



Corporate Social Responsibility Report

2017/18



Image: ESA/ATG mediatlab



1 INTRODUCTION



“AT TERMA, WE DELIVER SECURITY FOR COUNTRIES, ALLIANCES, AND INDIVIDUALS; SECURITY IS A MEANS TO MAINTAINING AND DEVELOPING PROSPERITY AND PROTECTING HUMAN LIVES AND SOVEREIGNTY.”

Jens Maaløe,
President & CEO

Image: Royal Netherlands Air Force

Foreword by Jens Maaløe

This year, a key priority for us was to discover the linkages between our purpose and our engagement towards social responsibility.

Developing what we call our CSR Compass (see page 12), we clearly anchor CSR within our business and our daily work. We have worked with CSR for many years prior to this step, but we acknowledge that the time has come to further strengthen our engagement and to work towards integrating CSR systematically.

This commitment demands work, requires a long-term perspective, and the willingness to sometimes work in new ways; but in doing so, we will also become more valued and valuable as a company.

“This engagement is born from the firm belief that it is the right thing to do, and in doing so, we will yield additional benefits to our company and our stakeholders.”

This is our third separate Corporate Social Responsibility (CSR) report, and this very report marks our first Communication on Progress (COP) following our engagement towards the UN Global Compact, which we formalized in April 2017. We have committed ourselves to support the Ten Principles, which have guided and inspired the structure of our overall Corporate Social Responsibility (CSR) strategy as well as this report.

In this report, we present how 2017/18 has been a year with steady progress and several important milestones on our CSR journey.

You will read about the important steps taken this year to further integrate corporate responsibility in the strategic mindset of our organization. Our systematic approach revolves around the key areas: Human and Labor Rights, Anti-corruption and Business Ethics, Environment, and of course how this translates into our work with our Supply Chain.

I hope you will find the report interesting to read, and I look forward to sharing more on our future work and progress.



Jens Maaløe
President & CEO





Our values, mission & vision

OUR VISION

Securing people through advanced technology.

OUR MISSION

Our engineering excellence provides mission critical solutions within Aerospace, Defense and Security to protect people and their assets.

OUR VALUES

Act globally

- Be visible locally
- Respond quickly
- Be open-minded

Deliver the promise

- Think ahead
- Be responsible
- Go do it

Work with integrity

- Show respect
- Be honest
- Help each other

Learn and improve

- Talk about successes and mistakes
- Ask questions
- Learn from each other

Show passion

- Show dedication
- Make a difference
- Go the extra mile

Our business model

With this business model, we aim to illustrate the relations between our core business operations and our ethical commitment.

Key resources

- 

Financial capital
Finance investments and production
- 

Human resources
To operate our business, we depend on our highly skilled and diverse workforce
- 

Natural resources
We rely on energy and water in our production facilities
- 

Facilities
Two production facilities located in Denmark. In total, operations at 16 locations in 9 countries on 3 continents
- 

Partnerships
Our business partners are essential for our operations and development
- 

Supply chain
Supplies in goods, materials, and services to support our own production

Business activities

- Mission-critical products, software, and services for space missions**

+100 space missions and **+1,000** space projects rely on Terma's expertise and know-how
- Airborne solutions and manufacturing of electronics and aerostructures**

+2,800 aircraft rely on Terma's self-protection solutions
- Radar surveillance to secure national borders and critical infrastructure and to keep people safe**

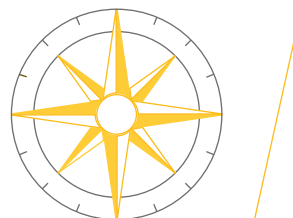
+2,500 SCANTER radars installed (coastal surveillance, Vessel Traffic Services, Surface Movement Radar, and naval applications)
- Command and control systems and self-protection for naval vessels**

10 regional navies and coast guards rely on Terma's naval solutions
- Maintenance, support, and update of Terma products in the global defense and security market**

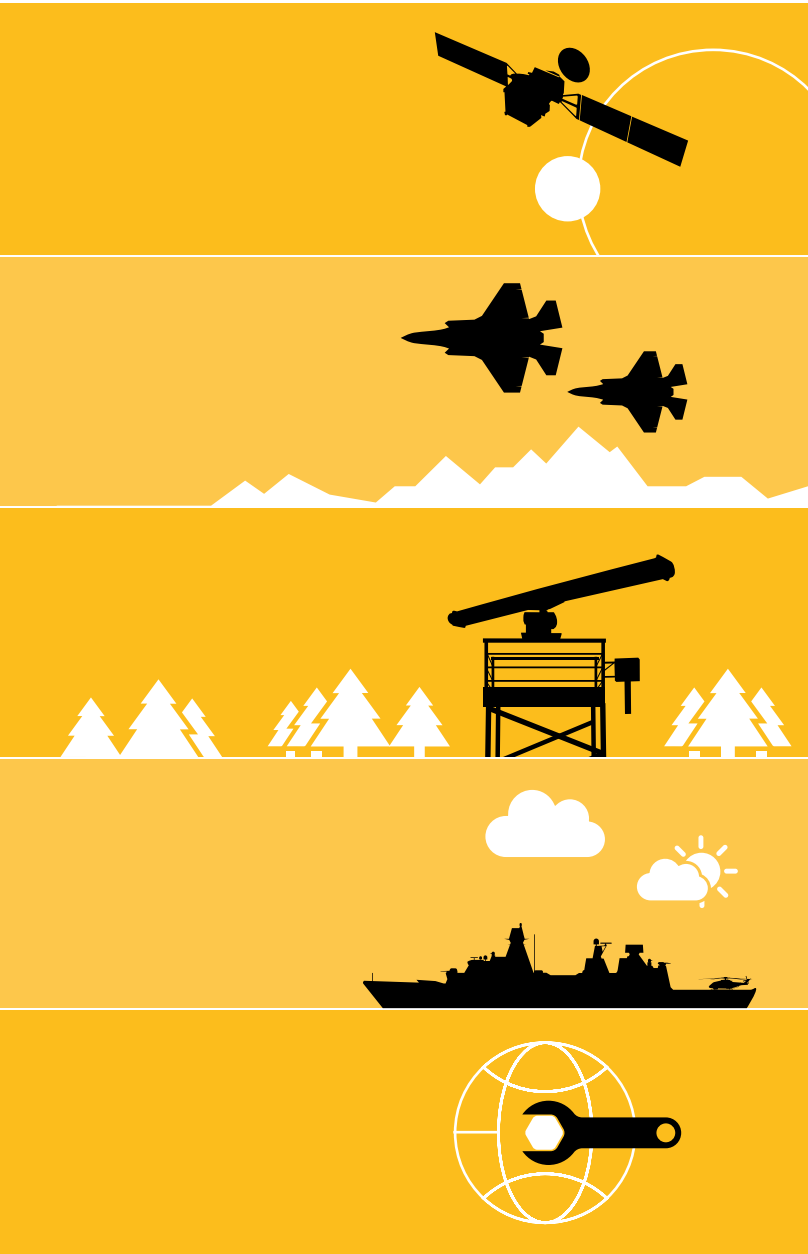
+4,000 radar systems, aircraft, and navies supported worldwide

CSR Compass

"We are guided by one overall purpose: to deliver security for countries, alliances, and individuals; Security is a means to maintaining and developing prosperity and protecting human lives and sovereignty. In fulfilling this purpose, we conduct our business ethically, inspired by the UN Global Compact."



Value creation



Revenue

We create value for our “shareholder” the Thomas B. Thrige Foundation

Tax contributions

We comply with relevant legislation and pay our taxes in the countries where we operate

Responsible employer

We create work and train our team to maintain and develop competences/expertise

Customers

We enable our customers to keep people safe

Contribution to communities

We support the education of young people, and in 2017/18, we welcomed 32 interns, trainees, and students as part of their academic development

WE SUPPORT



Terma in the industry

How would you describe Terma as a company? Generally and in a CSR context?

Terma is the largest defense and security company in Denmark, we are a technology company, and everything we do is around delivering technology to make the world more secure.



"From a CSR perspective, Terma is very much focused on behaving in the right way. Terma has proud roots in Denmark. This is our home base, and most of our employees are based in Denmark. So we tend to say that we can't live off Denmark, but we couldn't live without Denmark. I believe it gives us guidance in how to behave, conduct business, and work."

What makes Terma unique in the industry with regard to CSR?

"Terma benefits from being a Danish company, Denmark being one of the least corrupt countries in the world. There is no doubt that this fits well with our zero tolerance

Interview with:
Steen M. Lyneskjold
Executive Vice President & Chief
Commercial Officer (CCO)

towards corruption. Also, when it comes to the way of doing business, we use the same ethical standards throughout our company, no matter where we operate in the world."

What are our goals and aspirations businesswise in the coming years?

"It is an exciting time for Terma! We are on a growth journey, we have grown significantly over the last couple of years, and we look into growing further. There is no doubt that we are benefitting from Denmark's selection of the F-35 program, but also our radar business and naval C2 business are showing good progress."

How does CSR support our mission and vision?

"Terma's mission is to use technology to make the world more secure. Everything we do is mission critical; whether it is a radar placed at an airport or a self-protection system for an aircraft: it has to work when put to use. CSR actually fits really well with what we do. The CSR policy helps us in how we do business. That gives us some guidance in how we conduct business."

What are the benefits of incorporating CSR in our strategy?

"CSR is an important part of our strategy. You could say that CSR is helping us establish guidance for how we want to do things, how we conduct our business. This is about how we behave in society; it is for example our work on anti-corruption, how we deal with subcontractors, and with our impact on the environment. Over the last few years, we have conducted extensive Due Diligence on all our marketing consultants."

Terma's mission is to use technology to make the world more secure. Everything we do is mission critical; whether it is a radar placed at an airport or a self-protection system for an aircraft: it has to work when put to use.



Our background

Terma has deep and proud roots in Denmark, tracing its origins back to 1944 and the brothers Orla and Svend Aage Jørgensen. In their small mechanical shop, the brothers manufactured thermometers and manometers, giving inspiration to the name Terma. In 1949, a limited liability company was created. Already in the 1950s, Terma worked with the Danish Defence in various projects to upgrade radars, computer systems, and air defense systems.

In 1980, the Thomas B. Thrige Foundation acquired the majority of the shares in Terma A/S. The foundation was created in 1933 by Thomas Barfoed Thrige (1866-1938), a highly skilled craftsman within the electro-mechanical area and successful businessman from Odense, Denmark. Upon his retirement, Thomas B. Thrige wanted to preserve his legacy and set up a foundation in his own name.

Today, industrial foundations are a common but distinctive form of company ownership in Denmark. The foundation is an independent legal entity without owners. Long-term ownership allows Terma to focus on steady development and is without doubt one of the reasons why our company still thrives after so many years of existence.

The Thomas B. Thrige Foundation supports two main purposes; activities benefitting the Danish business community, primarily within craftsmanship and industry, and extended higher education at foreign universities. The Foundation grants 40–70 donations annually to universities, technical or scientific museums, research purposes, international scientific conferences, PhD students, and case competitions for students.

About this report

This Corporate Social Responsibility (CSR) report aims at providing insight into Terma’s work towards business ethics, environmental and social sustainability, and covers the 1 March 2017 - 28 February 2018 fiscal year.

This report represents our statutory statement on social responsibility and underrepresented gender in accordance with sections §99 a and b of the Danish Financial Statements Act.

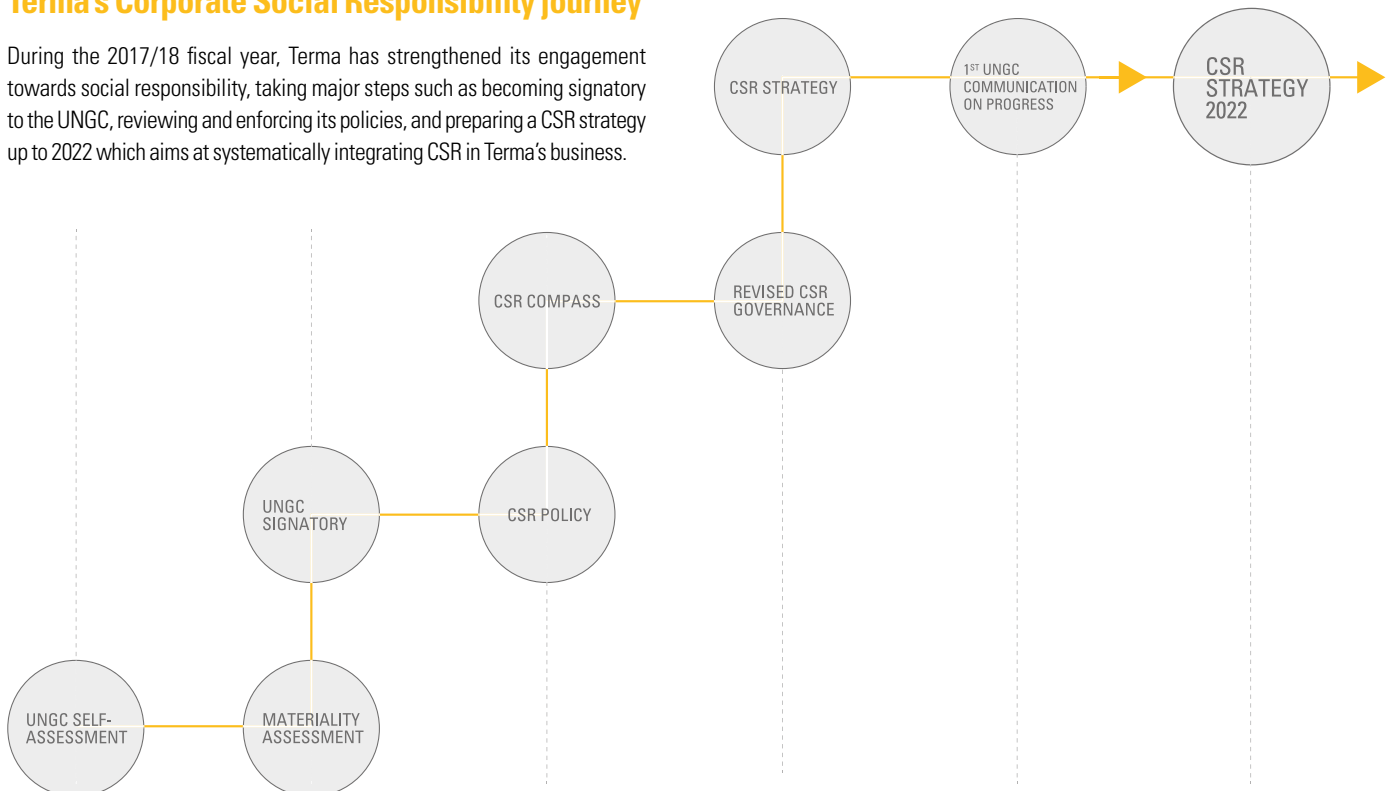
Following Terma’s engagement as a signatory to the United Nations Global Compact, it also constitutes our first official Communication on Progress.



Our approach to reporting is to focus on material issues and activities in line with stakeholder concerns and relevance in terms of context, completeness, and balance. We strive for accuracy, timeliness, clarity, and reliability in the way we communicate.

Terma’s Corporate Social Responsibility journey

During the 2017/18 fiscal year, Terma has strengthened its engagement towards social responsibility, taking major steps such as becoming signatory to the UNGC, reviewing and enforcing its policies, and preparing a CSR strategy up to 2022 which aims at systematically integrating CSR in Terma’s business.



Formulating a systematic approach

Terma initiated the work with CSR in 2009, and since then, we have regularly strengthened our approach. Acknowledging the steady increase in number and complexity of CSR related requirements combined with the expected growth of Terma at a global level called for a revised approach. Terma's latest CSR strategy does just that by looking towards 2022 with the goal to integrate CSR within our business practices beyond compliance.

Our focus has been to ensure that CSR practices become anchored in all relevant departments by establishing ownership, but also by making the business drivers tangible.

“Systematically integrating CSR in the business processes also means making the connection with our values and our business strategy. Only then can we ensure that CSR becomes a part of Terma’s business in the long run.”

Morten Halskov, Senior Vice President, General Counsel



“CSR in Terma has been seen as something obvious for many years. We have strong company values and a culture of “doing the right thing”. Nonetheless, we can see that by defining what it means to Terma, we can better engage our own organization and our stakeholders and focus on where we can have an impact. It is also a clear signal of our commitment.”

Morten Halskov, Senior Vice President, General Counsel

Three main building blocks will help our ambitions and goals come to life and to integrate CSR in Terma:

CSR risk management: we will work towards an enhanced understanding of the CSR related risks and compliance issues.

CSR opportunities: we will identify where CSR brings opportunities and engage actively with the business on concrete work.

Organizational development: we will keep raising awareness so that in turn it brings engagement and pull from the organization.

Our commitment to Corporate Social Responsibility

Starting our journey in 1949, Terma has deep and proud roots in Denmark and has a strong global presence through our subsidiaries and liaison offices. Terma Group develops products and systems for defense, non-defense, and security applications, including command and control systems, radar systems, self-protection systems for aircraft, space technology, and aerostructures for the aircraft industry.

We work closely with defense and emergency forces, public authorities, and international organizations around the world. We are guided by one overall purpose: to deliver security for countries, alliances, and individuals. Security is a means to maintaining and developing prosperity and to protecting human lives and sovereignty.

WE SUPPORT



Strong of this identity, our values, and our vision, we are committed to conducting our activities responsibly. We comply with legal requirements and strive to attain best practice, and equally important to live up to our commitment towards the United Nations Global Compact's Ten Principles. We acknowledge that social responsibility is an ongoing journey, and as part of a value chain, we too have a responsibility to use our sphere of influence in order to promote progress towards ethical and responsible business practice.

Regular stakeholder engagement is crucial to our progress, and we are open for dialog and communication with our key stakeholders. As part of this engagement, we report regularly and openly on our progress and challenges.

We expect all our employees, business partners, and relevant third parties acting on our behalf to behave in respect of this commitment. Our suppliers' behavior is particularly important in this context, and we expect them to live up to the same ethical standards as we do and to actively work towards improved responsible business practices.



CSR for Terma – Words from some of our leaders

“CSR offers a set of values on which we can build a more cohesive society and a much more sustainable economy. For Terma, this means that we ensure that we put a positive mark on the society by valuing people and our planet.”

Jesper Böhnke

Senior Vice President, Supply Chain Management



“To me, CSR is that Terma demonstrates accountability towards both the local and the global society wherever we execute our business. In practice, this means that we must create value not only for the company itself, but also for the society where we operate. It can be seen in how we handle social, environmental, and ethical challenges, as should be expected from a company like ours which has signed up to internationally recognized principles for CSR.”

Finn Jäger-Rasmussen

Senior Vice President, Technology & Innovation



“It’s about companies taking responsibility for the social and environmental impacts of their activities, no matter where we are in the world. It is important that the people within companies take these responsibilities. As a leader, CSR is important to guide my behavior towards ethical decisions and help me to be a role model.”

Charlotte Ludvigsen

Vice President, Applications



Our Corporate Social Responsibility perspective

Committing to work with CSR means defining what this concept represents for Terma. We have created our “CSR Compass” in which we connect our purpose with our CSR engagement, illustrating how our mission of providing security plays a positive impact on prosperity, human lives, and sovereignty.

CSR Compass

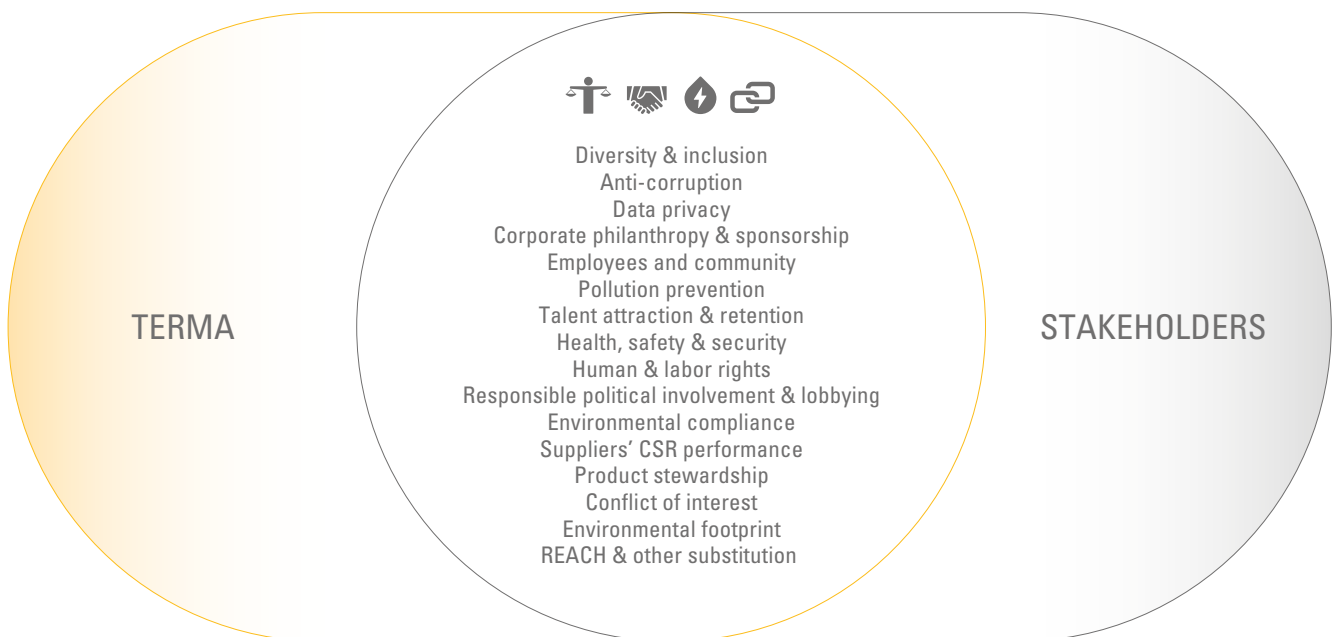
“We are guided by one overall purpose: to deliver security for countries, alliances, and individuals; Security is a means to maintaining and developing prosperity and protecting human lives and sovereignty. In fulfilling this purpose, we conduct our business ethically, inspired by the UN Global Compact.”



Terma’s radar of engagement

Structuring our work with CSR, we have decided to adopt the four focus areas of the United Nations Global Compact (UNGC) placing Responsible Supply Chain at the very core of our model as it encompasses all four areas and forms a key priority for Terma.

Key stakeholders and materiality
Having an in-depth understanding of our stakeholders' and our own material issues is vital for our business operations.



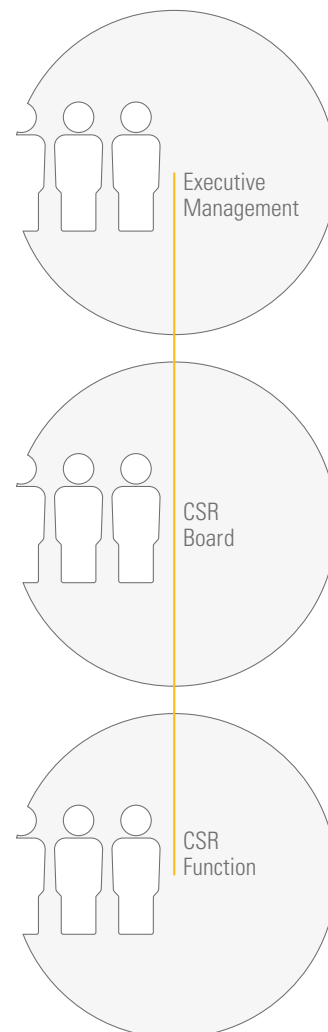
Renewed governance



CSR cannot be implemented as an isolated area, but needs to be integrated throughout the relevant functions and Business Areas. This year, our efforts to further strengthen our CSR priorities, and in turn adapt our structures and processes accordingly, have resulted in a renewed governance to drive future work. We have as such replaced the centralized, cross-functional working group which has been in charge of directing the CSR work from 2009 until the end of 2017/18 and created a CSR Board with a stronger business orientation. The CSR Board's role will be to anchor the CSR performance and ensure the thorough implementation of the strategy within the organization and businesses. The main changes reside in the inclusion of representatives from the Business Areas, the production units, and the innovation centers.

CSR governance structure

Terma considers the establishment of an improved governance structure an essential part of being an accountable and transparent company.





Terma and the Sustainable Development Goals

A changing world changes expectations of companies, resulting in a new role for the private sector. Companies have a responsibility and a role to play in shaping our common future. This acknowledgement is reflected in our commitment to conduct our business in a way that supports the United Nations' (UN) Sustainable Development Goals (SDGs), the 17 goals, and 169 subsequent targets which were adopted by all 193 member states as part of the UN's 2030 Sustainable Development Agenda in 2015. The SDGs represent the most pressing global challenges today, highlighting the needs of billions of people, and act as a framework for our work towards sustainable development and long-term value creation. They also reflect

the increasing expectations of businesses. This is why we welcome the SGD framework as it offers a fresh perspective on how governments, civil society, and businesses can work together in partnerships towards a common set of goals and develop a more sustainable and inclusive world.

This year, Terma conducted an initial assessment of the SDGs in the context of our core activities and impacts, to map our future commitment to the agenda. We have chosen to pursue and prioritize the 6 SDGs which are most strategically aligned with our business operations and which can ensure the greatest influence.

In this report, you can read how Terma contributes to the SDGs in each chapter. Throughout 2018/19, we look forward to following the development of this multi-stakeholder agenda and how to measure progress and impacts of businesses against the SDG goals and targets.





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HUMAN AND LABOR RIGHTS



“WE ARE ONE OF THE MAIN WORKPLACES IN THE AREA IN TERMS OF NUMBER OF EMPLOYEES. THIS COMES WITH RESPONSIBILITY, ALSO TOWARDS THE COMMUNITY IN WHICH WE LIVE.”

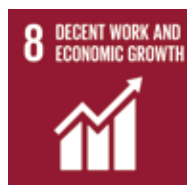
Jørgen O. M. Laursen

Senior Vice President, Aerostructures Manufacturing

Our Grenaa facility located in the Djursland region of Jutland, Denmark, is one of the biggest providers of jobs in that area. At Terma, we acknowledge that this responsibility and impact on human and labor rights is twofold; towards our employees and our local communities.

Image: Royal Danish Navy

Engaged and engaging provider of workplaces



Why this matters for society

Terma impacts the communities in which we operate, through our activities as a workplace, our production, our products, and technologies. Respecting and enhancing fundamental rights is key to sustainable development and prosperity.

Why this matters for Terma

We are committed to respect human and labor rights in all of our activities and operations, to maintain our social license to operate, and to protect our most important asset; our employees.

Our targets

Ensure that we have a clear overview of the risks and negative impacts we might generate via our business operations. This also entails having the relevant mitigation measures in place.

Our progress

Initial human rights and labor rights assessment carried out.

Human and Labor Rights Policy released.

What's next?

In-depth assessment and engagement with our supply chain with initial focus on the Tier 1 suppliers.

Provide specific training and awareness.

Working on LTI reduction to protect our employees' safety.

Risks

The labor rights risks identified are limited as Terma has matured in a strict regulatory environment. Nonetheless, safety of the employees is always top of mind.

The human and labor rights impacts in our supply chains are also risks that we need to further understand and mitigate.

Understanding our impacts on human and labor rights

At Terma, we are committed to respecting and protecting human and labor rights in all of our business operations. Through own activities, and those of business partners, companies risk either causing, contributing, or being linked with potential negative impacts on human and labor rights.

In 2017, we have integrated this engagement in our Human and Labor Rights Policy (see excerpts). We plan to transform this policy into relevant activities such as awareness and training, further assessment of our supply chain, and more. An initial assessment was carried out focusing on our compliance to human rights relating to labor rights. It allowed an inward checkup and confirmed our compliance to relevant requirements and the lack of direct negative impacts. The next step will be to build up on this and broaden the scope: analyzing the broader impacts and looking at other stakeholders.

Fighting slavery and trafficking in person

The **UK Modern Slavery Act 2015** and the **Federal Acquisition Regulation**, subpart 22.17 on Combating Trafficking in Persons, are intended to tackle modern forms of slavery, ranging from bonded labor to abusive working conditions. At Terma, we live up to the national legislation in the countries where we operate, as well as the applicable International Labour Organization's (ILO) Conventions to guarantee good working conditions.

Along with this report, we are also publishing our second annual statement pursuant to Section 54 of the UK Modern Slavery Act 2015. In this, we report our progress during the fiscal year 2017/18 on addressing the risk of modern slavery and human trafficking in our own business as well as our global supply chain. This year's statement as well as our first are available on our company website.

We acknowledge the complexity of such issues and the need to further understand as well as manage the risks that could relate to our supply chain. We have carried out an initial risk assessment, considering the categories of products purchased, the country of origin, and the relationship between our direct Tier 1 suppliers and their suppliers in order to identify potential issues. On the basis of this, we have decided to adapt our engagement with our suppliers. In the coming fiscal year, we plan to carry out a more thorough impact assessment and engagement of our supply chain.



Human Rights and Labor Rights Policy – excerpt 1

We have a zero tolerance towards slavery and trafficking in persons.

We are opposed to trafficking in persons and slavery in any form. Slavery is illegal and constitutes a violation of human rights. It may take many forms, including but not limited to; forced labor, exploitation, debt bondage, being physically constrained, and having restrictions on freedom of movement.

Terma's employees and relevant third parties must not engage in any practice that constitutes trafficking in persons or slavery. This includes, but is not limited to, the following activities:

1. Engaging in any form of trafficking in persons;
2. Procuring commercial sex acts during the period of participation to a U.S. government contract;
3. Using forced or bounded labor;
4. Destroying, concealing, confiscating, or otherwise denying access by an employee to the employee's identity or immigration documents such as passport or driver's license, regardless of the issuing authority;
5.
 - a. Using misleading or fraudulent practices during the recruitment of candidates or when offering employment positions, such as, failing to disclose in a format and language accessible to the worker, basic information or making material misrepresentations during the recruitment of employees regarding the key terms and conditions of employment including wages, fringe benefits, location of work, living conditions, housing, and associated costs (if relevant), any significant cost to be charged to the employee, and, if applicable, the hazardous nature of the work;
 - b. Using recruiters that do not comply with the local labor laws of the country in which the recruiting is taking place;
6. Charging employees recruitment fees;
7. Failing to provide return transportation or pay the cost of return transportation (where relevant);
8. Failing to provide housing that meets the host country housing and safety standards (where relevant);
9. If required by law or contract, failing to provide an employment contract, recruitment agreement, or other required document in writing; and in a language that the employee understands.

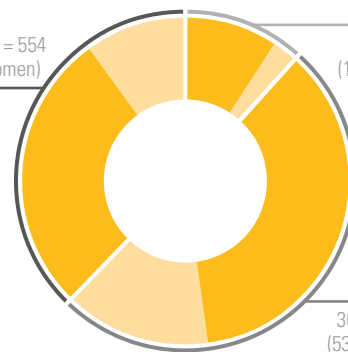


Terma as a responsible employer

Total number of employees 1,470
(as per 28-02-2018)

Over 50 years old = 554
(407 men, 147 women)

Under 30 = 173
(136 men, 37 women)



Terma considers our employees to be the most important asset. This year, we have formulated a new Human and Labor Rights Policy to further structure and clarify our continued efforts to protect these universal rights and promoting a positive impact. Part of our policy focuses on stating clearly what we stand for in Terma: an inclusive workplace where every employee is treated with dignity and respect, and where the rights of the individuals are respected.

Terma takes responsibility for the wellbeing of its employees in the workplace, and we are committed to a healthy and sustainable working life with a continuous focus on being a safe and great place to work with happy and motivated employees. In Terma, we emphasize sound employment conditions and career opportunities, exciting and challenging jobs, as well as flexible working hours.

Being a female leader at Terma

Human Rights and Labor Rights Policy – excerpt 2

We create an inclusive workplace

Our employees are our most important resource and the building blocks of our organization. We aspire to be recognized as a company with a second to none professional working environment where our employees can strive and progress, and where the diversity of talents is recognized.

- We respect our employees as well as the employees of our business partners and treat them with dignity and respect.
- We respect the rights of employees to form, join, or not join labor unions. This includes the right to freedom of association and collective bargaining.
- We believe that all employees have a right to fair working conditions and fair wages.
- We are committed to protect the health and safety of our employees and of all visitors present on our premises. Therefore, we work to minimize health and safety risks in our operations.
- We have developed our human resources policies in order to ensure respect of our employees' labor rights and we continuously work to improve employee satisfaction.
- We are dedicated to creating an inclusive workplace where diversity is valued.
- We do not tolerate discrimination, abuse, or harassment of any kind. This includes maintaining a work environment free from harsh treatment and retaliation.
- We believe that we have an important role towards the younger generations, not only respecting their rights and adhering to the legislation against child labor, but also providing them with opportunities. Therefore, we engage with educational institutions to offer apprenticeships, internships, and other opportunities to develop experience and expertise.

Interview with:

Charlotte Ludvigsen

Vice President, Applications

What do you think about women and leadership in the context of your own career at Terma?

"It's never been an issue for me. I think we are all equal, and I don't feel a difference in the way I am acting. I think it's more about the interest in leadership and in people that matters."

What are the challenges for women specific to this industry?

"There aren't that many women in this industry. It's not an issue, but it makes the industry different. Imagine that during some of my visits, I have experienced places that didn't even have a women's restroom!"

Which strategies can help women in their careers?

"You need to be well aware of education and training as a strategy in building your career and act upon it. Networking is quite important."

Looking back on your career so far, would you have done anything differently?

"My choices have made me the one I am today. But if I should change one thing, it would be to be more direct and follow just one path."

Which accomplishments are you most proud of in your career?

"What I enjoyed most and I am most proud of has been to take part in building something new. This has been the case with building the Service business in Terma and contributing to its success."

What would be your advice to young women today who are starting their career?

"Believe very strongly in yourself, have self-trust, and make sure you go for it!"





Our employees are our most important asset. Terma regularly participates at exhibitions around the world which are vital for our business, **here represented by our colleagues from Terma North America at an exhibition in the United States.**



A diverse and inclusive workplace

At Terma, we want to foster a good working environment where everyone can thrive and flourish. We believe that there is strength in diversity and gender equality, which contributes to a positive impact on our business and is essential for adapting to a changing world. Only by having more dynamic teams working together with different backgrounds and ways of thinking, greater value and progress can be achieved going forward. Terma strives towards an inclusive workplace, where we can attract new employees from the widest talent pool.

Although the Aerospace and Defense industry is traditionally male dominated, Terma being no exception, we are slowly increasing our focus on attracting more women to Terma.

At the end of 2017/18, 21.4% of the Global Management positions were held by females (2016/17: 19.8%).

At Board level, provided the Board of Directors consists of the most qualified members, Terma strives at having a fair balance between the genders among the members elected by the shareholder. During the fiscal year, the number of Board members elected by the shareholder was increased from four to five, and as of 25 May 2018, out of these five Board members, two are females.

Our next steps: A global Diversity Policy

We have had a policy for several years to systematically invite a female candidate for interviews for all managerial positions. This has sometimes proven difficult as the pool of candidates might not always allow for this.

We have therefore prepared a revised Diversity and Inclusion Policy which will be rolled out in the coming fiscal year. It focuses on:

- Broadening the appeal within employer branding
- Reviewing the recruitment process
- Training managers in biases when recruiting and acknowledging performance
- Developing, maintaining, and projecting a welcoming culture.



Based on the above considerations and assessment, Terma sees a clear link with the SDG #5 and its responsibility to "Achieve gender equality and empower all women and girls".

Our commitment to security, personal safety, and health

Terma provides a safe and healthy work environment for both employees and visitors in accordance with applicable laws and international standards. Being a Danish-based company, we benefit from extensive national legislation in this area.

Our employees form the foundation for our success. The skills and competences of our workforce are some of our most important assets, and we will therefore not compromise the human and labor rights or the occupational health and safety of our employees. Being a highly technological company entails a constant focus for us on safety and what can be done to prevent and mitigate accidents and for employees to be aware of the risks surrounding them.

General update on safety at Terma

At Lystrup and Grenaa, a total of 14 working accidents were reported during the 2017/18 fiscal year.

Lost Time Injuries (LTI) Frequency:

2015/16	2016/17*	2017/18
4.49	5.69	7.40



**data in 2016/17 report for year 2016/17 were incorrectly reported with 4.43*

LTI Frequency is calculated as follow:

$$\frac{\text{(Number of lost time injuries in accounting period)}}{\text{(Total hours worked in accounting period)}} \times 1,000,000$$

Absence due to accidents Frequency:

2015/16	2016/17	2017/18
0.13	0.16	0.25



$$\frac{\text{(Absence in hours)}}{\text{(Total hours worked in accounting period)}} \times 1,000,000$$

The increase in LTI Frequency and Absence is assessed to be due to the intake of many new employees in the production area. To reduce the number of LTIs and Absence, we have initiated a Safety Excellence program in Grenaa. See separate text.

Operating heavy machinery at our production sites in Grenaa and Lystrup makes these locations a natural focus for us as they represent the highest degree of risk in terms of personal safety. At both sites, local representation of our Working Environment Organization is in charge of handling any unforeseen incidents as well as mitigation procedures to prevent similar future incidents.

Terma has comprehensive policies and manuals on personal safety, working environment, and emergency plans in place, focusing on awareness, responsibility, and prevention. On a regular basis, Terma conducts workplace assessments and employee surveys that raise awareness on employee safety. As per requirements in Danish legislation, we conduct a survey specifically on working environment (APV) every third year, to assess our employees' perception of personal health and safety at their workplace, including the psychosocial working environment. This gives us insight into what can be improved.

In order to prevent and mitigate any potential accidents at our production sites, detailed information on all near accidents and corrective actions for these are accounted for in our management system. Detailed accounts of these incidents are all reported to the applicable national authorities. In doing this, we ensure that any incident that could potentially lead to personnel injuries, if not corrected, are effectively prevented. This year, we saw a small number of incidents that were dealt with and procedures to prevent similar accidents were established immediately.

Safety Excellence Program at Aerostructures Manufacturing

The manufacturing of aerostructures implies working with metals, chemicals, and carbon fiber among other components. It is a demanding and at times challenging working environment, but the team at our Grenaa factory has a long experience and is continuously looking for new ways to improve. And when a recent trend showed an increase in lost hours due to accidents, the management took a swift decision to set up a new program focusing on safety culture.

“At Terma, we take safety very seriously. There is nothing more important than ensuring that our employees can work safely.”

Jørgen O. M. Laursen

Senior Vice President, Aerostructures Manufacturing

This is why we launched a Safety Excellence Program which will run from February 2018 until fully implemented in 2020. The purpose of the program will support us in reaching a world-class safety culture and behavioral safety.

The program includes communication and incentives specifically oriented towards improving the company's security culture. The Safety Excellence Program also includes activities that target improvements of our already high working environment standards for equipment and fixtures.



The new Safety Management Framework will provide us with improved working environment standards for “working in heights” and “working with forklifts” and improved standards for work at and in machines “Look Out / TAG Out system”.

“So far, we have primarily focused on improving our technical safety level. Now, it is time to take the next step and improve our safety behavior and our safety culture.”

Jørgen O. M. Laursen

Senior Vice President, Aerostructures Manufacturing

Data privacy

Sound data management is at the core of Terma’s business: being able to manage our customers’ information on sensitive topics such as security and defense decisions is essential. In May 2018, the General Data Protection Regulation takes effect within the European Union. It relies on the similar principles of data privacy that existed in earlier regulation, but it has brought to light the need to demonstrate compliance and to document it. At Terma, we took the opportunity to go through our whole organization and assess for each phase of our value chain how we process personal data.

As a result of this extensive process, we have updated some policies and procedures, but we also reinforced our employees’ awareness as they are at the forefront to ensure good practice.

In the next fiscal year, we will implement additional training and awareness measures to make sure that everyone understands where challenges might arise.



A conversation on internships at Terma

What is the motivation for Terma, and your department, to hire interns?

Preben:

“Working within product development, we constantly need to bring forward new technology, and we also face the challenge of maturing these ideas. We are dependent on new knowledge, and through Terma’s collaboration with three of the Danish universities; Aalborg University (AAU), Aarhus University (AU), and the Technical University of Denmark (DTU), we regularly welcome interns to help us.

We are keen to have students do their Master’s thesis or Bachelor project after their internship is done which is what Francesc is now working on. Having interns also allows us to find the right people for Terma as our interns can become candidates for future employment at Terma after graduation.”

Can you elaborate on your time at Terma, what motivated your choice, your tasks, and responsibilities as an intern?

Francesc:

“I began my internship at Terma during the third semester of my Master’s degree at Aalborg University. During my research process, I came across Terma and was interested to join due to the field of work, but also based on the positive feedback from former interns. I was offered to take on two different projects; the Synthetic Aperture Radars (SAR) project on satellite images and the Advanced Ground Surveillance (AGS) project from NATO concerning simulator data.

And, for my Master’s thesis, an expert within Terma’s radar team came across an academic paper on a product that we believe we can develop and do even better. It’s a great opportunity to see if this can translate into a product. At the end of the day, the thesis needs to be beneficial for both Terma and me; the aim is for the company to have new research and hopefully a new product.”

Preben:

“It is interesting to highlight that Francesc’s

Interview with:
Preben Schmidt Nielsen
Director, Research & Innovation
Management, TEC
Francesc Joan Riera
Intern, Research & Innovation
Management, TEC



It is interesting to highlight that Francesc's work on the SAR project is now being published via a NATO working group. It shows how relevant our interns' work is for Terma and for the industry.



work on the SAR project is now being published via a NATO working group, a closed group which Terma and the Danish Defence are invited to, where the results from Francesc's work will be presented. It shows how relevant our interns' work is for Terma and for the industry."

What are the challenges of having interns at Terma?

Preben:

"We highly depend on finding "the right match" for Terma. The academic background of the student and our project must match for the internship to be a successful experience for both parties. Fortunately, our partner universities have a solid understanding of Terma and the very specific requirements with regards to the skills and academic expertise that must be met."

Preben, what have you learned from Francesc?

"Well, first of all we have gained significant academic results from Francesc's projects. On a more personal level, Francesc, and this goes for all our interns, contributes with new thoughts and ideas to a good and inspiring working environment and enables a broader mindset within the department. Francesc comes from Spain and also

brings along a different cultural background which is always stimulating."

What have you enjoyed the most and what has been the most challenging?

Francesc:

"Before my internship, I was focusing on studying and getting good grades, but during my time at Terma, I have been able to put my academic skills and knowledge into a broader perspective. It is important as a student to be able to actively contribute to the projects, learning how new products are developed, and how the company works.

I have enjoyed getting to develop and readapt my field of expertise from one to two areas: machine learning and now radars as well. This has also been the most challenging part as I had limited knowledge within the radar field. Fortunately, my supervisors were able to provide the support I needed, it was crucial that they dedicated a lot of time to teach me new knowledge and develop my skills and expertise.

From a social perspective, there is a different dynamic and relationship between colleagues than between student and teacher. Also, coming from Spain, it has

allowed me to get closer to the Danish culture. As an example, with your colleagues, you can begin a discussion on approaches to a project and end up discussing whether Danish or Spanish potatoes are the best. Danes like to argue on everything! It's incredible."

Before my internship, I was focusing on studying and getting good grades, but during my time at Terma, I have been able to put my academic skills and knowledge into a broader perspective.



Terma in the community

As part of our engagement towards human rights, we also support and further strengthen the positive impacts we have. At Terma, we support the right to education, and we do so by supporting our employees' continued education on the job and within relevant skills, but also by partnering with educational institutions.



We see a clear link with SDG 4 "Ensure inclusive and quality education for all and promote lifelong learning."



Engaged in developing the future workforce

In 2017/18, we have welcomed:

32
Interns, trainees, and students

36
Apprentices
an increase of 9.09% since last year

4
Medals for craftsmanship



"It is important for Terma to advance the knowledge and expertise that we have within our walls; welcoming the younger generation is one of the ways to continuously improve and expand our capabilities."

Niels Henrik Bundsgaard
Senior Vice President, Group HR

It is a win-win situation: the young people we welcome benefit from the experience of working with us and from the mentoring and guidance from our employees; while we as a company can learn from the new generations' way of working and also from their questions and mindset.



Partnering with the community

In recent years, Terma has had a partnership with a local sheltered workshop for mentally disabled people called Nærheden, which is located across the street from our production facility in Grenaa. Every week, a resident at Nærheden, Inger-Lise, makes 1,000 pieces of 6 mm wide markers which are used for 2D and 3D through-transmission c-scan images for Terma Aerostructures. The purpose of the wide markers is to indicate areas of particular focus in these scans, such as attenuation changes, geometric features, and for the 2-axis scans to show boundaries between sections when more than one scan is necessary.

“We supply the material and “Nærheden” then cuts it up into small pieces. It is a win-win situation for us as it helps us reduce a cost and we support a good cause.”

Anette Bjørnholt

Operator, NDT Level II, Aerostructures Manufacturing

The wide markers are important components in our production and entail a high degree of precision skills to produce. Previously, the production of wide markers was carried out by Terma’s own operators, using time and resources. Moving this production to Nærheden allows Terma to dedicate focus on more specialized and demanding work, but it also generates a closer relation to our local community, and for Inger-Lise, it is an exciting task to accompany her everyday activities.

Every week, Inger-Lise makes 1,000 pieces of 6 mm wide markers for Terma Aerostructures.



Interview with:
Rikke Høi
Workshop Assistant
Nærheden

Can you tell us a bit about Nærheden?

“Nærheden was established in 1973, and we offer a secure environment for citizens with mental or physical disabilities to come and be part of our daily activities and production. It is important for us to make sure that the people here are happy and feel part of something bigger.”

What are the daily activities at the workshop?

“At the moment, there are 16 persons at our sewing workshop participating in our production and activities. Several other companies have a collaboration with us, so there are lots of activities and small productions going on every day. For our participants, being part of Nærheden make them feel acknowledged and that they contribute to something meaningful in their daily lives.

Collaborating with Terma, were there any challenges in the beginning of this project?

“The collaboration with Terma went smoothly. Inger-Lise was eager and quick to learn a new skill. She really enjoys getting more responsibility, and very quickly, she had found a systematic approach to cutting the wide markers efficiently and with high precision. Our contact at Terma has shown great confidence in Inger-Lise and given us the freedom to control the production in the way best suitable for her. Projects like this benefit both Nærheden and Terma.”



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3

ANTI-CORRUPTION AND BUSINESS ETHICS



“IN OUR INDUSTRY, TERMA IS A SUPPLIER TO MANY MAJOR PROJECTS AND WORKS WITH A DIVERSITY OF PARTNERS. IT IS ESSENTIAL THAT THE RELATIONSHIPS WE BUILD ARE BASED ON TRUST AND A MUTUAL UNDERSTANDING OF A RESPONSIBLE AND ETHICAL BUSINESS.”

Jørn Henrik Levy Rasmussen,
Senior Vice President, Market Development

Corruption is the abuse of entrusted power. It undermines the integrity of all involved, undermines fair competition, impedes business growth, and hinders societies' development.

Image: Lockheed Martin Corporation

Anti-corruption and business ethics



Why this matters for society

Corruption is not only illegal; it poses threats to the stability and security of societies, undermines institutions and democracy, hinders societies' development, and impacts vulnerable communities.

Why this matters for Terma

Operating globally in interaction with a variety of stakeholders, we take an active role in the fight against corrupt practices. Not only because they are illegal, but also because they are dangerous for businesses and communities.

Our targets

Conducting our business in an ethical manner and ensuring that our employees know the ethical decision they should take when they face a dilemma and feel equipped to make it.

Our progress

Anti-corruption risk assessment carried out.

E-learning rolled out to all marketing consultants.

What's next?

Revise the building blocks of our anti-corruption management system: revised global policies and tools.

*Rollout of:
Dedicated internal training.*

Employee code of conduct.

Terma's Ethics Line.

Risks

If this area is not managed, Terma would face legal, reputational, and financial risks as well as erosion of employees' trust.



From left: Terma's Anupam Narain Mathur and Jørn Henrik Levy Rasmussen meeting with Mr. Ratan Tata



Being a trustworthy business partner is an essential ingredient for our company's success, but more than that, it is part of our company values, "Work with Integrity", and of our company Narrative.

This we apply in all our dealings with our stakeholders; may it be our customers, our suppliers, authorities, or our joint venture partners.

Being true to our Danish roots

Starting our journey in 1949, Terma has deep and proud roots in Denmark. For Terma, being a Danish company, with our headquarters located just outside Aarhus in the province of Jutland, also means that the business culture we come from is deeply marked by an ethical and responsible behavior. For many years, Denmark has been amongst the best rated countries in the Transparency International Corruption Perception Index. Being upright and trustworthy are assets in a business relationship. We also recognize that even though Denmark is our center, we do business around the world. This means that we are exposed to diverse and sometimes challenging environments. We as a company need to raise our awareness towards the challenges and ethical dilemmas that we might come to face.

International partnerships

Terma's expertise and capabilities are within technological niches. Our products and solutions are integrated in larger solutions in multi-partner projects. Therefore, it is part of our core know-how to collaborate with a variety of partners. Building the right partnerships is essential in order to see our company progressing, for example gaining access and developing new markets through partnerships with the local industry. Over the last few years, we have had significant successes with partners such as Jenkins Engineering Defence Systems (JEDS), Tata Advanced Systems Ltd. (TASL), and Al Maskari Holding (AMH).

Terma successfully delivered naval and surveillance systems for Royal Australian Navy (RAN) programs. To pursue new business opportunities in the Australian market, Terma collaborates with JEDS on activities within sales, installation, support, and services. JEDS is trained and experienced in sustainment of Terma's SCANTER radars.

A C-Flex C2 system is installed at JEDS' premises to provide training of Royal Australian Navy staff to facilitate helicopter operations on the new RAN Multi-role Aviation Training Vessel (MATV).

"This successful partnership benefits all parties in combining JEDS' local presence and close relations to customers with Terma's expertise."

Bengt Larsen

Marketing Manager, Jenkins Engineering Defence Systems

Terma teams with Tata Advanced Systems Ltd. for Surface Surveillance Radar

In partnership with Prime contractor Tata Advanced Systems Ltd., Terma was awarded a contract to execute Indian Navy's Surface Surveillance Radar (SSR) project for 31 radars.

The SSR program is the first procurement by Indian Ministry of Defence under the "Buy and Make (Indian)" category of the Defense Procurement Procedure.

The project involves delivery, installation, and commissioning of radar systems on Indian Navy vessels as well as delivery of simulators, establishment of depot level facilities, and integrated logistics support with deliveries spread over 10 years. The radar is being manufactured in India with Transfer of Technology from Terma, Denmark.

"To secure our successful involvement in a large program like the Indian Navy's Surface Surveillance Radar (SSR) project requires a trustful and long lasting partnership with a leading national company. It was indeed a very important milestone for Terma to be part of this program, and we strongly support the 'Make in India' initiative. Our participation in the SSR program and long term commitment will inevitably further strengthen the well-established collaboration between Tata Advanced Systems and Terma."

Anupam Narain Mathur

Vice President & General Manager, Terma Asia Pacific





Anti-corruption

Corruption bears many social and economic costs for the societies in which it flourishes; impeding sound development and a prosperous business environment. Terma has pledged its support to the 10th Principle of the UNGC; "Businesses should work against corruption in all its forms, including extortion and bribery" and works with SDG target 16.5; "Substantially reduce corruption and bribery in all their forms". We recognize that corruption is a risk companies are exposed to when operating in an international business market such as the defense and aerospace industry.

Our focus on anti-corruption

During the 2017/18 fiscal year, we have carried out several activities in regards to anti-corruption. We decided to assess our exposure to the risk of corruption through a risk assessment. Although we had developed a solid set of policies and procedures over the years, we wanted to ensure that we had not overseen a blind spot. Being based in one of the least corrupt nations worldwide could easily have left us blind to a specific risk factor. It thus seemed like a natural step to take in our anti-corruption efforts, to reassess the robustness of our risk management system.

The steps of the anti-corruption risk assessment process:

- A desktop phase to review the risks linked to our industry
- An online survey with 30 senior managers working from several locations around the globe
- Two workshops: one to identify risks and the other one to rate their potential impacts
- An analysis phase where the risks identified were reviewed and reassessed.

The result made us confident that our foundation is solid, but it also made us aware that working with anti-corruption is a continuous process where improvements and iterations are required.

The primary output of this assessment will be to revise our policies and procedures, and the secondary output will be to develop targeted training for those employees that are most exposed.

- Revised Anti-Corruption and Business Ethics Policy
- Global Gift and Hospitality Policy
- An internal Code of Conduct supporting our employees' understanding of their rights and obligations.

Training and Due Diligence of marketing consultants

We have identified our work with Marketing consultants as a focus area in regards to anti-corruption. Two main targets have been set: carrying out a Due Diligence process on all of our marketing consultants and completing anti-corruption training with all of them. Both targets were successfully met during the 2017/18 fiscal year.

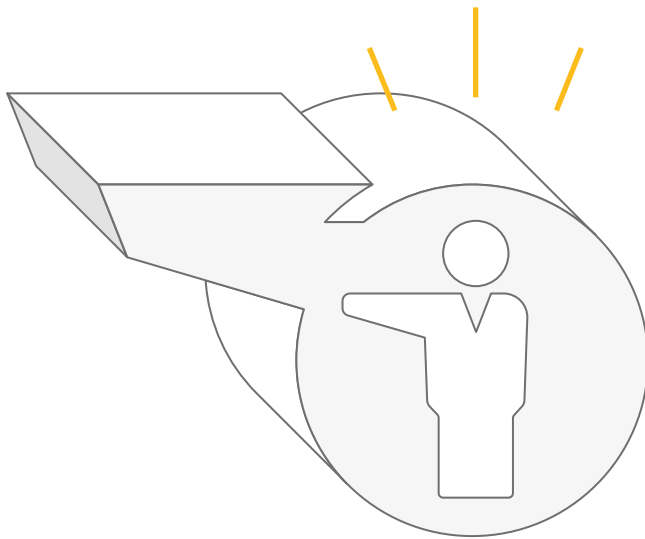
Our marketing consultants represent Terma's interest in locations where we do not have a commercial representation. These consultants are carefully selected, and all have to go through a Due Diligence process that is carried out by the Ministry of Foreign Affairs of Denmark.

In the 2017/18 fiscal year as an added measure, we have asked them to complete the online anti-corruption e-learning module developed by the United Nations and made available to companies like ourselves by the United Nations Global Compact. 100% of our marketing consultants have completed the e-learning.

Terma's Ethics Line

To further strengthen our compliance system, we have decided to add another brick to the edifice and create a whistleblower system; "Ethics Line".

Providing employees and stakeholders with a reporting channel allows them to share their concerns and report suspected misconducts or violations to the legislation. Terma's Ethics Line will be launched during the 2018/19 fiscal year.



Developing a whistleblower solution

At Terma, we are convinced that our compliance program success is based on the support of our employees. Our colleagues are the ones who face dilemmas and who have to make the ethical decisions in their daily work. In addition to training them and continue raising awareness in the 2018/19 fiscal year, we will roll out our Ethics Line. It will be a web-based solution where our employees as well as our stakeholders can raise their concerns in case of suspected violations to our internal rules or any relevant legislation. In parallel, we are developing the relevant ethics organization to be able to handle the reports that will come in, protecting the confidentiality and safety of the whistleblowers.

- Creation of Terma Ethics Committee to handle Ethics Line investigations
- Training of the Ethics Committee in investigation methods
- Launch of Terma's Ethics Line globally during the 2018/19 fiscal year.





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4

ENVIRONMENT



“TERMA HAS ACTIVELY ENGAGED IN THE FAST TRACK PARTNERSHIP TO FIND ALTERNATIVES TO THE CURRENT SURFACE TREATMENT METHODS. WE WANT TO PREPARE FUTURE DESIGNS FOR COMING ENVIRONMENTAL REGULATIONS AND DO THE RIGHT THING BY ENSURING, WHERE WE CAN, THAT OUR PRODUCTS ARE AS ENVIRONMENTALLY RESPONSIBLE AS POSSIBLE.”

Jan Johansson,
Senior Director, Business Transformation
& Continuous Improvement

As an outset of our society’s development, environmental challenges are increasing, including climate change, and Terma wishes to mitigate its impact. Committed production, design, and innovation teams working under the strict framework of the Danish environmental legislation have supported Terma’s engagement to be a responsible industrial partner.

Image: DONG Energy

Managing our impacts on the environment



Why this matters for society

Environmental challenges, including climate change and global warming, are increasingly pressing issues of our time. Hazardous chemical substances can severely affect human health and the environment with dangerous consequences.

Why this matters for Terma

Building a systematic approach to reduce our environmental footprint and phase out hazardous chemicals is essential for our continued competitiveness.

Our targets

Integrating environmental aspects into our strategy with relevant non-financial KPIs.

Substituting all hazardous chemicals as per requirements in RoHS/REACH, while working towards identifying more innovative and sustainable solutions for our products.

Our progress

The goal for 2017/18 to save yet another 1,000 MWh has been reached.

Developing an External Environmental Policy and Strategy for 2018-22.

Integrated environmental issues as part of Terma's CSR strategy.

Chemicals containing hexavalent chromium are reduced by 34% in one year.

What's next?

Firmly embed the new policy and organizational structure.

Align the environmental sustainability approach on a global scale.

Develop a more comprehensive baseline.

Continue substitution process concerning hexavalent chromium.

Continue our positive development in efficient energy consumption.

Risks

Lack of success in mitigating our negative environmental footprint poses potential severe risks for both society and the environment.

For Terma, this could mean non-compliance with legislation, financial, and reputational risks as well as losing out on potential new business and customers.



Over the last year, Terma has decided to take further action and look at the environmental performance strategically. The first step has been to increase the ambition level through a dedicated policy on Environment and Climate Change, which you can see below. The next step has been to integrate within the CSR strategy a section on environment with dedicated goals. More resources have been dedicated to help Terma continue its work on the environment by, among others, setting up relevant global KPIs.

Excerpt of our Environmental Policy

In Terma, we work with integrity and strive to integrate an environmental perspective into all our business. We recognize that it is inevitable for a production of world-class technology of high quality to affect the environment. Therefore, we want to ensure an increasingly sustainable business by effectively optimizing the use of natural resources and reduce environmental impact through an innovative approach.

We will do so by working:

- To obtain and maintain a (certified) environmental management system to secure a systematic approach towards increased sustainability
- To minimize impact on the climate by using energy more efficiently and reduce emissions of CO2 and other climate changing substances
- To prevent or reduce noise and pollution of soil, water, and air
- To reduce and recycle waste
- To focus on our design and supply chain in terms of optimizing environmental issues
- To identify and comply with external requirements and the UN Global Compact principles 7-9
- To involve all employees and other stakeholders in improving Terma's environmental footprint.

Based on our External Environmental Policy and with the environmental principles of the UNGC, Terma works continuously to minimize risks and its environmental impact.

Reducing our environmental footprint

Being part of a highly technical industry, our factories have an environmental impact that cannot be avoided. The input needed for ensuring our production ranges from various materials to natural resources such as energy and water, and it also includes a wide array of chemicals and composite products. The requirements from our customers and the specifications needed to ensure the optimal durability of our products present challenges towards a more environmentally responsible approach.

Nonetheless, we strive to comply with all applicable environmental legislation and aim to identify and explore possible ways towards reducing our environmental impact. We acknowledge that in order to do so, we need to have a more detailed understanding of this impact. Therefore, during the 2018/19 fiscal year, we will work to develop a more comprehensive baseline. This will allow us to develop a unified and global strategic approach to manage our environmental impact within Terma.

We are continuously investigating our production processes to identify ways to reduce our footprint. An example without investment was the autoclave process where the flow of parts and use of autoclave space have been upgraded over the last couple of years.

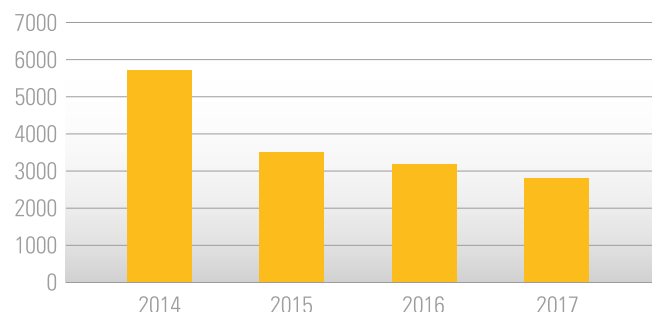
Another opportunity for Terma is to make sure that replacement of equipment is always to the most energy efficient models. In 2017/18, the three Danish Terma locations have reached this year's goal to save yet another 1,000 MWh by installing more energy efficient equipment from LED lighting in offices and production to replacing ventilation systems with energy efficient types. In addition, several thousand square meters of production areas have been better insulated to ensure lower energy consumption due to heating and cooling.

Focus on our Grenaa factory

The main contributor to Terma's environmental footprint is the energy consumption and carbon dioxide emissions of our production located in Grenaa, Denmark. In the region of Djursland, home to 80,000 inhabitants, the largest electricity consumer is our plant. The facility produces parts made from carbon fiber, and part of the process requires energy consuming autoclaves to "bake" the parts under pressure.

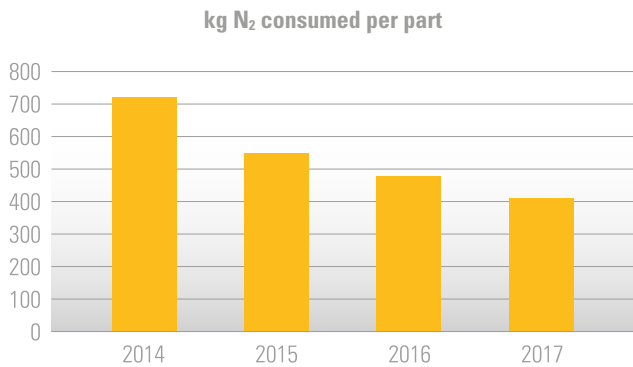
Being a large production facility means that reducing the energy consumption can be a challenge.

Consumption of electricity per part produced Grenaa 2014-17 [kWh]



In 2014-17, a larger expansion of the production capacity in Grenaa has taken place due to F-35 business upscaling. The Grenaa plant has increased the overall electricity consumption since 2014 by 22%, but the kWh consumed per part produced has decreased by 50% in the same period. We cannot say for certain if this reduction in energy consumption is due to a more efficient production per part or the general increase in production. During the 2018/19 fiscal year, we will focus on building stronger data points to better understand our consumption and how to further reduce it.

We have also looked at other forms of energy consumption, specifically nitrogen gas (N₂).



To avoid burns on parts when baking, nitrogen gas (N₂) needs to be used in the autoclaves instead of atmospheric air. In 2017, more than a thousand tons were consumed. But as the chart above shows, also the amount of N₂ used per part produced has decreased significantly. A better flow and more efficient loading of autoclaves at Terma have resulted in lower energy consumption by the N₂ gas producer and reduced CO₂-emission from transport.

Environmental inspection of Terma A/S by Aarhus Municipality



**AARHUS
KOMMUNE**

In accordance with established national legislation, pursuant to the Danish Environmental Protection Act no. 866 of the Ministry of Environment and Food, Terma was subject to an environmental inspection in February 2018. The inspection was carried out by representatives from Aarhus Municipality in which our production facility in Lystrup is located. Terma is classified as an electro-technical enterprise, with a risk of environmental pollution due to the nature of our manufacturing operations. The inspection included a review of facilities, daily operations, waste handling, emissions, waste water, and noise, concluding that no findings were identified that gave rise to any concerns or remarks.

Our production facility in Lystrup and our office in Herlev are subject to environmental inspections every 5th year. Due to the large scale production site, our Grenaa facility is qualified to obtain an environmental approval from the municipal authorities, which our facility currently holds, and we are working actively towards renewing this certificate. For many years, our Grenaa facility has been placed in the best category within legal compliance, systematic approach, and information.

The public inspection report is available here:

<https://dma.mst.dk/web/guest/vis-sag/-/sag/416835>

Efforts to reduce and recycle waste

Terma has taken initial steps to recycle instead of burn the increasing amount of composite waste (carbon and epoxy) from our aerostructures production. Recycle procedures are in place for all metal used in our production. We are currently in the process of looking for solutions to ensure reuse of this complicated mix of materials, and several external waste processors have been contacted. On top of the material complexity, the solution is also challenged by our customers' requirements for confidentiality and the necessary use of some hazardous chemicals to meet the required product quality. Nonetheless, a continued focus is dedicated to this area, as returning raw materials such as carbon into a circular process benefits both the environment and society as a whole.

Our work with substituting hazardous chemicals

Balancing product capabilities and environmental concerns

The radar antennas and aircraft parts that Terma produces have to sustain harsh environments and must have an overall durability in extreme conditions. Those requirements are laid out by military and defense standards, detailing specifications to ensure the material can resist being exposed to altitude, high and low temperatures, harsh weather, salt, sand, dust, shock, vibration, and other demanding conditions.

This creates a challenge in finding the material and the chemicals that will ensure our products' quality and durability while living up to environmental considerations and requirements, such as the EU legislative acts RoHS/REACH.



“We focus in particular on removing hexavalent chromium (Cr₆₊) from production as it is a highly toxic material. Hexavalent chromium is a part of most aerospace approved surface treatment processes and not easily replaced due to the necessary re-qualification to obtain flightworthy status.”

Jan Johansson

Senior Director, Business Transformation & Continuous Improvement



Despite the challenge of finding alternatives, we have succeeded in reducing the amount of chemicals containing hexavalent chromium by 51% since 2015 in collaboration with our customers.

Fast Track partnership

Terma participates in the Fast Track industrial partnership, which gathers Danish universities, leading research institutions, and industrial companies in finding novel solutions for surface treatment problems, all partly funded by the Danish Fund for Innovation (Innovation Fund). The partnership research has so far been focused on finding improved corrosion prevention methods in coastal areas, which applies well to Terma's land and naval radar installations and the degradation of metallic and non-metallic structures in severe environments (hail, sea water, etc.)

For 2017/18, our targets were:

For this past year, the main aim was to ensure compliance with the EU legislative acts REACH and RoHS in several areas:

Aerospace:

We have identified replacements for all chemicals containing hexavalent chromium in our aluminum anodizing line except the sealing process. The sealing process is part of the anodizing of aluminum, a common surface treatment, and is currently in review.

Design process for non-aerospace structures (such as radars or ship hardware installations):

We have introduced procedures and design measures to ensure that all new design is compliant, not only with current RoHS/REACH legislation, but where possible also with expected future requirements.

Replacement of surface treatment:

We are actively changing legacy products for new modern RoHS/REACH compliant surface treatments, often with economic benefits, as the old methods are becoming more expensive due to their scarcity.

Participating in environmental surveillance

While our overall purpose is to deliver security for alliances, countries, and individuals, our solutions contribute to other purposes as well, such as environmental surveillance space programs. These missions serve to increase our knowledge of phenomena related to, and subsequently how we handle, climate change. We deliver product solutions for both ground and space segments in several projects, as head and leading subcontractor of the Danish ASIM program as well as to the Sentinel-5P Satellite, part of the European Commission's (EC) Copernicus Programme. Read more about these two projects on the next page.

For 2018/19, our targets are:

Continued focus on finding replacement for chemicals containing hexavalent chromium:

The process of substituting chemicals in the surface treatment baths is expected to start in 2018. First step will result in a 98% reduction of hexavalent chromium in the anodizing line. Regardless of any exemptions given to the defense industry, Terma will work on staying compliant with RoHS/ REACH.

Ensure that all new designs, including aerospace designs, are made in accordance with RoHS/REACH, to ensure adherence to environmental standards for all new designs:

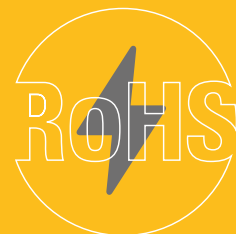
New procedures will be established in accordance with RoHS/REACH requirements.

Prepare for future restrictions through initiatives such as the Fast Track partnership:

Thus ensuring that Terma remains at the forefront of environmentally conscious engineering. This is led by senior staff in the mechanical engineering department who meet monthly with partners and at two yearly conferences to discuss results.

What is RoHS/REACH and how does it work?

The directive on Restriction of Hazardous Substances (RoHS), applicable to only electrical and electronic devices, and the regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) are legislative acts from the European Commission within the EU, with the main aim of ensuring a high level of protection for human health and the environment from the risks posed by specific hazardous chemicals. The legislations contain lists of restricted chemical substances with the intent to either significantly limit or restrict use of these in production. Particularly in recent years, surface treatment industries are affected by the limitations which are particularly relevant for Terma as our products receive surface treatment to resist the harsh conditions which they are exposed to. With this legislation, the objective is to transfer responsibility from public authorities to industry, a task that Terma actively works towards compliance with.



The **ATMOSPHERE-SPACE INTERACTIONS MONITOR (ASIM)**



What is Terma's role and contribution within the ASIM project?

"Terma was selected by the European Space Agency (ESA) to head the ASIM program, currently the largest ever space project for Terma, which is part of the Danish contribution and participation since 2008 to the ELIPS (European Programme for Life and Physical Sciences) at ESA. As the prime contractor, Terma is responsible for developing and ensuring progress and technical management of the project, as well as coordinating with ESA and subcontractors, and not least for delivering the ASIM observatory for handover to ESA, NASA, and SpaceX at Kennedy Space Center in Florida. In addition to performing the prime activities, Terma was also tasked with the development of the MMIA instrument in close collaboration with DTU Space."

What is the overall purpose and goal of ASIM?

"The Atmosphere-Space Interactions Monitor (ASIM) is an observatory, which was designed to be installed on the European Columbus module of the International Space Station (ISS). ASIM will be part of a mission to better understand the way we manage environmental data, being used to

study high-altitude electrical discharges in the stratosphere and mesosphere above severe thunderstorms, the so-called red sprites, blue jets, haloes, and elves, and monitor X-ray and Gamma-ray flashes. As the Earth's atmosphere hinders observations of these phenomena in the electromagnetic spectrum, these missions are best carried out from space-based observatories such as ASIM."

How can the study of these electrical discharges hopefully contribute to our knowledge and the consequences of the impacts of climate change?

"These thunderstorm-initiated electrical discharges that were a relatively unknown phenomena until quite recently inject greenhouse gasses such as NO_x and water vapor into the stratosphere where they become part of climate moderators. These discharges, and other electrical influences and atmospheric interactions that will be observed by ASIM, are believed to have a direct bearing on the Earth's climate. ASIM data will deliver new and crucial knowledge that scientists will be able to use in models and calculations of future climate forecasts.

After more than ten years of development, the ASIM observatory was successfully

Interview with
Carsten Jørgensen
Senior Vice President, Space

ASIM was launched on 2 April 2018 as part of the Dragon capsule on board the SpaceX Falcon 9 rocket from Kennedy Space Center in Florida, USA.

launched on 2 April 2018 as part of the Dragon capsule on board the SpaceX Falcon 9 rocket from Kennedy Space Center in Florida, USA. Terma experts will continue to work on the ASIM project as support to staff at the control center in Belgium to provide optimal scientific measurements to the scientists at the ASIM Data Science Center in Lyngby, Denmark, and worldwide."

"ASIM is the largest space project that Terma has been involved in – and one of the most complex and challenging tasks, comprising a number of new developments building on the deep heritage of the Terma space electronics and software product domains. It also shows the great role that space can play in better understanding global issues and developing further knowledge."

Carsten Jørgensen
Senior Vice President, Space

The scientific studies carried out to develop ASIM were supported by pictures taken by the first Danish astronaut Andreas Mogensen during his space flight in 2015. At the revelation of a 1:1 model of ASIM at our office in Herlev just outside of Copenhagen, Carsten Jørgensen (left) had the pleasure of welcoming Andreas Mogensen (right) to host the event, where he also gave an exciting and insightful presentation of his mission.



THE SENTINEL-5P SATELLITE



Image: ESA/ATG medialab

The Sentinel-5 Precursor, also known as Sentinel-5P, is part of a fleet of satellites designed specifically for the European Commission's Copernicus Programme, a unique environmental monitoring program dedicated to improve the way we understand and manage our environment and the effects of climate change. The Sentinel-5P was launched in October 2017 and is the first Copernicus atmospheric monitoring mission. On board is the advanced TROPospheric Monitoring Instrument (TROPOMI), a far more complex instrument than the satellite platform itself. The TROPOMI is a spectrometer that maps the Earth's atmosphere every day with a resolution as high as 7 x 3,5 km to detect air pollution over cities. Specifically, it maps a variety of trace gases, such as nitrogen dioxide, ozone, formaldehyde, sulphur dioxide, methane, carbon monoxide, and aerosols that all affect the air we breathe, our health, and our climate.

Several of Terma's international locations have contributed to different stages of the Sentinel-5P mission from development to operations. Terma has provided expert consultancies during the system design, implementation, and test of the main flight software for the TROPOMI Instrument Control Unit (ICU). The software is responsible for all onboard control and data processing for the TROPOMI and for its communication with the Sentinel-5P satellite platform. Terma B.V., located in the Netherlands, has supplied ground support equipment for the TROPOMI, while our German office, Terma GmbH, participated in the launch operations of the Sentinel-5P at the European Space Operations Centre (ESOC) in Darmstadt. During the preparations for launch, one of Terma's Spacecraft Operations Engineers participated as specialist in the Flight Control Team of the Sentinel-5P. Participating in this mission demonstrated Terma's competitive advantage, in not only delivering top-end products meeting the performance requirements, but also having a team with the ability to take on the complex data handling and image processing of the satellite instruments.

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RESPONSIBLE SUPPLY CHAIN



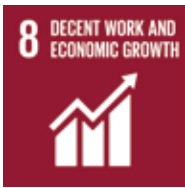


“WE WORK PRIMARILY WITH SUPPLIERS BASED IN OECD COUNTRIES WHERE THE GENERAL STANDARDS FOR LABOR RIGHTS, ENVIRONMENTAL REGULATION, AND ANTI-CORRUPTION LEGISLATION ARE QUITE HIGH. THAT SAID, SOME RISKS REMAIN AND THAT IS WHAT WE NEED TO FOCUS ON.”

Jesper Böhnke,
Senior Vice President, Supply Chain Management

Terma recognizes that its social, financial, and environmental impact is highly linked to its supply chain and business partners, and we therefore hold our suppliers, business partners, and other stakeholders to the same standards as we hold ourselves.

Being a responsible supply chain partner



Why this matters for society

Just like Terma's own, the CSR performance of the companies in our supply chain has an impact on the societies in which they operate.

Why this matters for Terma

Our engagement towards CSR also means being a responsible supply chain partner and engaging with our suppliers on CSR challenges. This has the potential to generate a closer relationship with suppliers and an even deeper understanding.

Our targets

Have a strong Due Diligence system in place.

Ensure that we have a clear view of the CSR performance of our Tier 1 suppliers involved in our production.

Our progress

Training of the Terma Supply Chain department (20 persons): CSR introduction.

Completed an initial risk assessment.

What's next?

Roll out our Code of Conduct (CoC) for Suppliers and Service Providers.

Roll out new Due Diligence setup, including CoC to all relevant suppliers.

Follow-up trainings: Human rights and labor rights with focus on slavery and trafficking risks, conflict minerals, and anti-corruption.

Risks

Lack of success in this could mean negative impacts for the communities and financial and reputational impacts for Terma.



Being a responsible company means engaging where possible in our sphere of influence to ensure that our partners adhere to the same principles as we do. It is about raising awareness, clarifying the requirements and standards. It is evidently working with our supply chain towards reducing the environmental and social risks.

Integrating social responsibility

During the 2017/18 fiscal year, we have reviewed our approach to a responsible supply chain. Several workshops took place with the Supply Chain and CSR teams to discuss potential social and environmental impacts of the goods Terma purchases for its own production. The aim was to build a clearer overview of the risks faced and to refine our approach to Due Diligence and general supplier engagement.

Completed

To integrate social responsibility with our supplier engagement, we need to better understand the risks linked to the categories and countries we purchase from. We have initiated an overall assessment of those during the 2017/18 fiscal year.



We have targeted an analysis of our supply chain: which categories, which risks can we expect from such categories, etc. We are building an overview of risks in each area.

The initial outcome was to identify different groups of suppliers and how we wish to engage with them.

On the way

We also initiated a Code of Conduct for our Suppliers and Service Providers detailing our requirements. In the coming year, we plan on engaging with our suppliers to roll out this document and ensure there is a good understanding of Terma's requirements towards our suppliers.

“A Code of Conduct is one of the tools we can make use of to engage with our supply chain. In the coming years, I expect we will become better at discussing CSR with our suppliers and at knowing in more detail which challenges they face.”

Jesper Bøhnke, Senior Vice President, Supply Chain Management

Way ahead

We want to continuously refine our CSR assessment of our supply chain, and we can do this through an improved Due Diligence process; including further engagement and feedback with our suppliers. We are looking at how we will practically include the CSR Due Diligence in our workflows so that it is a fully integrated aspect of how we select our suppliers.

Building a strategy to 2022

Part of our engagement towards building a responsible supply chain is to integrate it in our CSR strategy towards 2022. The overall goal being integration, many steps will support us in that direction.

What we plan for 2018/19

- A Supply Chain CSR Policy
- Roll out the Code of Conducts for Suppliers and Services Providers
- Further training of the Supply Chain team

“Our aim is to have the CSR Due Diligence integrated so that it provides additional information on and support to how we manage our supply chain in general.”

Jesper Bøhnke, Senior Vice President, Supply Chain Management



Promoting internal awareness

To integrate CSR in our daily work in a meaningful way, we must make it visible and relevant to our employees, in particular in the Supply Chain function. Therefore, a significant effort is made to engage with the organization. Hear from two of our colleagues who attended a training session in January 2018.

Interview with:

Jette Bach Madsen
Category Director, OEM Sourcing,
Supply Chain Management and
Peter Greve Somerset
Category Manager, Electricals,
Supply Chain Management

What is Corporate Social Responsibility to you?

Jette:

“For me, CSR is about how Terma takes responsibility for both the environmental and social impact of our business operations and is a good corporate citizen. CSR is also about treating your employees with respect and dignity, and this often translates into higher satisfaction, loyalty, and dedication among employees towards their workplace. By having clear ethical values as a leader, it better enables me to act and engage with my colleagues and in general to be more open-minded.”





CSR is a way for Terma to be a good citizen in the “corporate world” and a decent member of society, by mitigating or reducing our negative impacts and to show good behavior towards people and the environment.



Peter:

“For me, it’s all about demonstrating values, honesty, openness, respect, actively doing something about it, and thus proving that we care. CSR is a way for Terma to be a good citizen in the “corporate world” and a decent member of society, by mitigating or reducing our negative impacts and to show good behavior towards people and the environment.”

What can be the impacts of CSR for Terma?

Jette:

“In regards to our supply chain management, I believe it could help us not only in our cooperation with present suppliers, but also to attract new potential suppliers. Implementing CSR will enable us to demonstrate our good behavior. Terma not only sticks to the law and best practice, but also sets its own initiatives and cascades down requirements.”

Peter:

“In practice, this could be concrete impacts such as lower energy consumption and

better waste management which would mean a reduced environment impact as well as reduced costs. Gaining full transparency in the supply chain will help us in making sure that our suppliers also follow good business ethics, and I definitely see good branding opportunities in terms of attracting new suppliers.”

How did the CSR training session improve your knowledge of CSR?

Jette:

“Conducting this training session made CSR more personal and relevant for me and demonstrated that we care about these issues in Terma. Previously, I thought of CSR as mostly concerning environmental responsibility, but after the CSR training session, I have gained a much wider perspective on the extensive range of topics



Implementing CSR will enable us to demonstrate our good behavior. Terma not only sticks to the law and best practice, but also sets its own initiatives and cascades down requirements.



and issues within CSR, most importantly how we need to look at the full supply chain. I now see CSR as a proactive way of strengthening our business and at the same time helping our society in a positive way.”

Peter:

“Definitely awareness about the broad scope of CSR: it is not just child labor or conflict minerals, but so much more than that. I think the main lessons learned were; first, we need to take the whole supply chain into consideration and actively involve our business partners and utilize ethics as an active element in supplier selection. Second, the human resources aspects, meaning taking social responsibility both internally in the company and externally towards society.”

Do you see any challenges in working with CSR in the supply chain?

Jette:

“Yes, potentially a situation can emerge in which the selection of suppliers is dictated by specifications, or other business reasons could conflict with our ethical values and norms. In order to mitigate this, we need a clear strategy on how to handle or even avoid such a situation or pushback; including tools to raise awareness and engagement amongst all our suppliers.”

Peter:

“Here, we are back to the idea that CSR efforts will benefit from making sense financially for the business. But it is important to do so, because it shows that Terma is a responsible customer and supplier in the value chain, which in turn will spread to our partners. That is why CSR needs to be rooted firmly in our strategy.”



We value your feedback

We welcome any questions or comments you might have to this report and our performance. Please send your feedback to:

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You can also send an e-mail to:
responsibility@terma.com

www.terma.com/about-us/csr/