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# Corporate Social Responsibility Report

## 2018/19



**TERMA**<sup>®</sup>  
ALLIES IN INNOVATION



# A Word from the CEO

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Again this year, we have increased our efforts within Corporate Social Responsibility. For us, the journey will never end. We will always find areas where we believe we can create shared value for our employees, customers, stakeholders, and society at large, as well as for our business. Creating shared value is to me the true definition of a socially and ethically responsible business.

I would like to emphasize one important milestone that has marked our work this year. We have introduced an updated, more comprehensive, yet easier to understand, Employee Code of Conduct to all our employees worldwide. We launched it globally and received positive feedback from our employees. We are a global company within various sectors and business areas. Sometimes, in our daily work, it can feel like we are many small companies, working side by side. But this Code of Conduct has created an umbrella over all of us and reminds us that we are all part of the same Terma. We all strive to comply and help each other live up to the same ideals and standards.

To support the Employee Code of Conduct and our compliance program, we also launched a whistleblower system, our *Ethics Line*. We are only as strong as our weakest link, and therefore, it is important for us to constantly nurse a compliance culture that is helpful and guides our employees, while at the same time ensures that we comply with increasingly tough legislation and requirements.

Times are changing, and the new workforce, the millennials, are looking towards companies for meaning. A job is not just a job, it should reflect the values and ideals that we have as people. We see that more and more candidates ask about our CSR efforts. Employees want to be proud of the company they work for, and we want to make them proud. We will continue to deliver a value proposition that makes us an attractive employer, and which emphasizes our commitment in creating an eminent working environment for our employees which is diverse, inclusive, challenging, and meaningful.

We have accomplished a lot this year, and this report describes our progress and the challenges we faced as well as the next steps that will guide our journey.

I hope you will enjoy reading the report.

  
**Jens Maaløe**  
President & CEO



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# About this Report

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Terma's Corporate Social Responsibility (CSR) report represents our statutory statement on CSR and underrepresented gender in accordance with sections §99a and §99b of the Danish Financial Statements Act. The report covers the fiscal year from 1 March 2018 to 28 February 2019.

The report also serves as our Communication on Progress (COP) to the UN Global Compact.



COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.



# CSR at Terma

In Terma, we believe that we have a responsibility for our business operations and the impact we have on the environment and society. Therefore, we work actively with Corporate Social Responsibility (CSR), more specifically business-driven Corporate Social Responsibility. This entails that the CSR areas we focus on are linked to our core business. We believe this is the most sustainable and responsible way to work with CSR as we create value for our stakeholders, as well as ourselves.

Working in various industries, such as the aerospace, defense, and security industry, means that we have a wide range of different relevant CSR activities to focus on. Overall CSR areas such as anti-corruption, human rights, the environment, and responsible supply chain management are applicable to all the industries we work across, but the specific focus within these overall areas vary across the different industries. For instance, the human rights impacts we might have in the defense industry are not the same we might have in the aerospace industry. In addition, the environmental challenges we might have in the security industry might not be the same as in the aerospace industry. Therefore, it is important for us to assess each industry and which CSR activities would be relevant for us to focus on.

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## CSR Strategy

To ensure that our CSR activities are strategic and value-adding, we will develop a 3-year CSR strategy with concrete KPIs to support our ambitions. The CSR strategy will reflect the various industries, challenges, and opportunities we face, and thereby which CSR topics we believe are important for Terma to focus on.

The upcoming CSR strategy process will consist of a materiality assessment where our CSR Board and our Executive Management will assess the materiality of various CSR topics in regard to stakeholder expectations and business impact. Once the most material CSR topics are selected, the ambition level for each of these will be set with associated action plans, including measurable KPIs.

The upcoming process will commence in the fall of 2019, and the strategy is expected to be developed and anchored within the organization by the end of the fiscal year. The focus areas of the strategy will guide us on our CSR activities, and with the help of concrete KPIs, will enable us to measure and communicate our progress more effectively.

# CSR Governance

A new CSR Governance structure has been established to ensure that CSR is embedded in Terma's business operations in order to reap the full benefits of the CSR efforts and for CSR to become a business enabler.

The CSR Board's purpose is to set the global strategic direction for CSR at Terma and thereby ensuring alignment of the business and CSR strategies, thus allowing our CSR efforts to create value.

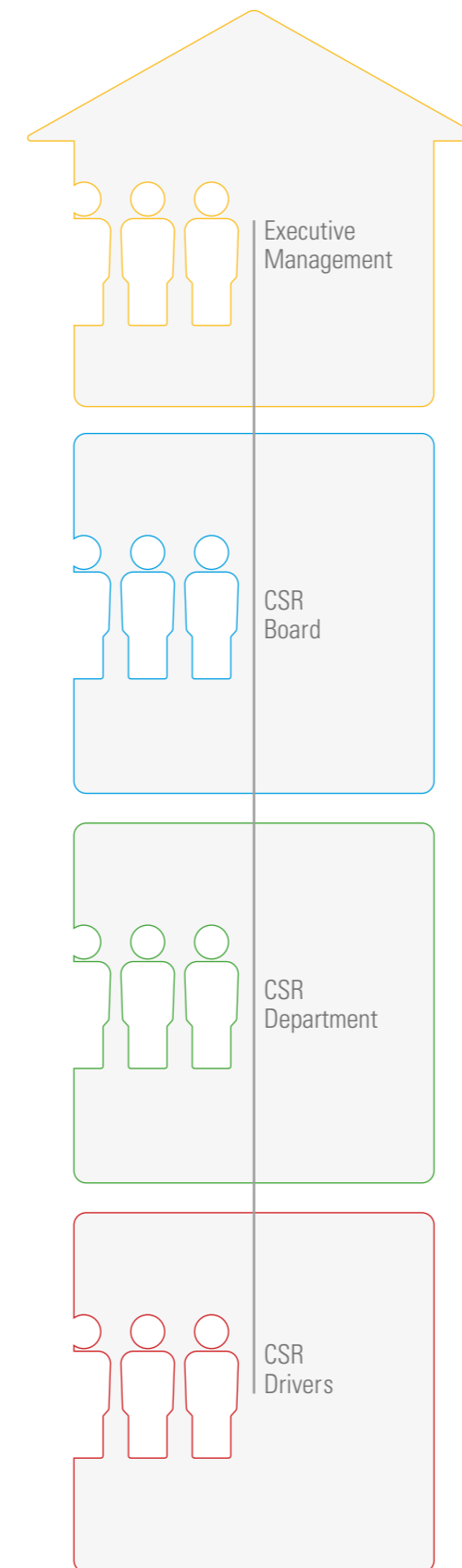
The CSR Board is comprised of the various Business Areas as well as certain support functions to ensure that the whole value stream is represented. Terma's Chief Commercial Officer (CCO) is Chairman of the CSR Board.

Members of the CSR Board are members of the Global Management to ensure the right level of decision-making ability. Moreover, the Group CSR & Compliance Manager acts as facilitator and subject-matter expert on the CSR Board.

The CSR Board meets every quarter to discuss strategic CSR matters and to receive the latest status and progress reports on Terma's CSR performance.

The CSR Board will be supported with input from the CSR Department and the local CSR Drivers throughout the organization.

# Governance structure



## Responsibilities

- Appoints the CSR Board
  - Approves annual CSR report
  - Approves and supports the implementation of the CSR strategy
- 
- Sets the overall strategic direction for CSR
  - Acts as CSR spokespersons
  - Debates and approves major CSR initiatives and the CSR strategy
  - Determines and approves allocation of resources
  - Monitors progress
  - Reviews and pre-approves annual CSR report
- 
- Drives the CSR agenda
  - Develops and implements CSR strategy and CSR initiatives
  - Prepares tracking and reporting of the CSR strategy and initiatives
  - Drives internal and external communication of CSR
  - Monitors new requirements and trends and develops new CSR initiatives based on this research
  - Prepares annual CSR report
- 
- Drive a specific CSR focus area
  - Report progress related to focus area
  - Communicate CSR to their respective departments
  - Provide feedback, input, and relevant business insights
  - Responsible for providing stories and supporting data to the annual CSR report



# Meet the CSR Board



**Steen Michael Lynenskjold**  
Executive Vice President & Chief Commercial Officer (CCO),  
Chairman of the CSR Board

"We are and want to remain a trusted, responsible, and ethical company. Behaving with integrity is one of our core values. Therefore, investing and focusing on CSR is a given and a must. The CSR Board shapes our strategic direction within CSR by aligning our regions, our business, and operational areas with our CSR strategy, to get high impact of our CSR efforts."



**Steve Williams**  
President & CEO, Terma North America

"Impeccable ethics and values are part of Terma's DNA. We embrace the spirit and letter of national CSR requirements and regulations."



**Jørgen O. M. Laursen**  
Senior Vice President, Aerostructures Manufacturing

"A clear CSR direction is very important to our company. As a company, we will support the 17 UN Sustainable Development Goals (SDG) to ensure that we protect the environment and society in the best possible way. A number of the SDGs are directly applicable to our production sites which require a daily focus to ensure we deliver our outmost in support of the overall Terma CSR goals."



**Thomas Blom**  
Senior Vice President, Surveillance & Mission Systems

"To me, the most important CSR issues as a technology company are that we: together with universities takes an active part in educating and developing both young people and our employees, that we develop and produce our products with an environmental footprint in mind, and we take an active role in the local community."



**Jesper Böhnke**  
Senior Vice President, Supply Chain Management

"CSR for me means taking an active stance towards responsibility for the world we live in and for the people we share the world with. I believe that setting a good example has the benefit that we inspire others to follow pace when it comes to social and environmental responsibility, which in turn encourages further responsibility in the effort to improve our society and ensure we pass down a sustainable footprint."



**Niels Henrik Bundsgaard**  
Senior Vice President, Group HR

"At Terma, everything we do is mission-critical in order to make our world more secure. Having a clear and ambitious CSR strategy guides us in the way we do business and how we become more responsible as a corporate citizen. CSR is important to our employees today and for the recruitment of new employees in the future."



**Finn Jäger-Rasmussen**  
Senior Vice President, Technology & Innovation

"To me, CSR is that Terma demonstrates accountability towards the society where we execute our business. 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."



**Morten Halskov**  
Senior Vice President, General Counsel

"Compliance is the foundation of being a responsible company. Working with CSR means going beyond compliance. Business-driven CSR adds value to the organization by strengthening our position as a trustworthy business partner and responsible employer. We strive to create an environment where CSR is embedded in the mindset of our employees."



**Satnam Kaur Nanda-Jørgensen**  
Manager, Group CSR & Compliance

"By focusing on respecting human rights and working with the UNGPs, we also contribute to the fulfillment of the UN Sustainable Development Goals. The essence of CSR is about creating shared value for Terma and society all around us. We create the most value for all parties when our CSR efforts are linked to our core competencies and business operations. That is truly when we can make a lasting difference."



# Our Business Model

The relationship between our core business operations and the value we create for society and our stakeholders is illustrated in the below business model.

## 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**

**2,500+** aircraft rely on Terma's self-protection solutions

**Radar surveillance to secure national borders and critical infrastructure and to keep people safe**

**3,000+** SCANTER radars installed (coastal surveillance, Vessel Traffic Services, Surface Movement Radar, and naval applications)

**Command and control systems and self-protection for naval vessels**

**16** navies and coast guards worldwide 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



## Value Creation

### Revenue

We create value for our owner, 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 provide a working environment where our employees feel safe and valued, have opportunities for personal and professional development, and where all their human rights are respected

### Customers

We create value for our customers and enable them to keep people safe

### Contribution to communities

We engage in partnerships with local communities

### Responsible supply chain management

We set requirements regarding human rights, the environment, and anti-corruption to our suppliers

### Our Background

Terma has deep and proud roots in Denmark, tracing its origins back to 1944. Terma is owned by the Thomas B. Thrige Foundation, which 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, 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 university students.

### 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."





# ANTI-CORRUPTION AND BUSINESS ETHICS



## Why this matters to society

- Corruption undermines democracy and institutions, hinders development, and impacts vulnerable communities.

## Why this matters to Terma

- Corruption distorts competition and increases the cost of doing business. By working proactively with anti-corruption and ensuring that we and our suppliers do not engage in corrupt practices, we help develop a fair and level playing field.

## Our commitment

- A zero-tolerance policy towards all forms of corruption and corrupt practices.

## Our progress

- Updated Anti-Corruption Policy
- Updated and enhanced Employee Code of Conduct
- Launch of Ethics Line, whistleblower system, and Tell us your concerns internal case management system
- Establishment of an Ethics Committee
- Development of an Anti-Corruption Compliance Program
- All employees have received basic anti-corruption training

## What's next?

- Develop and implement tailor-made anti-corruption training for the medium and high-risk job functions throughout the organization
- Continuously create awareness throughout the organization
- Continue our work on the Anti-Corruption Compliance Program

## Opportunities

- Trustworthy and ethical partner

## Risks

- Reputational, financial, and legal risks

Corruption is not a new challenge, it is a historical challenge. Some countries have seen a decline in corruption charges and practices while other countries have experienced a rise. Corruption challenges are increasing globally, even though more and more countries are focusing on fighting corruption by developing through legislation and setting up task forces and agencies dedicated to fighting corruption.

However, fighting corruption is not an easy quick fix. It is a global challenge that requires global solutions. Companies cannot solve it on their own, but they have an important role to play. We, at Terma, take our role in the fight against corruption seriously. We have proud roots in Denmark, a country which is in the top of the Transparency International Corruption Perception Index, and it therefore comes natural to us to distance ourselves from corruption and actively work in fighting it.

### Employee Code of Conduct and Reporting Channels

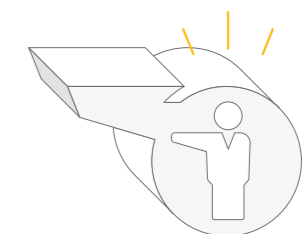
In January 2019, we launched our updated Employee Code of Conduct, which purpose is to describe our commitments, what our employees need to comply with, and how we can help each other in our daily routines to live up to these commitments. To ensure that the key messages of the Code were understood, all employees have received an e-learning course covering the 5 topics of the Code: Anti-Corruption & Business Ethics, Human Rights, Security, Environment, and Global Trade Compliance.

To further support our employees and strengthen our Employee Code of Conduct and compliance efforts, we also launched 2 reporting channels; *Ethics Line* and *Tell us your concerns*.

### Ethics Line

This is Terma's global multilingual whistleblower system which offers a confidential and safe channel, where any employee or third party can report concerns if they suspect that serious illegal misconduct or other potential wrongdoing is taking place.

Employees and third parties can report anonymously or by name to the system. The report will automatically be transferred to Terma's Ethics Committee who reports to the Chairman of Terma's Board with the reported issue and the Committee's findings and conclusion of the investigation and recommendations for further action.



The Ethics Committee presents an annual report to the Board of Directors on the status of the *Ethics Line*. If any issues are reported, such issues are presented in the report in an anonymized way. This information is also presented in Terma's annual CSR report.

In the last two months of the current fiscal year where *Ethics Line* was launched, no reports have been made.

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## Employee Code of Conduct

### Doing What is Right Every Day in a Complex World





*Tell us your concerns*

This is our global internal case management system solely dedicated to Terma employees. It is for all concerns, incidents, and issues that do not pose serious illegal misconduct and which do not classify to be reported via Terma's *Ethics Line*.

*Tell us your concerns* enables us to take our "compliance temperature" and assess if there are any issues that might become serious if not dealt with. It enables us to take a proactive approach and continuously improve our business operations, processes, and communication.

The findings are also reported to top management to enable them to gain an overview of where we need to invest and strengthen our procedures and processes in Terma.

In the last two months of the current fiscal year where *Tell us your concerns* was launched, no reports have been made.

**Anti-Corruption Compliance Program**

Terma's Anti-Corruption Policy and Compliance Program guide our employees and our efforts within anti-corruption, thus providing the foundation for sound and ethical business conduct. It is aligned with the requirements of among others the UK Bribery Act and the U.S. Foreign Corrupt Practices Act.

Corruption comes in many forms, and therefore, Terma's Anti-Corruption Compliance Program covers various forms of corruption, such as but not limited to, bribery, facilitation payments, kickbacks/commissions, extortion, conflict of interest, fraud, and embezzlement.

The program is divided into various steps; first and foremost, tone from the top, and then supported by procedures, risk assessment, training and communication, monitoring and internal control, due diligence, and disciplinary measures.

To ensure transparency and a robust compliance program, status on the program, as well as findings derived from internal control and monitoring, are presented to top management. Terma's Anti-Corruption Compliance Program is managed by the Group CSR & Compliance department.

*Training and Risk Assessment*

The type and intensity of anti-corruption training our employees receive is based on their risk profile and tailored to the level of corruption risk their job function and position is prone to; whether it is high, medium, or low.

The Employee Code of Conduct e-learning provides all our employees with basic anti-corruption training and is the core anti-corruption training required for our employees with job functions associated with a low level of corruption risks. However, all employees with job functions that are prone to medium or high corruption risks will be given additional tailor-made training within anti-corruption in the form of additional e-learning and face-to-face anti-corruption workshops. All training will be monitored and tracked, and feedback will be gathered to ensure that the training is updated accordingly and remains relevant and effective.

**The Defense Companies Anti-Corruption Index**

Transparency International Defense & Security (TI DS), a branch of Transparency International, conducts an assessment of companies in the defense sector, called the Defense Companies Anti-Corruption Index, every 3 years. The index sets standards for accountability, transparency, and anti-corruption programs within predefined categories, such as but not limited to, leadership, internal controls, offsets, third parties, and supply chain management. The score given to each company is based on publicly available information.

Our assessment score in 2015 illustrated that we had not been sufficiently transparent in describing our work within anti-corruption. Hence, the score has helped us acknowledge the importance of publicly disclosing even better all the good work we do within anti-corruption. Therefore, we chose to focus on increasing the communication of our anti-corruption efforts on our website and in reports. The result of Transparency International Defense & Security's assessment will be available in Q3 2019. We look forward to reading their assessment of us and how they have ranked our efforts within anti-corruption. We will continue to focus on fighting corruption and working proactively with anti-corruption as well as strive for continued transparency.

*"The importance of working with anti-corruption will never cease. The fight against corruption will always be one of our main focus areas, and we will continuously strengthen and invest in anti-corruption efforts. All companies should prioritize this area, so we can minimize this global challenge together."*

**Jens Maaløe**  
President & CEO

**Next Steps**

As all our employees have received basic anti-corruption training, our next step is to develop and implement tailor-made training for the medium- and high-risk job functions throughout the organization. The goal is that all employees will have completed the relevant type of training related to their job function's risk profile by the end of the fiscal year 2019/20.

Monitoring and internal control are important elements to assess the robustness of an Anti-Corruption Compliance Program. Therefore, we will continuously undertake these activities and adjust our procedures and program in relation to our observations and findings.

Also, we will continue to create awareness of our program and anti-corruption efforts internally and externally.



Image: Lockheed Martin



# 2/ HUMAN AND LABOR RIGHTS



### Why this matters to society

- Respecting and enhancing human rights are essential for sustainable development and prosperity. Terma impacts the communities in which we operate and our production, our products, and technologies through our activities as a workplace.

### Why this matters to Terma

- Respecting human rights is essential to maintain our social license to operate and protect our employees.

### Our commitment

- Respecting all the human rights listed in the International Bill of Human Rights, and work to ensure that we do not have any negative human rights impacts.

### Our progress

- Updated Human Rights Policy

### What's next?

- Conduct human rights impact assessments

### Opportunities

- An attractive employer that respects all our employees' human rights
- An ethical and responsible business partner

### Risks

- Difficulty in attracting and retaining employees
- Losing business opportunities as we are not being perceived as an ethical and responsible supplier
- Reputational and financial risk

Human rights should be at the very core of every responsible business. We aspire to be recognized as a company with a preeminent professional working environment where our employees have opportunities for professional and personal development, where they feel safe and valued, and where all their human rights are respected. Our employees are our most important resource, and the building blocks of our organization. Moreover, we believe that if companies actively work with human rights and set requirements and standards towards the parties with whom they interact, we can minimize adverse human rights impacts and raise standards. It is important that we are open about the challenges we face, the impacts we have, and how we address all of these.

### Human Rights Policy

In connection with the Employee Code of Conduct, we updated our Human Rights Policy to include specific reference to the 48 human rights, as listed in the International Bill of Human Rights. With the Employee Code of Conduct e-learning, employees were trained in human rights, why they are important, what they cover, as well as an overview of the 48 human rights. We understand that human rights can seem intangible to some employees, and therefore, we believe it is important to translate the 48 human rights into concrete business examples to better enable understanding of the importance of the rights. We therefore plan to conduct more detailed training sessions within human rights.

### Human Rights Due Diligence

In the coming year, we will establish a human rights due diligence process. It is important for us to get a clear picture and overview of the human rights impact that we cause and contribute to, as well as those we are linked to, due to the nature of our industry. Thus, it is a key priority in 2019 to commence conducting thorough human rights impact assessments that will address our potential and actual impacts regardless of whether we cause, contribute, or are linked to these. As we work in various industries, we will conduct a human rights impact assessment for each industry to ensure that we pinpoint the exact potential human rights impacts we have in each of our business activities.

### Conflict Minerals

Conflict minerals are commonly associated with human rights abuses, such as the use of forced labor, child labor, and unsafe and unhealthy working conditions. Therefore, conflict minerals will be addressed in our human rights impact assessment. Conflict minerals and what they are is described in more detail in the section Responsible Supply Chain Management in this report.

### Human Rights Remediation

Human rights are included in our whistleblower system, *Ethics Line*, which enables Terma employees and our third parties to report any concerns regarding human rights impacts. Our internal case management system, *Tell us your concerns*, also includes human rights. Terma employees can raise their concern within human rights. A governance structure has been established to ensure that the internal investigator possesses the right skills and knowledge to look into a concern. This means that a concern regarding data privacy would be sent to legal, while discrimination would be sent to HR. The list of human rights and other reporting topics and who is the relevant appointed internal investigator is fully transparent and available to all our employees.

### UK Modern Slavery Act

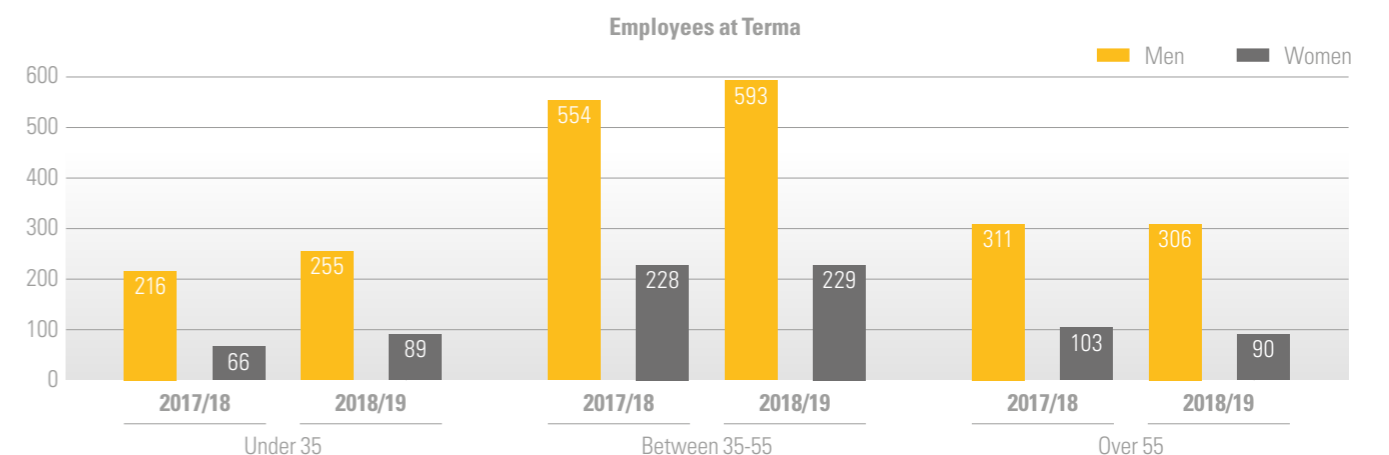
We have published our third annual statement, available on our website, pursuant to Section 54 of the [UK Modern Slavery Act](#). The statement describes our efforts in addressing the risk of modern slavery and human trafficking in our own business as well as in our supply chain.

### Data Privacy

We continue to focus on data privacy as sound data management is essential to our business. We have established a GDPR committee that meets monthly to discuss, monitor, and evaluate data processes. As part of the Employee Code of Conduct e-learning, all employees received an introduction and basic training within data privacy. In the upcoming fiscal year, we will launch additional, more targeted, and detailed data privacy and GDPR training to specific employee groups.

### Diversity and Inclusion

Diversity in a workplace is the respect and acceptance of the fact that every individual is unique. At Terma, we recognize and value diversity and gender equality of opportunity in our workplace. Diversity is about bringing together a rich mix of people with a set of many different perspectives and backgrounds. We believe that difference of thought, skills, experience, and work styles are crucial for the business development and future of Terma. Diversity includes a wide range of visible and invisible attributes; e.g. age, gender, race, national or ethnic origin, religion, language, political beliefs, sexual orientation, physical ability, as well as a diversity of talents, skills, experiences, and abilities.



Terma had a total of 1,562 employees in 2018/19, where 1,154 were men and 408 were women. Last year, Terma had 1,478 employees, where 1,081 were men and 397 were women.





This year, we introduced our Diversity Policy in our Employee Code of Conduct. Our commitment is to provide an inclusive, diverse, and welcoming environment for all stakeholders, including employees, customers, suppliers, and business partners.

To attract a diverse workforce, we have strengthened our Employer Branding focus with an Employee Value Proposition when we communicate to future employees. This means that instead of focusing only on our Business Areas in our communication, we also focus on the working environment at Terma and collaboration with colleagues. Moreover, we communicate on various channels to ensure that we are visible among a wide variety of diverse candidate groups. Moreover, we have developed a recruitment manual that addresses the issue of biases and how managers should be conscious of these when recruiting new employees, to ensure a diverse workforce for the benefit of Terma.

Terma's retention rate was 95%, compared to 92% last year. We are pleased that employees choose to stay at Terma and perceive it as a good place to work.

#### Gender Distribution at Management Levels

At Board level, Terma strives to have a fair gender balance. Two out of our five Board members are female. Although the aerospace and defense industry is traditionally male dominated, Terma being no exception, we maintain our focus on attracting more women to Terma. For the third consecutive year, there was an increase in the management positions held by women, from 20% in 2016/17, to 21% in 2017/18, to 22% in 2018/19.

#### Safe and Healthy Working Environment

We consider our employees to be our most important asset, and it is important for us to ensure that Terma provides a safe and healthy working environment. We have a strong focus on our employees' health, both mentally and physically.

Terma's global sick leave slightly increased from 3.3% in 2017/18 to 3.4% in 2018/19. Our female employees' sick leave absence is considerably higher than that of our male employees. We will therefore look into this data to assess which areas to focus on to reduce sick leave absence, particularly with a focus on understanding and reducing our female employees' sick leave. Moreover, we will also look at the results of the new health initiative described in the next section, to assess which areas to focus on to improve overall employee health, which we believe will have a positive impact on reducing sick leave.

#### Sick leave absence by gender and age

		Below 35	35 to 55	Above 55	Average total
2017/18	Men	2.9 %	2.6 %	2.8 %	<b>2.7 %</b>
	Women	5.2 %	4.6 %	5.6 %	<b>4.9 %</b>
2018/19	Men	3.3 %	2.4 %	3.4 %	<b>2.9 %</b>
	Women	6.1 %	5.1 %	4.5 %	<b>5.1 %</b>

The above figures are for all of Terma's locations globally and include pregnancy related sickness. However, child sickness is not included in the figures.

In the fiscal year, we globally had 38 working accidents, of which 10 accidents resulted in absence from work.

	2015/16	2016/17	2017/18	2018/19
Lost Time Injuries (LTI) Frequency Rate	4.5	4.3	7.4	4.5

LTI Frequency Rate is calculated as follows:  $[(\text{Absence in hours}) / (\text{total hours worked in accounting period})] \times 1,000,000$ .

#### A New Health Initiative

On an annual basis, we evaluate if there are any initiatives or projects we can launch that will benefit our employees' health. Besides our Safety Excellence program, which provides a safe working environment in our production plant in Grenaa, Denmark, explained in more detail in the subsection Safety Excellence Program, we will implement a new health initiative.

In collaboration with an external third party, a health survey has been developed. This will be sent to our employees at our Danish locations, which account for around 85% of our global workforce. The survey contains various questions regarding health, both at the workplace and in general. Based on the individual answers, health professionals can assist with personalized support to help the employee with their specific risk areas. The health survey and the use of the additional support will be optional and completely anonymous and of course free of charge for the employee.

When the survey has been completed, Terma will receive, in an anonymized form, the key results of the survey and which key areas would be most meaningful to target. Resources have already been allocated to launch initiatives based on the results to ensure that once we have received the results, we can act on these.

**"We believe that the strength of the survey is the anonymity as it will motivate employees to be candid about which health issues they face in their workplace and at home. The knowledge we receive will be invaluable and will ensure that we can make targeted health initiatives, which can make a real difference for our employees."**

#### Niels H. Bundsgaard

Senior Vice President, Group HR

#### Safety Excellence Program at Grenaa

Terma highly cherishes our employees' safety. Therefore, it has been important for us to have a safety program that ensures a safe and efficient working environment for our employees.

Manufacturing works with many different processes including heavy machinery and numerous chemical substances. Accordingly, the employees are exposed to several working environment risks.

To prevent work injuries and work-related health problems among employees at our production site in Grenaa, Denmark, we launched a Safety Excellence Program last year.

The purpose of this program is to create a safety culture where we help each other to conform, where "Working Safely" is a personal value, and where the organization is proud of our safety level. We have not reached this goal yet, but we have already noticed significant positive changes resulting from the program.

A part of the program has been focused on how to motivate our employees in actively implementing safety in their work and how working with safety sometimes can make their work more efficient. Therefore, we have created an incentive system that highlights and celebrates an employee when he/she makes an improvement in our safety environment.

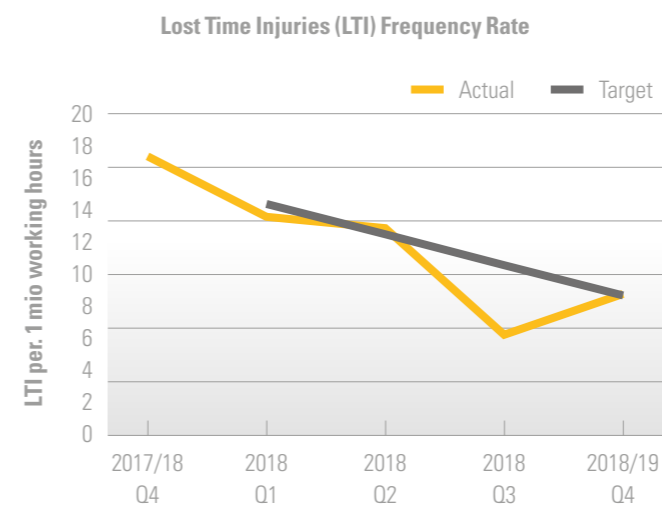
#### Management Safety Walk

As part of our Safety Excellence Program, we have this year also introduced Safety Walks for all managers. Management Safety Walks are calendared visits in production areas where managers, two at the same time, look at how employees act in relation to safety. This is done solely with focus on "safety behavior" and is an opportunity for management to show that safety is a high priority. This also provides the opportunity to show appreciation of good safety awareness.

**"Management Safety Walks are a tool to influence culture and behavior through a positive dialog between manager and employees on good safety behavior."**

#### Fritz Banner

Health Safety and Environmental (HSE) Director, Aerostructures Manufacturing



Terma employees receiving a reward as appreciation for their efforts in implementing safety improvements.

All the initiatives in the program, the increased focus on safety as well as the improved safety mindset of our employees, have resulted in a decrease in our Lost-Time Injuries (LTI) Frequency Rate at our production site in Grenaa, Denmark, as illustrated in the left graph. We are proud of this result even though we have not fully reached our target, and we will continue to work actively with safety to continuously reduce our LTI Frequency Rate.

#### Next Steps

Over the next couple of years, we will implement several new safety standards, and we expect to be able to continue this development by reducing the number of LTI by approx. 50% next year.

At our production site in Lystrup, we have planned a program to improve safety awareness and best practice, and knowledge sharing between the two production sites will happen.

#### Health and Safety of Pilots

At Terma, we know the importance of having a safe and healthy working environment. Beyond our own employees, we also want to contribute via our product solutions to the increased health and safety of our end users, the pilots on missions delivering security around the world.

While in the air, pilots in military aircraft are subject to high levels of noise in the cockpit stemming from their surroundings and acoustically transmitted in their communication equipment. In an effort to reduce fatigue, stress, and hearing damage caused by this noise, we have developed an Aircraft Audio Management System which includes 3D-Audio and Active Noise Reduction (ANR) technology. The 3D-Audio technology solution is integrated in the pilots' helmets. This allows the pilot to separate communication from different radios to be able to focus on one message, while still being aware of the communication on other radios. In addition, audio can be identified from its actual direction in correlation to the pilot's and aircraft position, both communication and threat warnings. It allows the pilot to respond to and handle threat warnings within a complete 360° sphere of the aircraft.

The pilot's working environment is improved, with the reduction of fatigue, stress, and hearing loss. While in the air, pilots can better rely on their hearing to understand where a threat is coming from and react faster, saving valuable mission-critical time and potentially saving lives of pilots and crews.



# 3/4 ENVIRONMENT



### Why this matters to society

- Climate change impacts societies, and there is a global consensus that everyone should contribute to minimizing their environmental footprint.

### Why this matters to Terma

- Being respectful of the environment, reducing our environmental footprint, and phasing out hazardous chemicals are all vital for our continued competitiveness.

### Our commitment

- We wish to ensure an increasingly sustainable business by effectively optimizing the use of natural resources and reducing the environmental impact through an innovative approach.

### Our progress

- Developing a new Environmental Policy
- Continued work with substituting hazardous chemical substances as per REACH and RoHS legal requirements
- Continued focus on developing and establishing a baseline for Terma, in order to better measure progress on energy efficiency

### What's next?

- Anchoring the environmental work in our business with a new steering committee
- Continue the progress in substituting Substances of Very High Concern (SVHC) and improving our use of resources

### Opportunities

- Preferred supplier due to our focus on responsible production
- Minimize costs
- Attract and retain employees

### Risks

- Reputational, legal, and financial risk
- Attract and retain employees
- Loss of customers and business opportunities

Climate change is not an issue that can be overlooked. Increasing droughts, floods, storms, and fluctuating temperatures are a reality. Businesses, governments, and civil society should all work to reduce their environmental impact to safeguard our planet. Terma is respectful of the environment and strives to reduce our environmental footprint.

### Environmental Policy

With the new revised Employee Code of Conduct, we also introduced a new global Environmental Policy. It was important that our commitment and how we fulfill this commitment are clear and simple as well as how we help our employees understand their daily environmental responsibility.

In line with the environmental strategy that was decided upon in the previous fiscal year, 7 aspirational targets have been identified which the environmental organization in Terma is working towards. Part of this work is to translate them into everyday goals that our employees can relate to.

*"To ensure successful anchoring and meeting the targets we have set, it is important that we make these targets tangible, measurable, and communicable so they become concrete and relevant for our employees. Employees need to know how they can contribute and that we, at Terma, value their efforts and dedication."*

### Lotte Hansen

Environmental Representative

### Integrating a New Environmental Governance Structure

As part of Terma's commitment to take further action and integrate our environmental performance strategically in our organization, we have taken steps to improve the environmental organizational governance structure this year. This is a vital step for better being able to firmly embed an environmental perspective into our operations in the future.

An Environmental Steering Committee is in the process of being established to anchor our environmental work locally throughout the organization. The work of this committee will be supported by selected employees representing important focus areas; sustainable design and innovation, project management, and facilities. Beyond these functions, local representatives from our Danish locations as well as abroad will continue the daily work of implementing environmental efforts and initiatives.

### Establishing a Firm Baseline

One of the most important ways we can minimize our direct environmental impact is to continuously identify new ways in which we can optimize our use of energy and natural resources in our production. Being part of a highly technical industry, our production facilities have an environmental impact that cannot be avoided. Manufacturing our product solutions have high requirements in terms of materials and treatments in order to meet applicable standards and customer specifications.

This year, we continued our efforts to establish a firm baseline for our environmental data. We have decided to use the Greenhouse Gas Protocol (GHG) Scope 1, 2, and 3 to create transparency of our environmental data, as well as enable us to compare our performance and data with other companies. Defining our Scope 3 and gathering data for this scope is one of our challenges, and over the coming year, we will continue to define, measure, and develop data collection processes to gather the necessary relevant environmental data.

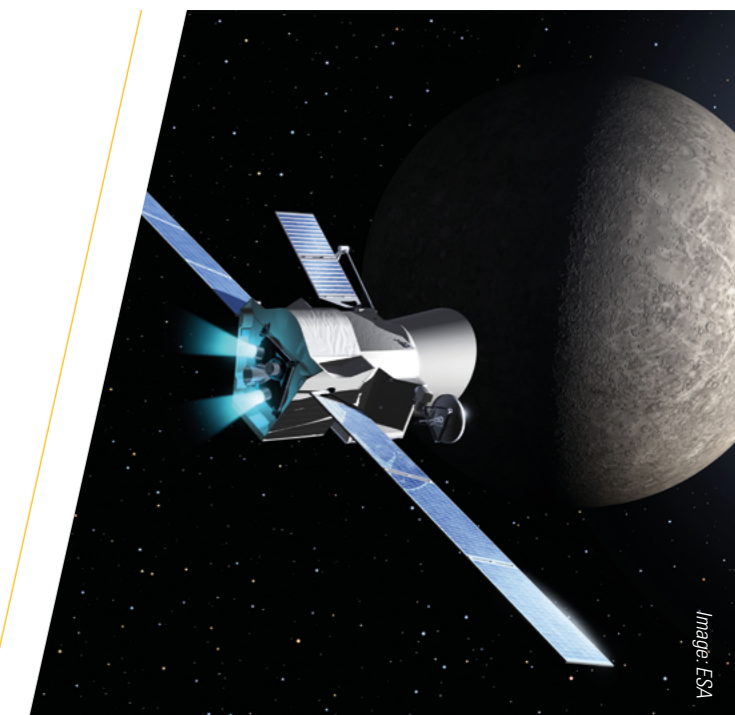
### Greenhouse Gas (GHG) emissions in metric tons of CO<sub>2</sub> for the reporting year 2018/19 (01.03.2018-28.02.2019)

<b>Scope 1</b>	Direct GHG emissions in metric tons of CO <sub>2</sub> equivalent	367
<b>Scope 2</b>	Energy indirect GHG emissions in metric tons of CO <sub>2</sub> equivalent	3,318
<b>Scope 3</b>	Other indirect GHG emissions in metric tons of CO <sub>2</sub> equivalent	1,351

*Scope 1 covers emissions from the generation of electricity, heating, cooling, and steam as well as emissions from company-owned cars.*

*Scope 2 covers emissions from purchased electricity, heating, and cooling.*

*Scope 3 covers emissions from business travel and leased cars.*





### Our Continued Work to Phase Out Hazardous Chemicals

Another large part of our work with improving our environmental performance this year has been dedicated to the continued process of phasing out hazardous chemical substances. The aim of the EU legislation REACH is to improve the protection of human health and the environment, by ensuring that an identified number of chemicals are used properly. This is done via four processes, namely the registration, evaluation, authorization, and restriction of chemicals.

For Terma in this past fiscal year, we have seen some challenges in this substitution process. After having experienced some significant progress in diminishing the use of REACH restricted chemicals during the period 2015-17, there has been an increase in 2018/19. Within this fiscal year, there has been a 68% percent increase in the use of hazardous hexavalent chromium. This chemical substance has for decades been an important part of most aerospace approved surface treatments in order to obtain flightworthy status. Our challenge mainly stems from increased metal production during the past year and a delay in substituting the anodizing line. The existing anodizing line contains several baths with hexavalent chromium (chromium trioxide and sodium dichromate) and the two baths containing most chromium have been completely renewed during 2018 due to aging.

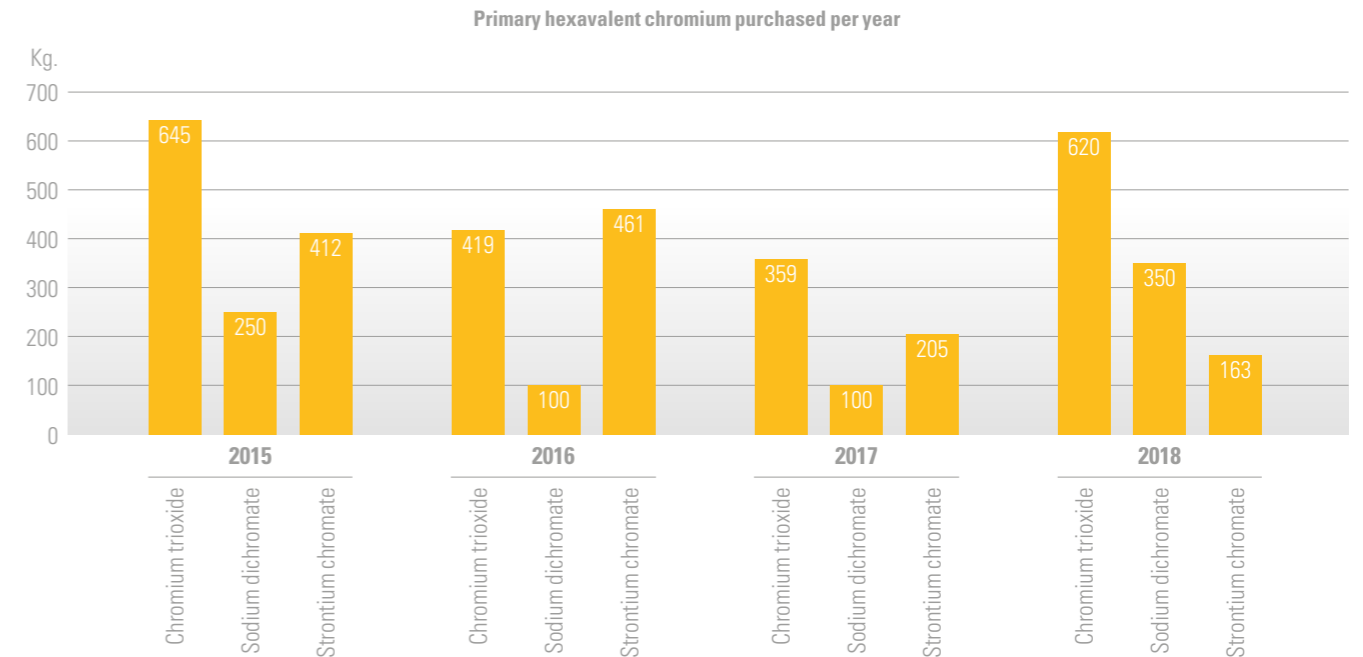
On the other hand, purchased amount of strontium chromate containing primers has again decreased significantly by 20% from 2017 to 2018, and 6 of these primers have been completely obsolete by us in February 2019. Strontium chromate has been used as a main ingredient in most primers within the aerospace industry as it has a strong anticorrosive effect. We have dedicated our efforts and worked actively in eliminating this substance as it is one of the most hazardous chromates used.

The challenging part of the substitution process is updating comprehensive documentation on products and getting accept from customers abroad not being directly subject to REACH requirements, rather than finding a suitable alternative. As the chromates have been such a ground pillar of protecting metal parts, the European aircraft business has unitedly applied for extension of sunset dates (last day of use) for three chromates. The applications are still being evaluated by ECHA (European Chemical Agency), but extensions of 6-7 years are expected.

#### Leakage

In early December 2018, our production site in Grenaa, Denmark, had a leakage of chromate containing liquid to the underground under the surface treatment facility. The leakage happened in the weekend and was discovered Monday morning. Once the accident was discovered, further leakage was stopped, and Terma immediately briefed local environmental authorities and hired Orbicon A/S, Denmark, an impartial qualified international engineering consultancy firm, to handle the situation.

The root cause analysis showed that the main reason for the leakage was a crack in the pit surrounding the treatment baths. Several preventive measures were initiated to avoid further spill. Terma and an impartial laboratory have continuously analyzed the groundwater under the surface treatment facility. The analysis showed that the groundwater outside the surface treatment facilities contained less chromium than the maximum permissible value for



The data depicts the absolute amounts of purchased hexavalent chromium per year. The rise in the purchase of chromium trioxide and sodium dichromate from 2017 to 2018 is due to the renewal of two baths, as well as increased metal production. The decrease of strontium chromate has been achieved by substituting this chemical in our production.

chromium levels in groundwater. Moreover, the soil analysis demonstrated ancient seabed containing high levels of different minerals, which in this case is very fortunate, as the results show that hazardous hexavalent chromium in contact with the minerals rapidly reduces to the relatively non-toxic trivalent chromium.

Terma continues to regularly monitor the said groundwater and should the situation change, we will of course act, guided by impartial consultants.

#### Next Steps

In the coming year, The Environmental Steering Committee will begin its work, and this will shape our environmental efforts.

One initiative we will address is how to minimize the use of air conditioning. Water and electricity are used in our ventilation systems at our production facilities. Narrow humidity and temperature ranges are crucial for some of our products, and therefore, air conditioning is essential. Hence, we need to identify a solution for minimizing its energy consumption without compromising the purpose.

Moreover, we will continue to identify ways to minimize our environmental footprint. One possibility could be to look at Life Cycle Assessments and the notion of integrating a circular economy approach in our business operations. In practice, this means that we will need to look at our products at the end of their life cycle, in order to hopefully be able to recycle parts and materials from these complex technical solutions.



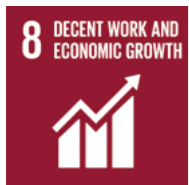
Image: Royal Danish Navy



4/e

# RESPONSIBLE SUPPLY CHAIN MANAGEMENT

Image: Lockheed Martin



## Why this matters to society

- When companies set requirements towards their suppliers, who in turn cascade down these requirements in their supply chain, it raises social, environmental, economic, and ethical standards.

## Why this matters to Terma

- CSR is twofold: We should both look inward and ensure that our business processes are in order, as well as ensure that the third parties we interact with understand the importance and relevance of behaving ethically and comply with CSR requirements and best practices.

## Our commitment

- Ensuring social, ethical, economic, and environmental standards by engaging in dialog with our suppliers.

## Our progress

- Assessment within human rights, anti-corruption, and conflict minerals of the majority of our key suppliers used in our production process
- Updating our Code of Conduct for Suppliers and Service Providers

## What's next?

- Continue our work on the Responsible Supply Chain Management Program

## Opportunities

- Remain an attractive and trustworthy business partner
- Raise social, environmental, economic, and ethical standards
- Minimize reputational risks as our suppliers focus on CSR

## Risks

- Reputational and financial risks if the suppliers we use do not live up to anti-corruption, human rights, and environmental standards and legislation

Besides ensuring that our internal processes are ethically, environmentally, and socially responsible, it is also important that we set these requirements towards our suppliers and third parties with whom we interact. If we all set these requirements, we can together raise the bar and hopefully ensure that standards are raised globally.

### Code of Conduct

Our Code of Conduct for Suppliers and Service Providers describes the requirements within Human Rights, Environment, Ethical Business and Fair Operating Practices, Quality and Responsible Sourcing as well as Information and Data Protection that we expect our suppliers and service providers to comply with. We have updated our Code of Conduct for Suppliers and Service Providers to include reference to among others the 48 human rights, as listed in the International Bill of Human Rights, as well as to our whistleblower system *Ethics Line*, which is accessible to all employees of third parties to Terma. All new suppliers and service providers, as well as those we renegotiate contracts with, will receive the new Code of Conduct.

### Responsible Supply Chain Management Program

In the upcoming fiscal year, we will continue our dedicated work on the Responsible Supply Chain Management Program which targets to describe our due diligence process, third party risk profiles, and various procedures and processes. We are currently in the process of dividing our suppliers into categories and assessing the risk profile of each category. The type of risk profile will define the due diligence process that the supplier will go through. Moreover, we have partnered up with an external third party, who is in the midst of assessing the majority of our key suppliers that we use in our production

## What are Conflict Minerals?

Conflict minerals as defined by the U.S. legislation currently includes the metals tantalum, tin, tungsten, and gold. These 4 elements are commonly referred to as 3TG. These metals are found in numerous everyday objects, specifically electronic products such as mobile phones, laptops, and micro-chips. They are called "conflict minerals" because they are extracted in countries where war and conflict have been raging for years and have been used to finance armed conflict in the Democratic Republic of Congo (DRC) and surrounding countries (DRC region).

In august 2012, the U.S. Securities and Exchange Commission (SEC) approved the Dodd-Frank Wall Street Reform and Consumer Protection Act. It obliges companies to publish their use of conflict minerals originating from the Democratic Republic Congo (DRC) or a neighboring country, as visually shown on the map.

The SEC rules define conflict minerals as 3TG metals, wherever extracted. For instance, tin extracted from Russia or Argentina is considered a conflict mineral by definition. In the SEC rule, "DRC conflict-free" is defined as minerals which did not directly or indirectly benefit armed groups in the covered countries. Therefore, tin extracted from Argentina is considered "DRC conflict-free" under the definitions of the SEC rule.

### What is the Conflict Minerals Responsible Template (CMRT)?

The Responsible Minerals Initiative was founded in 2008 by members of the Responsible Business Alliance and the Global e-Sustainability Initiative.

process. These suppliers are asked to document their process within human rights, anti-corruption, and conflict minerals.

### Conflict Minerals

As a technological company, we rely on minerals in our products. To support our efforts to be transparent and report on the possible use of conflict minerals in our products, we expect our suppliers to report and identify such minerals in their products and in their supply chain.

Conflict minerals are specific minerals that originate from armed conflict areas in Central Africa and are commonly associated with human rights abuses. More information on conflict minerals and the Conflict Mineral Reporting Template can be found in the textbox below. The Dodd-Frank Act requires publicly traded companies to annually disclose their use of conflict minerals in products that they manufacture, contract to manufacture, or use in their production process. Even though, Terma does not fall under this requirement, and we are many steps removed from the smelters and refiners in our supply chain, we still believe that it is important for us to be transparent and set requirements towards our suppliers within conflict minerals. We are part of a global supply chain where we can and should use our influence in enforcing transparency, responsible sourcing, and supporting the elimination of human rights abuses. In the coming fiscal year, we will continue to strengthen our processes within responsible sourcing and ensure that we only use minerals that are responsibly sourced. We believe that this will also create value for our customers, specifically our U.S. customers, that are required to report on the use of conflict minerals in their supply chain.

Together, their mission is to provide companies with tools and resources to make sourcing decisions that improve regulatory compliance and support responsible sourcing from conflict-affected and high-risk areas. The Conflict Minerals Responsible Template is a free reporting template that helps companies disclose and communicate information about smelters, refiners, and the minerals' country of origin. Smelters and refiners are key stakeholders in assessing the origin of the minerals. Smelting/refining is the conversion point of identifiable types of materials into a common product for downstream consumers. Because of this transformation process, smelters and refiners are in the position to know the origin of the material before it is mixed together and processed for distribution to various downstream users.



Source: Responsible Minerals Initiative

# Our Vision, Mission & Values

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## OUR VISION

**Securing people through advanced technology.**

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## OUR MISSION

**Our engineering excellence provides mission critical solutions within aerospace, defense and security to protect people and their assets.**

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## 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

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### We value your feedback

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

Terma A/S  
Vasekær 12  
2730 Herlev

You can also send an e-mail to:  
[responsibility@terma.com](mailto:responsibility@terma.com)

[www.terma.com/csr](http://www.terma.com/csr)