EN ISO 14001 was also or is performed at an intra-group level in all companies.

Our occupational health and safety management systems are certified acc. to OHSAS 18001 or SCC.

<table>
<thead>
<tr>
<th></th>
<th>Certified plants</th>
<th>Plan for certification in 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quality</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIN EN ISO 9001</td>
<td>SGB Regensburg</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SGB Neumark</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SMIT Nijmegen</td>
<td></td>
</tr>
<tr>
<td></td>
<td>AM SGB Nilai</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SGB-USA Golden</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SGB CR Nilai</td>
<td></td>
</tr>
<tr>
<td><strong>Environmental</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIN EN ISO 14001</td>
<td>SGB Regensburg</td>
<td>AM SGB Nilai</td>
</tr>
<tr>
<td></td>
<td>SGB Neumark</td>
<td>SGB CR Nilai</td>
</tr>
<tr>
<td></td>
<td>SMIT Nijmegen</td>
<td>SGB-USA Golden</td>
</tr>
<tr>
<td><strong>Safety</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OHSAS 18001</td>
<td>SGB Regensburg</td>
<td>AM SGB Nilai</td>
</tr>
<tr>
<td></td>
<td>SGB Neumark</td>
<td>SGB CR Nilai</td>
</tr>
<tr>
<td>SCC</td>
<td>SMIT Nijmegen</td>
<td></td>
</tr>
</tbody>
</table>

Moreover, we can boast various product-related certifications. These include the KTA1401 (homologation for deliveries to power plants) for large and medium power transformers, or various certifications, e. g. for cast resin transformers, such as GHOST (Russia) or CSA (Canada and USA).
3.2. Code of Conduct

Bearing social responsibility also means complying with applicable directives and standards, no matter whether they are mandatory or voluntary. This is how a company can create sustained trust. To ensure that this trust is not impaired by the conduct of individual members of staff and to obligate the employees to identify with the values and rules of the company, a Compliance Guideline was introduced in 2009 which provides the staff with directives on how to behave correctly.

In the meantime, the majority of staff at all locations has been trained accordingly, and the Code implemented successfully in 2011.

Moreover, our Group follows the ten principles stipulated in the United Nations Global Compact:

**Human rights**
1. We support and respect the protection of international human rights within our sphere of influence and
2. ensure that we are not complicit in violations of human rights.

**Working standards**
3. We respect the freedom of association and the effective acknowledgement of the right to collective bargaining.

**We advocate:**
4. Elimination of forced labor in every form,
5. Abolition of child labour and

**Environmental protection**
7. We follow a preventive approach in handling environmental problems.
8. We take initiatives to enhance a sense of responsibility for environmental matters.
9. We promote the development and propagation of environmentally compatible technologies.

**Fighting corruption**
10. We are opposed to all kinds of corruption, including bribery and extortion.

These 10 principles are complied with and implemented by us. Thus, in countries such as India or China, working standards and environmental protection receive special attention in the selection of suppliers. We will continue to enforce our documentation and commitment as regards these 10 principles.
3.3. Co-workers

3.3.1. Overview

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 2011, our headcount comprised 1,418 in 5 countries. This corresponds to an increase of 4% versus 2010.

Approximately 60% of the employees work in Germany at the Regensburg and Neumark locations, 28% in the Netherlands, 11% in Malaysia and 1% in the USA. Just below 6% of the entire staff work part-time.

On average, 10% of the staff are women, 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. Nevertheless, increasing the percentage of women is a concern for the future.
3.3.2. Personnel development and offers for employees

Diversity regarding staff, comprehensive training and ongoing training, a high degree of occupational safety and attractive job conditions are essential prerequisites for the long-term success of the SGB-SMIT Group. Thus, over 90% of the employees in Europe and 45% of those in Malaysia are subject to a tariff agreement. We have 70 trainees altogether in the European companies, who in most cases are enabled to join the company after training and thus to further improve their skills.

Moreover, we provide an old age pension scheme at plant level. Depending on their years of service, our members of staff dispose of various – location-related – options to obtain additional benefits from the company-based plant old age pension scheme on retirement. Thus, we support e. g. our staff in Malaysia with a higher pension rate than required, the longer they are in the company.

To support and even enhance the good spirit of solidarity within the staff, the SGB-SMIT Group organizes events for its active and former employees on a regular basis, such as Christmas parties, company parties or excursions.

Thus, the SGB-SMIT Group underlines its character as a global player with a family atmosphere. Inter-site meetings and workshops are also conducted. These joint events foster contacts and socializing among the members of staff outside of day-to-day business, as well as team spirit, supporting the company culture and formation of informal networks.

<table>
<thead>
<tr>
<th></th>
<th>Regensburg</th>
<th>Neumark</th>
<th>Nijmegen</th>
<th>Malaysia</th>
<th>USA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employees</td>
<td>501</td>
<td>353</td>
<td>399</td>
<td>153</td>
<td>12</td>
<td>1,418</td>
</tr>
<tr>
<td>Percentage women</td>
<td>12 %</td>
<td>12 %</td>
<td>4 %</td>
<td>11 %</td>
<td>17 %</td>
<td>10 %</td>
</tr>
<tr>
<td>Part time employees</td>
<td>18</td>
<td>27</td>
<td>37</td>
<td>0</td>
<td>0</td>
<td>82</td>
</tr>
<tr>
<td>Percentage women</td>
<td>80 %</td>
<td>18 %</td>
<td>32 %</td>
<td>0 %</td>
<td>0 %</td>
<td>41 %</td>
</tr>
<tr>
<td>Temporary employee (FTE)</td>
<td>66.2</td>
<td>56.6</td>
<td>81.3</td>
<td>25</td>
<td>0</td>
<td>229.1</td>
</tr>
<tr>
<td>Percentage women</td>
<td>15 %</td>
<td>6 %</td>
<td>3 %</td>
<td>0 %</td>
<td>0 %</td>
<td>0 %</td>
</tr>
<tr>
<td>Apprentices</td>
<td>41</td>
<td>16</td>
<td>13</td>
<td>0</td>
<td>0</td>
<td>70</td>
</tr>
<tr>
<td>Percentage women</td>
<td>12 %</td>
<td>19 %</td>
<td>0 %</td>
<td>0 %</td>
<td>0 %</td>
<td>11 %</td>
</tr>
<tr>
<td>Management</td>
<td>24</td>
<td>8</td>
<td>15</td>
<td>11</td>
<td>1</td>
<td>59</td>
</tr>
<tr>
<td>Percentage women</td>
<td>0 %</td>
<td>0 %</td>
<td>7 %</td>
<td>9 %</td>
<td>0 %</td>
<td>3 %</td>
</tr>
</tbody>
</table>
3.3.3. Staff satisfaction

Staff satisfaction is reflected by several factors including the labour turnover rate. Those who are satisfied about their workplaces tend to retain them. The labour turnover rates of SGB-SMIT showed, for the European locations, only 2 - 4% of persons leaving on a voluntary basis in 2011. This is a comparatively low value. The average labour turnover rate in Germany is estimated to e.g. approx. 10-13%, and is thus considerably above the values of the SGB-SMIT Group.

3.3.4. Accidents

Occupational safety is emphasized in our company. We are proud on being able to show a low accident rate. Nevertheless, occupational accidents in production plants cannot be avoided completely. Thus, a total of 42 reportable accidents were recorded in 2011, most of them – 28 – at the two locations in Germany. This figure does not include way-to-work accidents. Against this, Nijmegen and Nilai recorded only 10 and 4 accidents, respectively.

<table>
<thead>
<tr>
<th></th>
<th>SGB Regensburg</th>
<th>SGB Neumark</th>
<th>SMIT Nijmegen</th>
<th>AM SGB Nilai</th>
<th>SGB-USA Golden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accidents</td>
<td>21</td>
<td>7</td>
<td>10</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Lost days</td>
<td>247</td>
<td>201</td>
<td>117</td>
<td>186</td>
<td>0</td>
</tr>
</tbody>
</table>
4. Gentle handling of the environment and resources

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.

4.1. Energy and CO₂

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 and consumption thereof has declined versus the previous year.

As an example, we would like to mention our new production workshop for Compact stations in Neumark which was commissioned in 2011. This workshop was designed and built following the state of the art of energy saving technologies. Thus, e.g., geothermal energy is used to heat the workshop via heat pumps.

<table>
<thead>
<tr>
<th>Energy</th>
<th>Regensburg</th>
<th>Neumark</th>
<th>SMIT</th>
<th>Malaysia</th>
<th>USA</th>
<th>Total 2011</th>
<th>Total 2010</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel Oil [t/a]</td>
<td>145</td>
<td>365</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>510</td>
<td>529</td>
<td>-4 %</td>
</tr>
<tr>
<td>Natural Gas [Nm³h/a]</td>
<td>846</td>
<td>7</td>
<td>950</td>
<td>0</td>
<td>3</td>
<td>1,806</td>
<td>2,029</td>
<td>-11 %</td>
</tr>
<tr>
<td>Electricity [MWh/a]</td>
<td>8,420</td>
<td>5,721</td>
<td>8,277</td>
<td>3,464</td>
<td>88</td>
<td>25,970</td>
<td>25,052</td>
<td>4 %</td>
</tr>
<tr>
<td>Diesel [1,000 l/a]</td>
<td>15</td>
<td>14</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>33</td>
<td>32</td>
<td>3 %</td>
</tr>
</tbody>
</table>
4.1.1. Corporate Carbon Footprint

2011 was the third time the SGB-SMIT Group had prepared a greenhouse gas balance, i.e., a so-called carbon footprint according to the GHG Protocol for the entire company. By means of this ratio, changes to the energy consumption and other relevant influencing variables can be determined. Due to the recurrent survey, the locations can be compared increasingly efficiently, as shown by the illustration below.

In total, the Group shows greenhouse gas emissions for 2011 of 19,648 t CO₂ equivalents. The major part, i.e., well over 80% of the emissions, come from energy-intensive production, as the energy conservation factors suggest. Freight transport accounts for 14% and another 5% are allotted to business trips.

Considering a breakdown of the CO₂ balance by direct, i.e., company-internal and indirect emissions, current consumption proves to account for more than half the total quantity. This emission is produced indirectly at the energy generating company. Here we can see the enormous influence of the fuel mix on the carbon footprint. Thus, e.g., the Malaysia location has a considerably lower power consumption than the European sites, but a comparable CO₂ balance regarding power consumption due to the mix dominated by fossil fuels.

4.1.2. Product Carbon Footprint

In 2011, recording of the greenhouse gas emissions was extended to the product emissions of four selected transformers. This provides information about the greenhouse gas balance of the entire life cycle of the transformers, and not only on the activities performed in our factories. This so-called Product Carbon Footprint includes material provision, transformer production, utilization, disposal and/or recycling. As the transformers have different weights, meaning that the emissions per product unit are hard to compare, the greenhouse gas potential is stated per kilogram of the product or per kVA, and is thus comparable.
One can see that the useful life accounts for 97% to 99% of the entire emissions, thus making material provision and production as such really negligible. However, these are just the components of the greenhouse gas balance on which the manufacturer has considerable influence; thus, they have to be considered in more detail.

This approach shows that the emissions of the individual transformers in kilogram of CO₂ equivalent per kilogram transformer differ only slightly and that the major part is derived from the extraction of the raw materials used, such as copper or aluminium.

In conclusion, optimization of the losses during transformer operation would result in the greatest improvement of the greenhouse gas balance, as these account for the major share. We take this task very seriously and improve efficiency continuously.
4.2. Consumption of resources

Transformers are products which involve necessarily high material consumption, especially metals such as steel, copper or aluminium. For many years, attention has been paid to using materials as efficiently as possible, so as to minimize waste generation and so as to regenerate recyclable waste systematically. Thus, the quantities and the type of recycling have been recorded in detail for several years. As further reduction of the material quantities is practically impossible, due to the properties required of the transformers, our concern is to keep increasingly an eye on the origin of the raw materials. So far, procurement has not differentiated between recycled and non-recycled raw material. It is envisaged to recognize this differentiation better in future, and to increase the recycled portion.

In 2001, the waste quantities in Malaysia were recorded for the first time with the required degree of detail, as reuse and correct disposal are more difficult than in European countries. To get an overview about the quantities and the type of disposal involved, we will introduce a recording system there as soon as possible, so as to enable comparison with the other locations.

5. About this Report

The Sustainable Value Report 2011 is largely based on the requirements of application level C of the GRI Guideline G3 of the Global Reporting Initiative (GRI). The reporting period is focused on the calendar year 2011, but also takes activities of the year 2010 and earlier into account.

The facts and figures published in this Report refer to the production locations of the SGB-SMIT Group with its companies Starkstrom-Gerätebau GmbH in Regensburg, Sächsisch-Bayerische Starkstrom-Gerätebau GmbH in Neumark, SMIT Transformatoren B.V. in Nijmegen (NL), AM SGB Sdn. Bhd. in Nilai (MY) and SGB Cast Resin Sdn. Bhd. in Nilai (MY). SGB-USA Inc. in Golden (USA) has been included for the first time.