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# Corporate Social Responsibility Roadmap & Report





# Terma's CSR journey continues with a new strategy

In Terma we hold the belief that we play a significant role in improving our world – both by providing the technologies we develop and by conducting our business in a sustainable way. In this light, we have therefore revisited our approach to CSR and developed a new CSR strategy, which supports our continued commitment to the UN Global Compact.

Hence this year's Corporate Social Responsibility report both outlines a new strategy and gives an update on our progress so far. This report is an important component of our CSR efforts, as we aim to be transparent with what we have achieved, our possible shortcomings, and what we intend to do going forward.

We want Terma to be a company where our employees are safe at work and where they thrive professionally and personally. We want to be a global workplace, where everyone feels motivated and empowered to take daily responsibility toward reaching both our business as well as our CSR goals.

I am always impressed by Terma's ability to combine innovation with global partnerships. This capability is a big part of our organizational DNA and an important factor in ensuring Terma's position as a global high-tech company. Every day, we are confronted with complex challenges facing the societies in which we operate. We want to be a company that continues to develop and deliver innovative technology to solve the challenges of today as well as tomorrow. We shall continue to address these challenges and meet the expectations of our stakeholders with integrity. We want to conduct our business the right way. By operating globally and responsibly, we work towards a more secure and sustainable future – in strong collaboration with our partners and customers.



Increasing geopolitical tension and an accelerating deterioration of the natural environment pose monumental challenges. The need for securing people and safeguarding our resources is more relevant than ever. It is paramount that we all take responsibility and contribute toward mitigating and solving these challenges.

In this report you can read how the leadership of Terma has actively worked with developing this new strategy and the targets for the next years.

The Terma leadership team are proud to present our new CSR strategy under the headline: *Allies in Responsibility*.

I look forward to sharing our progress as we take the next steps forward.

**Jes Munk Hansen,**  
CEO and President

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# Accounting Policies

This Corporate Social Responsibility (CSR) report encompasses Terma's CSR efforts in our locations in Denmark, the US, Netherlands, Germany, Belgium, France, Singapore, UAE and India. The data in this report covers the financial year from the 1 March 2019 till 29 February 2020.

In accordance with sections §99a and §99b of the Danish Financial Statements Act, the report represents our statements on CSR and under-represented gender in Terma A/S and Terma Aerostructures A/S.

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



### CO<sub>2</sub> emissions

This year the International Energy Agency Emission Factors (2019) and DEFRA GHG Conversion Factors (2019) were used to calculate our CO<sub>2</sub> emissions, as Klimakompasset, which we have used the previous years, is no longer available.

To categorize our CO<sub>2</sub> emissions, we make use of the Greenhouse Gas Protocol (GHG) scope 1, 2 and 3.

### Scope 1:

Our scope 1 data covers direct emissions from Terma's own consumption including fuel from company-owned cars and generation of heating. These are calculated using International Energy Agency Emission Factors (2019). Emission factor used for natural gas that covers generation of heating is 230,3gCO<sub>2</sub>/kWh and emission factor used for gas/diesel oil for company-owned cars is 3,2kgCO<sub>2</sub>/kg fuel.

### Scope 2:

Our scope 2 data covers our indirect emissions from purchased electricity and heating. These are calculated using International Energy Agency Emission Factors (2019). Emission factors used for Denmark are 158,6 gCO<sub>2</sub>/kWh for electricity and 134,4 gCO<sub>2</sub>/kWh for heat. For Germany, it is 408,8 gCO<sub>2</sub>/kWh for electricity (heating is part of the rent and therefore not part of the data).

For the rest of Terma's international offices, Belgium, France, India, Netherlands, Singapore, UAE, and the US, the purchase of electricity, heating, and cooling is part of rent and therefore not part of the data. As 85% of Terma's employees and our production facilities are located in Denmark, the data expressed in scope 2 is representative of our emissions.

### Scope 3:

Our scope 3 data covers indirect emissions from leased cars, business travel, and waste disposal.

### Leased cars

Emissions from leased cars are calculated using the International Energy Agency Emission Factors (2019), where the emission factor for gas/diesel oil for leased cars is 3,2kgCO<sub>2</sub>/kg fuel.

### Business travel

Terma makes use of the external travel agency CWT for business travel bookings. Therefore, the data for our business travel emissions are provided and calculated by CWT. They make use of DEFRA's GHG Conversion Factors (2019). The data covers our offices in Denmark, Germany, India, Netherlands, Singapore, and US. The data for Singapore and the US does not cover a full financial year, as they have implemented CWT during the course of FY2019/20. Therefore, the data for Singapore covers 9 months and for the US 1 month, which is the length of time they have made use of CWT.

### Waste

The data covers emissions from waste disposal from all three Danish locations and is calculated using DEFRA's GHG Conversion Factors (2019). Emission factors used for combusted commercial and industrial waste and wood is 21,364kg CO<sub>2</sub>. Emission factors used for recycled/closed loop electrical and electronic equipment, metal, paper, and board is 21,364kg CO<sub>2</sub>. Emission factor used for commercial and industrial landfill disposal is 99,759kg CO<sub>2</sub>. Finally, emission factors used for open loop batteries is 64,637kg CO<sub>2</sub>.

### Employees at Terma

The employee data in this report comes from our internal HR systems.

### Total number of employees

Number of employees in total, excluding consultants, and divided by gender and age. The data is stated per 29 February 2020.

### Sick leave

Sick leave is calculated as follows: Absence in %: ((Number of hours absent)/(number of possible work hours)) x 100. The data does not include child sick leave.

### Lost Time Injuries

Terma measures Lost Time Injury Frequency Rate (LTIFR) as work-related incidents per 1 million working hours resulting in work-related illness causing absence from work. The LTIFR is calculated as follows: ((absence in hours)/(total hours worked in accounting period)) x 1,000,000.

### Gender diversity in management

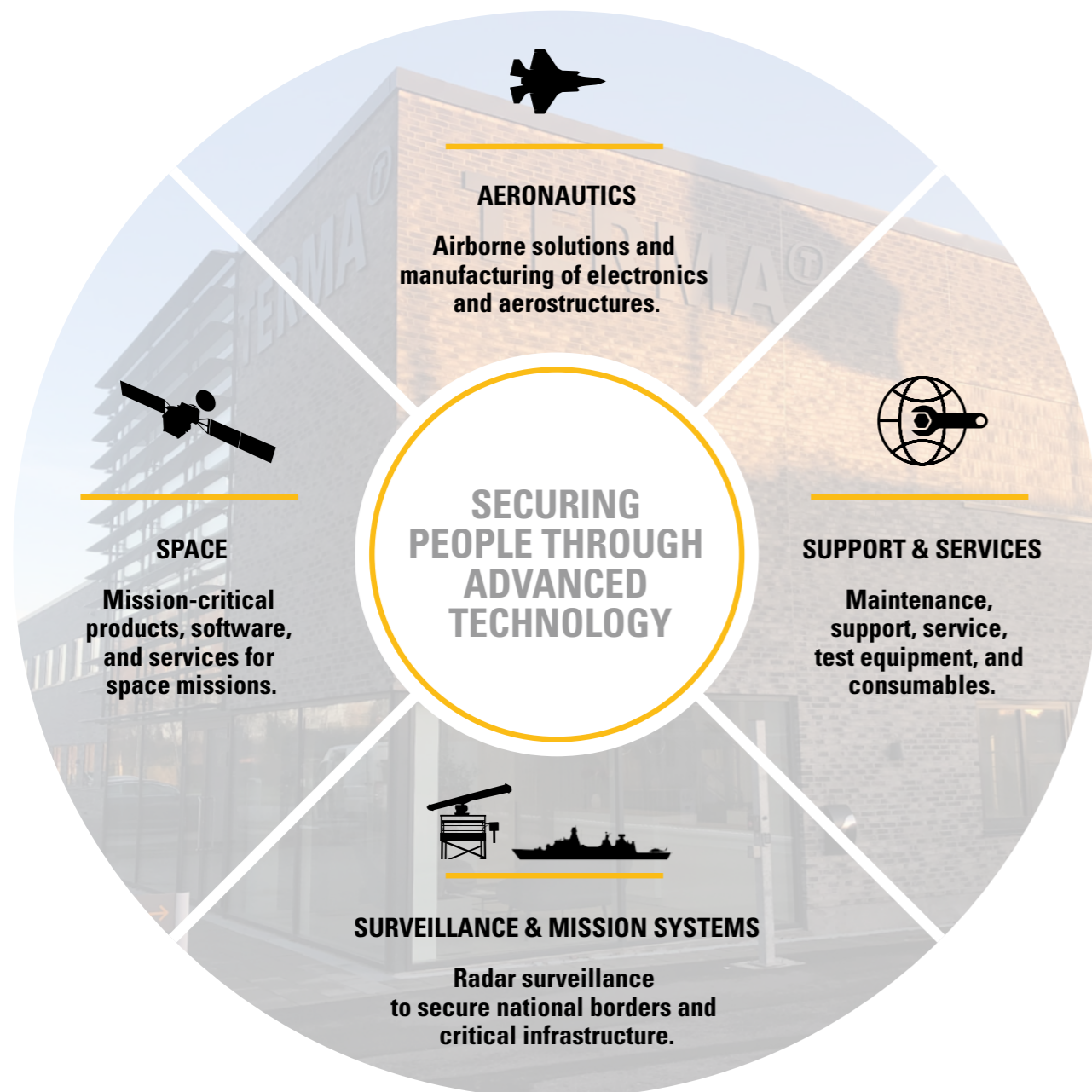
Covers people managers with regular staff excl. students and consultants and is calculated as follows: ((Count of female managers)/(total count of managers)) x 100.

### Reporting channels

Terma's two reporting channels, *Ethics Line* and *Tell us your concerns*, are hosted by an external third party Got Ethics A/S. They do not have access to any of the data but merely hosts the channels. The Group Head of CSR and Compliance is the only one with access to the data in both systems and extracts statistical data regarding the number of reported cases and their topics for the CSR report.

# Our Business Model

- 9 COUNTRIES ON 3 CONTINENTS
- 1639 EMPLOYEES
- OWNED BY THE THOMAS B. THRIGE FOUNDATION
- OPERATING IN THE AEROSPACE, DEFENSE, AND SECURITY SECTORS



# Developing Terma's new CSR Strategy

In August 2019, Terma's Executive Management and CSR Board participated in a full day materiality assessment workshop which purpose was to define the focus areas of Terma's upcoming CSR strategy.

The development of the strategy was divided into 4 distinct phases: research, materiality assessment, action plans, and implementation.

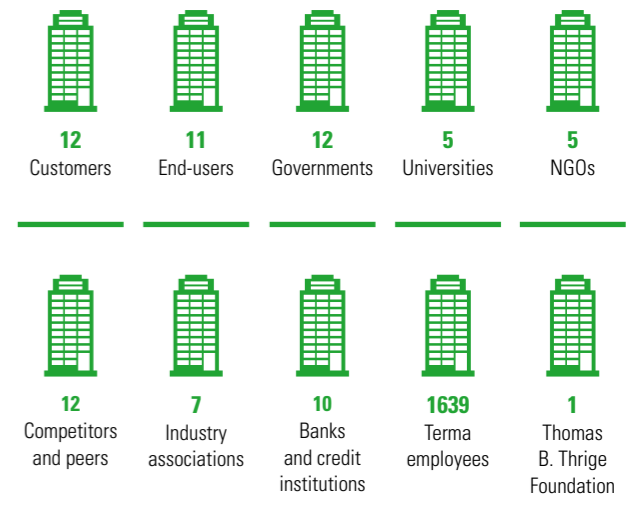
## 1. Research

The first step in all strategy planning is research. It is vital that we understand who our stakeholders are, what they expect of us, what the main CSR trends are, and what the issues are that could create opportunities or risks to our business.

Therefore, through a triangulation of data collected from the general CSR discourse, preliminary stakeholder desktop research, as well as key CSR topics presented by members of the CSR Board as important to their business area, a list of 30 relevant CSR topics emerged. These 30 CSR topics were then prioritized, resulting in 18 topics being chosen for our materiality assessment workshop.

This led to an extensive research period, where stakeholders within 10 stakeholder groups were analyzed. The results of the research were translated into topic briefs describing the key expectations for each stakeholder group and the impact on our business for each of the 18 CSR topics. The topic brief would be the foundation for the discussions at the materiality workshop.

## 10 STAKEHOLDER GROUPS



Anti-Corruption	Circular Economy	Climate Change	Community Engagement	Diversity	Employee Health & Mental Well-being
Employee Safety	Energy & Resource Optimization	Hazardous Chemicals	Human Rights	Partnerships – Which Create Shared Value	Recycling & Waste Management
Responsible Lobbying	Responsible Sourcing	Responsible Tax	Responsible Supply Chain Management	Sustainable Development Goals	Water

The 18 CSR topic chosen to be part of the materiality assessment workshop.



**2. Materiality assessment**

The purpose of the workshop was to determine the materiality of each topic and define which topics were the most material ones for Terma and our stakeholders. The most material topics would become the focus areas of our strategy and an ambition level would be given for each of them.

To structure the workshop, a physical materiality assessment board was developed, and the participants were asked to assess the materiality of each topic and place them on the board. Each topic was discussed thoroughly, and by the end of the workshop, there were 6 topics that were deemed the most material ones. These were: Anti-Corruption, Diversity, Employee Health & Mental Well-being, Employee Safety, Human Rights, and Responsible Supply Chain Management. These 6 topics were then classified into 2 ambition levels: compliance and increased focus.

**3. Action plans**

The next step was then to develop action plans for each of the 6 focus areas based on the ambition level chosen for each of these. In close collaboration with relevant departments, activities, and measurable targets were defined for each focus area. The 6 focus areas form the core of our CSR strategy, *Allies in Responsibility*, and guide our work for the coming 3 years.

**4. Implementation**

A strategy is just a hollow statement if it is not implemented properly. Employees need to relate to the strategy and see themselves being able to contribute to its fulfilment. Therefore, a lot of work has gone into creating awareness of the strategy and tailoring the communication to each department.

A global strategy launch was planned for the beginning of our new fiscal year in March 2020 that involved employee engagement. Details of the launch will be described in our next CSR report which covers that period.

**2 AMBITION LEVELS**

C  
O  
M  
P  
L  
I  
A  
N  
C  
E

- Anti-Corruption
- Human Rights
- Responsible Supply Chain Management

I  
N  
C  
R  
E  
A  
S  
E  
D  
  
F  
O  
C  
U  
S

- Employee Safety
- Diversity
- Employee Health & Mental Well-being



# Allies in Responsibility

We are proud to present our new CSR strategy *Allies in Responsibility*. We work actively with Corporate Social Responsibility to ensure that our work is strategic and value-adding. Taking a business-driven approach, we have throughout the year worked to develop an ambitious and suitable strategy.

*Allies in Responsibility* is the formulation of the next 3 years' key corporate social responsibility (CSR) ambitions, action points, and commitments.

**This will ensure that we:**

- Have a solid foundation within CSR and compliance
- Are recognized as a company that invests in human capital
- Are able to attract a diverse workforce

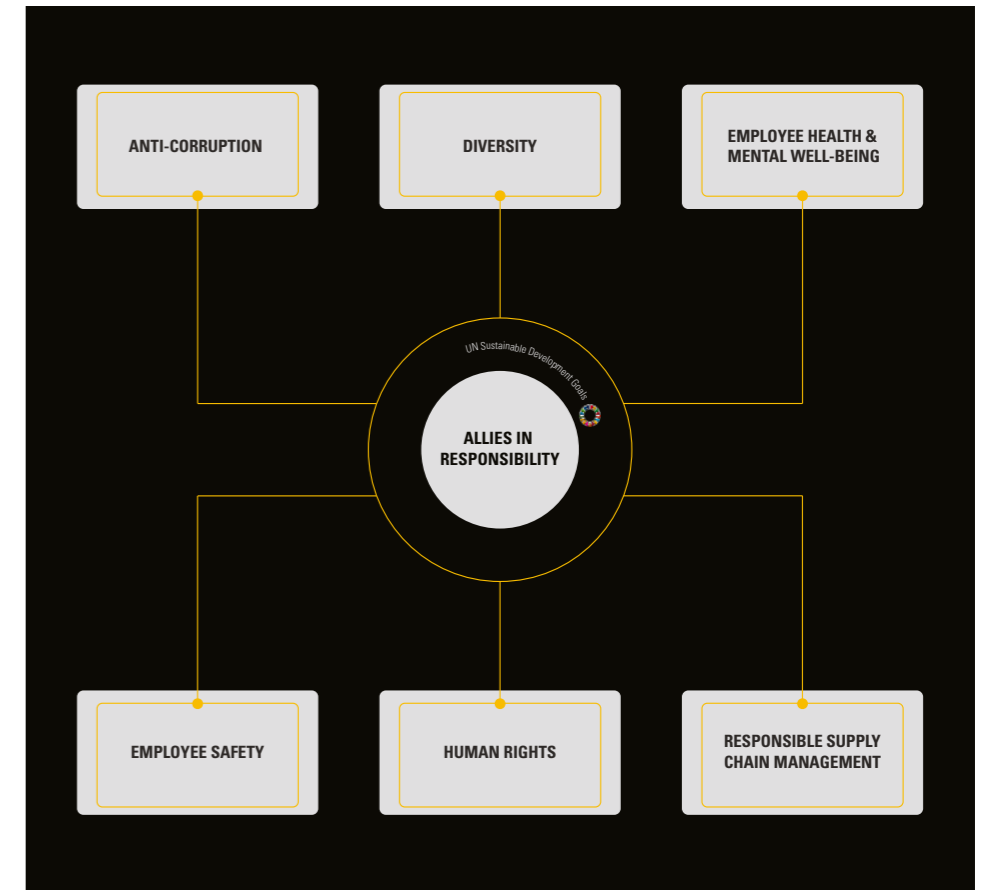
The strategy contains 6 focus areas: Anti-Corruption, Diversity, Employee Health & Mental Well-being, Employee Safety, Human Rights, and Responsible Supply Chain Management.

*Allies in Responsibility* is a means to support the collective discourse and become a trusted partner within the sustainable development agenda. Therefore, all 6 focus areas are carefully aligned with specific UN Sustainable Development Goals (SDGs). This will cement Terma's position as a valued and trusted employer, business partner, and customer.



*We support the UN Sustainable Development Goals*

## Allies in Responsibility strategy model



# Strategy Targets

03/20 - 02/23

### Anti-Corruption

- All employees in high and medium risk job functions have undergone extended anti-corruption training
- Train all Terma's external marketing consultants
- Reach as a minimum Band C in the next publication of Transparency International Defense Anti-Corruption Index

### Diversity

- Establish local targets for diversity
- 5% annual increase in number of female applicants
- 4% annual increase in number of female applicants hired
- 3% annual increase in the female composition of leadership

### Employee Health & Mental Well-being

- Increase employee survey score for Satisfaction & Motivation by 3 points and Immediate Manager by 2 points
- Develop additional leadership courses for all leadership levels
- Train all managers within well-being and stress management
- Reduce female sick leave absence to maximum 4.2%

### Employee Safety

- Reach a world class safety level in Terma
- Improve safety culture and behavioral safety to a high performing "interdependent" safety culture
- Secure sustainable improvements by implementing a new Safety Management Framework (Terma Safety Excellence)
- Decrease Lost Time Injuries Frequency Rate (LTIFR) by 50%

### Human Rights

- Conduct human rights impact assessments
- Organize global human rights awareness campaigns

### Responsible Supply Chain Management

- All active Terma suppliers have undergone our responsible supply chain management due diligence process



# Anti-Corruption

Anti-Corruption is one of the 6 focus areas of Terma's new 3-year CSR Strategy *Allies in Responsibility*. A strong and solid compliance culture and mindset is vital to ensure a company's license to operate.

We aim to ensure compliance with international and national anti-corruption legislation.

### Risk assessment and training

In Terma, we take our role in the fight against corruption seriously and see it as an issue where everyone can make a difference. Training and knowledge are vital for employees to make informed and considerate decisions.

Last year, we launched basic anti-corruption training as part of our Code of Conduct training. In relation to our risk profiling of job functions, we decided in the course of this year to prioritize a more thorough approach to risk assessment. As a result, each of Terma's 1639 employees have now been given an anti-corruption risk profile connected to their specific job function.

The assessments were conducted through interviews by our Head of CSR & Compliance with business area managers who together analyzed the specific job function and assessed an appropriate risk profile according to the employee's exposure, interaction with third parties, level of responsibility and influence, as well as specific tasks.

Thereafter, all risk profiles were uploaded to our HR system. The system links the appropriate training to the risk profiles of all employees and allows the compliance function to monitor whether the relevant training has been taken. The risk profiles and types of training are visually depicted in the model below.

### Gifts and hospitality

During the year, we updated our Gift & Hospitality procedure and developed a global uniform registration system to support the procedure.



### The Defense Companies Anti-Corruption Index

Through the past couple of years, we have chosen to focus our efforts on improving our communication and transparency by publicly disclosing our work within anti-corruption. Therefore, we have been looking forward to reading Transparency International Defense and Security's (TI DS) Anti-Corruption Index, scheduled to be published Q3 2019. Unfortunately, TI's final assessment is delayed, but is expected to be ready by mid-2020.

Risk profile	Type of mandatory training	Frequency of training
Low	Employee Code of Conduct	Every 2 years
Medium	Employee Code of Conduct	Every 2 years
	Anti-corruption e-learning	Every year
High	Employee Code of Conduct	Every 2 years
	Anti-corruption e-learning	Every year
	Face-to-face	Every year

The level of anti-corruption training corresponds to each employee's job function risk profile.



### SDGs

Anti-Corruption represents our commitment to reach peace, justice, and strong institutions formulated in the UN Sustainable Development Goal 16

<b>OUR AIM</b>	<ul style="list-style-type: none"> <li>Our aim is to be in compliance with relevant international and national anti-corruption legislation</li> </ul>
<b>MAIN ACTIVITIES</b> FY2020/21	<ul style="list-style-type: none"> <li>Strengthen the Anti-Corruption Compliance Program</li> <li>Update due diligence procedures for Terma's third parties</li> <li>Develop and launch e-learning for medium and high-risk job functions</li> <li>Conduct mandatory anti-corruption training workshops for high-risk employees in all Terma's locations globally</li> <li>Strengthen monitoring and internal control function</li> <li>Strengthen trust in and awareness of <i>Ethics Line</i> and <i>Tell us your concerns</i></li> <li>Develop annual wheel for the Anti-Corruption Compliance Program</li> </ul>
FY2021/22	<ul style="list-style-type: none"> <li>Continue strengthening the Anti-Corruption Compliance Program</li> <li>Continue developing and updating due diligence procedures for Terma's third parties</li> <li>Conduct mandatory anti-corruption training workshops for high-risk employees at all Terma's locations globally</li> <li>Monitoring and internal control</li> </ul>
FY2022/23	<ul style="list-style-type: none"> <li>Annual enterprise risk management on anti-corruption</li> <li>Monitoring and internal control</li> <li>Maintenance of the program and processes</li> </ul>
<b>TARGETS</b> FY2020/21	<ul style="list-style-type: none"> <li>All employees in high and medium risk job functions have undergone extended anti-corruption training</li> <li>Train all Terma's external marketing consultants</li> <li>Reach as a minimum Band C in the next publication of Transparency International Defense Anti-Corruption Index</li> </ul>



# Diversity

We are expanding, and diversity is a key enabler for our globalization journey. Therefore, Diversity was chosen as one of the 6 focus areas of Terma's CSR strategy *Allies in Responsibility*.

## High performing teams

Diverse teams perform better and are more innovative. They possess knowledge about the society they are part of. When entering into new markets and with customers, it is important to have an understanding of the values and business culture belonging to that market. Therefore, it is key to have a diverse workforce that reflects the composition of the various societies Terma is present in.

Diversity encompasses 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 diversity of talents, skills, experience, and abilities.



## Terma's focus

As visually illustrated on the right hand page, we have defined activities and targets for the next 3 years that will help us reach our aim.

**We aim to be an attractive workplace with high performing diverse teams and the ability to attract new diverse talents.**

Diversity varies and can take numerous forms. Therefore, you cannot simply determine that you lack one specific attribute alone in your organization. Each department or location has its own diversity challenge. There is a need to look at the specific team, some might be unbalanced concerning age, while others need more gender or skill diversity. Consequently, the first activity we will focus on is defining local targets for diversity.

Another activity is appointing women ambassadors. We believe this will help attract more female applicants, as the women ambassadors will act as spokespersons and role models.

Moreover, we will strengthen our recruitment training. This means that we will train managers and relevant employees on how to best recruit diverse teams and challenge managers to be more diversity focused.

Finally, we will engage in closer collaboration with initiatives supporting women within the fields of Science, Technology, Engineering and Mathematics (STEM). To ensure a future pool of qualified female talent within the fields of STEM, it is important to support initiatives that motivate women to choose to educate themselves and work within these fields.

## Gender Distribution in Management Levels

Operating in a traditionally male dominated industry, we believe it is even more important for us to continuously attract more women to Terma. This year we have had a slight decrease in the management positions held by women. One of the targets within diversity is to have a 3% annual increase in the female composition of leadership.

	2016/17	2017/18	2018/19	2019/20
Gender distribution in management across the Group	20%	21%	22%	20%

*For Terma A/S the gender distribution in management was 19% for FY2019/20 and for Terma Aerostructures A/S it was 31% for FY2019/20.*

1 out of 4 of our Terma A/S Board members is female, and we will continue to strive to have more gender representation at this level.

Terma Aerostructures A/S' Board of Directors consists of Terma A/S Executive Management. In his capacity as new CEO for Terma A/S, Jes Munk Hansen replaced the former CEO Jens Maaløe during the fiscal year as Chairman of the Board of Directors of Terma Aerostructures A/S. Therefore, the Board of Terma Aerostructures A/S is still comprised of 3 male board members. We aim for one female board member within 2024.



## SDGs

Diversity represents our commitment to reduce inequality formulated in the UN Sustainable Development Goals 5 and 10

<b>OUR AIM</b>	<ul style="list-style-type: none"> <li>Our aim is to be an attractive workplace with high performing diverse teams and the ability to attract new diverse talents</li> </ul>
<b>MAIN ACTIVITIES</b> FY2020/21 - FY2022/23	<ul style="list-style-type: none"> <li>Recruitment training to ensure diversity</li> <li>HR to challenge managers during hires to push for more diversity</li> <li>Define local targets for diversity</li> <li>Specific branding campaigns highlighting the need for and current diversity in Terma</li> <li>Closer cooperation with initiatives supporting women in STEM (Science, Technology, Engineering and Mathematics) areas</li> <li>Encouraging women in Terma to be ambassadors</li> <li>Review compensation and benefits procedure and update to appeal more broadly to a diverse talent pool (paternity leave, relocation, cultural training/integration etc.)</li> <li>Ensure broad appeal in language, pictures, and messages in Employer Branding</li> </ul>
<b>TARGETS</b> FY2020/21 - FY2022/23	<ul style="list-style-type: none"> <li>Establish local targets for diversity</li> <li>5% annual increase in number of female applicants</li> <li>4% annual increase in number of female applicants hired</li> <li>3% annual increase in the female composition of leadership</li> </ul>



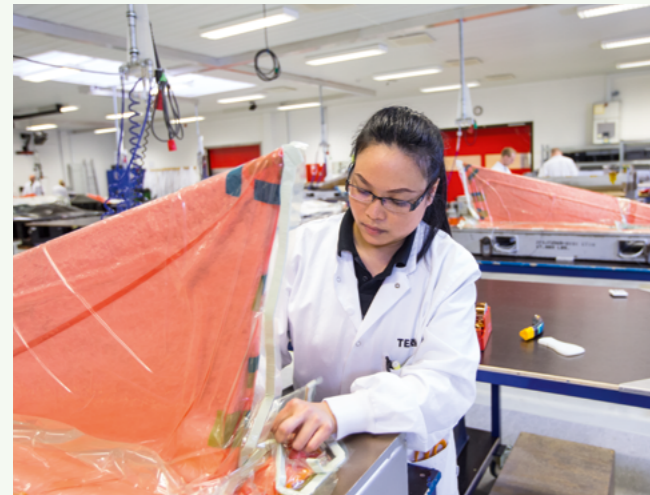
# Employee Health & Mental Well-being

Our employees are the backbone of our organization, and it is our responsibility to take good care of them while they are in our employment. Employee Health and Mental Well-being is therefore one of the 6 focus areas of *Allies in Responsibility*, where we want to increase our efforts.

## Healthy and motivated employees

The health survey that Terma launched last year, showed an overall health score above benchmark, but also pointed to two areas where there is a need to increase focus. The two areas were Leadership and Physical well-being, especially related to pain in the back and shoulder regions.

With involvement of both our collaboration committee (Samarbejdsudvalg) and work environment organization, as well as an external advisor, these results has been used to define which health initiatives are meaningful for us to implement globally over the next 3 years.



We aim to increase and strengthen our employees' health and mental well-being and thereby increase motivation and performance.

To reach our aim, we will focus on both empowering managers and employees as it is essential to focus on both to truly make an impact.

## Empowering managers

The first group we need to empower is managers as they are role models and set the direction and tone at the workplace. High quality leaders are essential for high performing and motivated teams.

We believe that training is one of the key elements to empowering them. We will develop additional leadership training courses covering all leadership levels. We will thereby train our managers within employee well-being, including prevention, assessing, and handling stress.

We will also develop a toolbox for managers with guidance, advice, and best-practice on how to create high performing teams.

## Empowering employees

Employees are the second group we need to empower. It is important that employees can actively contribute to making Terma a good place to work.

We will develop a pixie book with good advice on how to prevent, avoid, and handle stress. Moreover, we will hold annual awareness campaigns on topics such as: good tone at work, stress, collaboration, and respecting diversity of opinions.

Finally, we will implement various health initiatives across the organization. We will for instance establish walk and talk lanes at locations to encourage employees to hold meetings away from the meeting rooms and thereby get some fresh air and exercise.

## Retention rate and sick leave

The measurement of retention rate and sick leave are good indicators of how our employees are doing.

Last year, we highlighted that our female employees' sick leave absence was considerably higher than that of our male employees. We have therefore in our strategy and this focus area defined a target to reduce female sick leave absence to maximum 4.2%.

## 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 %	2.7 %
	Women	5.2 %	4.6 %	5.6 %	4.9 %
2018/19	Men	3.3 %	2.4 %	3.4 %	2.9 %
	Women	6.1 %	5.1 %	4.5 %	5.1 %
2019/20	Men	3.0 %	2.2 %	2.6 %	2.7 %
	Women	3.7 %	4.8 %	4.8 %	4.9 %

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.

The data above shows a slight decrease in overall absence, especially in the group of women below the age of 35. However, we continue to have an above benchmark absence among our female employees in general. We have identified this to mainly be related to our blue-collar workers in our manufacturing facilities. According to benchmarks from the Confederation of Danish Industries, there is a tendency for higher absence levels among female employees working in blue collar functions such as assembly and machine operators. Taking this fact into consideration, we will focus on increasing their well-being and hence reducing absence levels.



## SDGs

Employee Health & Mental Well-being represents our commitment to promote decent work and sustainable economic growth formulated in the UN Sustainable Development Goal 8

<p><b>OUR AIM</b></p>	<ul style="list-style-type: none"> <li>Our aim is to increase and strengthen employees' health and mental well-being and thereby increase motivation and performance</li> </ul>
<p><b>MAIN ACTIVITIES</b> FY2020/21 - FY2022/23</p>	<p><b>Activities should be undertaken on two levels:</b></p> <ul style="list-style-type: none"> <li>Empowering and providing tools to managers</li> <li>Empowering and providing tools to employees</li> </ul> <p><b>Empowering managers</b> <i>Activities to be conducted:</i></p> <ul style="list-style-type: none"> <li>Continue with present leadership training courses</li> <li>Develop additional leadership training courses covering all leadership levels</li> <li>Leadership training focused on creating well-being, including avoidance, assessing, and handling of stress</li> <li>Develop a toolbox for leaders with guidelines, advice, and best practice on how to create high performing stress-free teams</li> </ul> <p><b>Empower employees</b> <i>Activities to be conducted:</i></p> <ul style="list-style-type: none"> <li>Implement various health activities across our locations</li> <li>Annual awareness campaigns on among others: good tone at work, collaboration and respecting diversity of opinions, stress, etc.</li> <li>Develop pixie book with good advice on how to prevent and handle stress</li> <li>Establish walk and talk lanes on all locations</li> </ul>
<p><b>TARGETS</b> FY2020/21 - FY2022/23</p>	<ul style="list-style-type: none"> <li>Increase employee survey score for Satisfaction &amp; Motivation by 3 points and Immediate Manager by 2 points</li> <li>Develop additional leadership courses for all leadership levels</li> <li>Train all managers within well-being and stress management</li> <li>Reduce female sick leave absence to maximum 4.2%</li> </ul>





# Employee Safety

As a responsible company with production facilities, it is our responsibility to ensure a strong safety culture as part of our DNA. Employee Safety is a material issue for Terma and therefore one of the 6 focus areas of *Allies in Responsibility*.

## Bridging status quo with strategy

Based on the positive results achieved through Terma Grenaa's Safety Excellence Program, which we continued in FY2019/20, it was natural that the next step was to spread some of the key lessons, processes, and safety initiatives across Terma globally.

Therefore, a range of activities have been planned over the next 3 years to reach our aim and targets.

## We aim to provide our employees with a safe working environment, free from accidents and injuries.

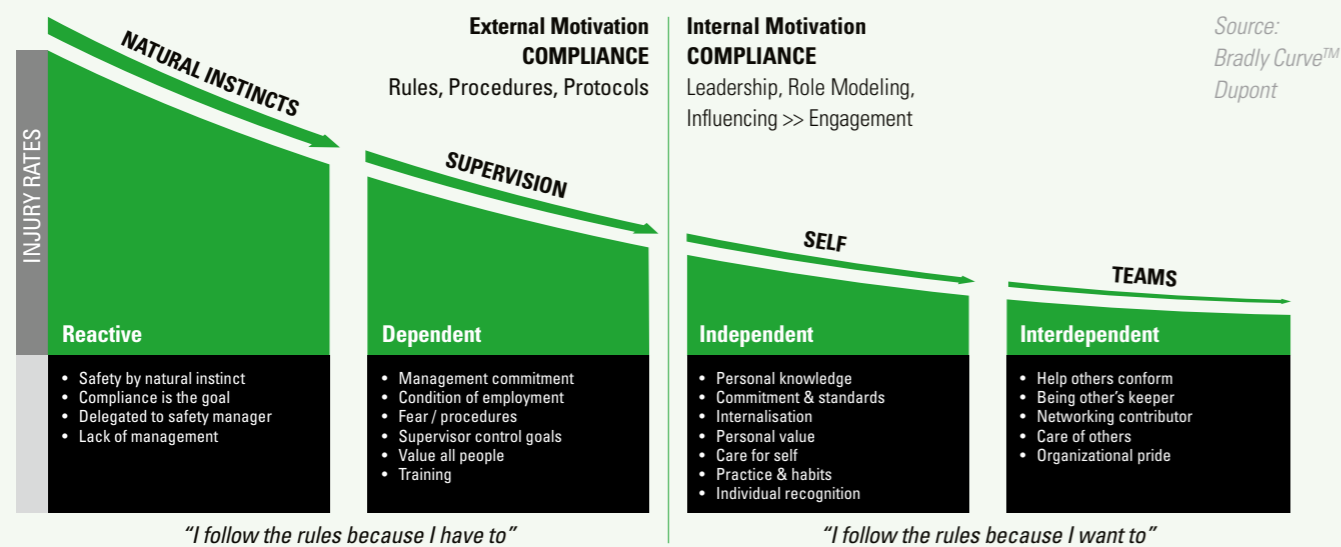
The first activity is to decide on one common approach and one common measurement system for Terma. This will ensure that we can measure our progress regardless of whether we look at our production or offices. Moreover, a common approach also ensures alignment across the organization and that all employees work in the same direction and towards the same goals.

Thereafter, there is a need to establish a governance structure and dedicate resources so there is transparency regarding roles and responsibilities.

Moreover, we need to assess Terma's various sites to determine their current safety level and what is required to reach the ambition set. This will enable us to implement concrete safety initiatives targeted to the safety challenges each location might have.

## Shifting our safety culture

A key element to ensuring safety is a sound safety culture and mindset among managers and employees. To strengthen our safety culture, we have been inspired by the Bradley Curve™ developed by DuPont, depicted below.



We want to move from a dependent culture to an interdependent culture, where it is an intentional choice for both employees and the company to avoid accidents.

Safety culture is a journey where employees' mindset and maturity evolve. In the Dependent phase, external compliance affects our behavior and motivation. We establish rules, procedures, and protocols and follow the rules because we have to. The belief in this phase is that zero accidents are a dream.

When moving towards the interdependent phase, our motivation and efforts go from being compliance-driven towards being driven by internal commitment. We follow the rules because we want to, and we believe that zero accidents are not just a dream, but a choice. Leadership is present and inspires employees to engage and influence behavior.

## Lost Time Injuries

For the first time in our production in Grenaa, we had a whole year without any Lost Time Injuries (LTI), which are injuries with absence per 1 million working hours. This milestone was celebrated and illustrates that our employees' safety culture mindset has shifted.

Throughout the whole of Terma, we globally had 37 working accidents of which 2 accidents resulted in absence from work.

	2015/16	2016/17	2017/18	2018/19	2019/20
Lost Time Injuries (LTI) Frequency Rate	4.5	4.3	7.4	4.5	0.9

LTI Frequency Rate is calculated as follows: (Absence in hours / (total hours worked in accounting period) x 1,000,000.

By developing one transparent measuring system for all Terma, we will be able to document and monitor whether we are succeeding in making safety an integral part of our daily safety behavior in all our locations.



## SDGs

Employee Safety represents our commitment to promote decent work and sustainable economic growth formulated in the UN Sustainable Development Goal 8

<b>OUR AIM</b>	<ul style="list-style-type: none"> <li>Our aim is to provide our employees with a safe working environment, free from accidents and injuries</li> </ul>
<b>MAIN ACTIVITIES</b> FY2020/21 - FY2022/23	<ul style="list-style-type: none"> <li>Establish a governance structure and dedicate resources</li> <li>Assess Terma's various sites to determine their current safety level and what is required to reach the ambition set</li> <li>Implement safety initiatives in the various locations</li> <li>Continuously monitor and evaluate the safety culture and behavior, as well as performance</li> </ul>
<b>TARGETS</b> FY2020/21 - FY2022/23	<ul style="list-style-type: none"> <li>Reach a world class safety level in all Terma</li> <li>Improve safety culture and behavioral safety to a high performing "interdependent" safety culture</li> <li>Secure sustainable improvements by implementing a new Safety Management Framework (Terma Safety Excellence)</li> <li>Decrease Lost Time Injuries Frequency Rate (TLIFR) by 50%</li> </ul>



# Human Rights

Human Rights is one of the 6 focus areas of Terma's new 3-year CSR strategy *Allies in Responsibility*.

Human rights are the basic rights and freedoms that belong to every person in the world, from birth until death. They apply regardless of where you are from, what you believe, or how you choose to live your life. Everyone has 48 basic universal human rights, as defined in the International Bill of Human Rights.

**We aim to be in compliance with the procedural requirements set forth by the UN Guiding Principles.**

### UN Guiding Principles

To comply with the procedural requirements of the UN Guiding Principles (UNGPs), we need to update our current human rights policy, conduct human rights impact assessments, and assess our current remediation systems. All the below elements are included in our roadmap visualized on the right hand page.

### Human rights due diligence

Terma relies on the due diligence performed by the authorities when applying for export licenses.

Export controls are based on international cooperation for the purpose of maintaining peace and security. They are the legal rules, which regulate the export of products and technologies which have or could have a military application, with the purpose of ensuring that such strategic products or technologies are not exported to the wrong users.

Export license decisions are solely made by the Danish authorities based on foreign and security considerations and adherence of international guidelines and export control commitments (EU, UN, OSCE).



The authorities perform a thorough due diligence which may include:

- the specific function of the product,
- potential use of the product,
- end-user country,
- receiving customers, etc.

Moreover, authorization for exports are based on the EU Common Position on arms export controls (2008/944/CFSP) of 8 December 2008, which is a set of minimum requirements that the national export control system of each EU member state must meet. This includes among others:

- Respect for human rights in the country of final destination as well as respect by that country of international humanitarian law
- The internal situation in the country of final destination
- Preservation of regional peace, security and stability

In Denmark, the Danish Business Authority is the authority in charge of the administration of the international export control rules that apply to dual-use products and technology. The Ministry of Justice administers the export control rules in relation to arms. In the process the Ministry of Foreign Affairs can be consulted with assessments of the political situation in the country.

The majority of Terma's products are subject to export control.

In our overall strategy process and business development we ongoingly evaluate our products and markets we serve, and how they fit our vision, mission and values.

In addition, we will, as part of our CSR strategy and our work with the UNGPs, identify and assess human rights impacts that Terma may cause, contribute to or be linked with. Having a diverse product portfolio, Terma operates in various business areas as a global player in the aerospace and defense industry. Consequently, the challenges and opportunities connected to human rights will vary according to the specific area. Therefore, we will conduct human rights impact assessments for each business area.

### Create awareness

During the next 3 years, we will focus on training and awareness to ensure that Terma employees are familiar with their human rights, as they can seem unspecific and intangible. Therefore, as part of our strategy, we have an ambition to translate all 48 human rights into concrete everyday examples relevant for our employees at all locations.

### UK Modern Slavery Act

This is the fourth year we publish our annual statement, 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.



### SDGs

**By respecting human rights, we contribute to fulfilling the UN Sustainable Development Goals as 92% of the 169 targets of the SDGs are linked to human rights**

<p><b>OUR AIM</b></p>	<ul style="list-style-type: none"> <li>Our aim is to be in compliance with the procedural requirements set forth by the UN Guiding Principles</li> </ul>
<p><b>MAIN ACTIVITIES</b> FY2020/21 - FY2021/22</p>	<ul style="list-style-type: none"> <li>Conduct human rights impact assessment and due diligence</li> <li>Update human rights policy in accordance with the requirements of the UNGPs</li> <li>Support training of Global Supply Chain and Quality in human rights as part of the Responsible Supply Chain Management Program</li> <li>Assess whether Terma's grievance mechanisms, such as <i>Ethics Line</i> and <i>Tell us your concerns</i>, are in alignment with the UNGPs</li> <li>Prepare communication material with results of the assessment and findings to be internally and externally communicated</li> <li>Communicate assessment and findings internally and externally</li> </ul>
<p>FY2022/23</p>	<ul style="list-style-type: none"> <li>Develop and organize human rights awareness sessions and campaigns, for instance in connection with UN's official Human Rights Day on 10 December</li> <li>Continue human rights due diligence</li> <li>Process maintenance</li> </ul>
<p><b>TARGETS</b> FY2020/21 - FY2022/23</p>	<ul style="list-style-type: none"> <li>Conduct human rights impact assessments</li> <li>Organize global human rights awareness campaigns</li> </ul>



# Responsible Supply Chain Management



Responsible Supply Chain Management is one of the 6 focus areas of Terma's CSR strategy *Allies in Responsibility*.

Companies' supply chains are increasingly complex and are composed of a multitude of suppliers spread all over the world. This increasing complexity and globalization create increasing risks of negative impacts in companies' supply chains.

At Terma, it is important that we source responsibly and set CSR requirements towards our suppliers.

**We aim to be in compliance with requirements and have robust processes in place to manage our supply chain responsibly.**

We want our suppliers not to employ behaviors that negatively impact anti-corruption, the environment, and human rights.

### Assessment of suppliers

Last year, we hired a specialized third-party consultant to assess the majority of our key suppliers that we use in our production process. The consultant is one of the recognized leaders within this field and one of its core competences is the process of collecting assessments for customers. They have a huge database over suppliers and collected assessments which was one of the main reasons for choosing them as they could tap into the database instead of asking all suppliers again. Even with all their experience and knowledge, they still had difficulties in receiving the responses from the suppliers, who were asked to document their processes within human trafficking and slavery, anti-corruption, and conflict minerals.

When evaluating the process, we concluded that we have the needed setup internally to both reach out and follow-up on collection of assessments, as

we already have the daily contact with our suppliers. But we also acknowledge the resources and time needed, not just to receive the data, but to receive a certain level of data quality for it to be useful in our due diligence work. We have therefore included these experiences and lessons learned in our approach to driving responsible supply chain management and our due diligence efforts, which are being strengthened over the next 3 years as part of our CSR strategy.

### Roadmap

A 3-year roadmap has been developed to enable us to achieve our target: all required active Terma suppliers have undergone our responsible supply chain management due diligence process.

It is comprised of an overall responsible supply chain management program that includes various processes such as defining a risk landscape of our suppliers, strengthening conflict mineral processes, and due diligence mechanisms.

The data received in the assessments gathered by the previously mentioned external third party will also be analyzed to gain knowledge of the type of questions our suppliers have difficulty answering and if there is a need, for instance, for capacity building suppliers and relevant internal stakeholders within specific areas.

Once all processes and procedures are finalized, we need to implement the program, so all relevant internal and external stakeholders are aware of the processes and requirements set. Hence, one important element of the implementation is training for relevant departments and employees.

The development of our responsible supply chain management program is a close collaboration between our Global Supply Chain Department, our Quality Department, and our CSR & Compliance Department. We believe that this collaboration is key to ensuring that we can integrate due diligence mechanisms and various processes into existing work flows and processes, and thereby render the process more effective and intuitive.



## SDGs

Responsible Supply Chain Management represents our commitment to promote decent work and economic growth, ensure sustainable consumption and production patterns, as well as reach peace, justice, and strong institutions formulated in the UN Sustainable Development Goals 8, 12, and 16.

<p><b>OUR AIM</b></p>	<ul style="list-style-type: none"> <li>Our aim is to be in compliance with requirements and have robust processes in place to manage our supply chain responsibly</li> </ul>
<p><b>MAIN ACTIVITIES</b> FY2020/21</p>	<ul style="list-style-type: none"> <li>Develop a Responsible Supply Chain Management Program including processes and due diligence mechanisms. These will be aligned and integrated into existing supplier processes in close collaboration with among others Quality</li> </ul>
<p>FY2021/22</p>	<ul style="list-style-type: none"> <li>Roll-out the Responsible Supply Chain Management Program and supporting processes and initiate internal training and capacity building of the Global Supply Chain and Quality Departments</li> <li>Complete Terma's Conflict Mineral Reporting Template</li> </ul>
<p>FY2022/23</p>	<ul style="list-style-type: none"> <li>Conduct CSR supplier audits</li> <li>Continue conducting supplier due diligence</li> <li>Maintain the processes</li> </ul>
<p><b>TARGETS</b> FY2020/21 - FY2022/23</p>	<ul style="list-style-type: none"> <li>All required active Terma suppliers have undergone our responsible supply chain management due diligence process</li> </ul>



# Environment

Adhering to the UN Sustainable Development Goal 9, *Industry, Innovation, and Infrastructure*, Terma shares the belief that investment in technological innovation is a crucial driver to economic growth and development.

At the same time, we are also aware that growth inevitably takes its toll on planetary well-being. Therefore, as a production company, Terma naturally holds a vital obligation to measure, disclose, manage, and share environmental and climate impacts as well as minimize our environmental and climate footprints.

## Energy

During the year, we have extended surveillance of our energy consumption even further by monitoring bi-meters and established an internal work group concerning energy optimization covering all locations.

Another activity this year was looking at optimization of Terma's facilities by inviting external consultants to identify possibilities for improvement within our three Danish locations Lystrup, Grenaa, and Herlev in collaboration with Terma's Head of Facilities Management. Energy efficiency initiatives, as well as a better working environment, were the main focal points of the assessment.

### Energy efficiency audit

According to EEC's directive 2012/27, audits regarding energy efficiency are mandatory for all companies larger than 250 employees. The audit must be conducted every fourth year as a minimum.

During this financial year, Terma's Danish locations will complete an audit which will highlight key areas where energy optimization could be possible. Based on the audit, a prioritization plan will be made with the improvements and investments we will make over the next years.

### Substitution of hazardous chemicals

This year, we continued the process of substituting hazardous chemicals to minimize risks on human health and environment as required in the EU legislation REACH. We succeeded in removing 7 chemical substances of very high concern, which are subject to authorization under REACH.

Last year, we experienced a leakage of chromate from our treatment bath, which resulted in a spill of liquid to the underground under our treatment facility in Grenaa. Following this incident, we have continued to analyze the groundwater in the area beneath the surface treatment facility on a regular basis.

Since the incident, analyses have demonstrated a general decrease of chromium levels in all 9 ground water wells. The analyses also show that reactive compounds in the water and soil nearly a year after the incident have transformed around 99% of the dangerous hexavalent chromium into non-toxic trivalent chromium.

Since October 2019, a slight increase of total chromium has been registered in some of the monitored wells, most likely caused by higher ground water level during the winter season, but overall the situation is stable due to the mentioned reactive compounds in the soil and groundwater.

Danish environmental authorities are part of the process and support the plan to continue monitoring the spill closely and stay ready with preventive methods, should the percentage of chromium level increase further.

## Data and transparency

Environmental transparency is key for understanding our environmental impact and help reduce overall emissions. Without data and transparency, we would be unaware of climate change and environmental impacts.

By documenting and monitoring Terma's Greenhouse Gas (GHG) emissions, we continuously strengthen our capacity for internal policy and actions. This is the second year we use Greenhouse Gas Protocol (GHG) Scope 1, 2, and 3 to disclose our environmental data.

Defining and collecting data for Scope 3 is challenging, as we are dependent on data from our customers and suppliers. However, we believe that Scope 3 is important as it shows the indirect emissions that incur in our value chain, both upstream and downstream. Therefore, we continuously strive to strengthen our efforts within Scope 3 reporting, which this year has led to reporting on an additional category under scope 3: waste generated in operations.

Greenhouse Gas (GHG) Emissions	2017/18	2018/19	2019/20
<b>Scope 1</b>			
Direct GHG emissions in metric tons of CO <sub>2</sub> equivalent	332	339	220
<b>Scope 2</b>			
Energy indirect GHG emissions in metric tons of CO <sub>2</sub> equivalent	3,064	3,133	3,146
<b>Scope 3</b>			
Other indirect GHG emissions in metric tons of CO <sub>2</sub> equivalent	366	1,480	20,071*

\*The increase in scope 3 compared to the previous years is due to the inclusion of waste in the scope 3 data.

The key areas where we emit the most CO<sub>2</sub> emissions concern our use of electricity in our production facilities in Denmark, as well as the waste generated in our production processes. Moreover, our CO<sub>2</sub> emissions from business travel activities is also a key contributor. To a great extent, this is due to global travel by Terma technicians working to maintain and update our products, i.e. radars.

We continuously look at the data and assess if there are any patterns and areas where we can focus our efforts and provide solutions that would minimize our emissions.

# Reporting Channels

It is important to regularly take our compliance temperature to strengthen compliance culture and mindset. Therefore, in addition to training, monitoring and internal control, the received cases in the reporting channels enable us to assess if there are any processes we need to strengthen or any gaps we need to close.

## Awareness

From November to February, we ran an awareness campaign to strengthen all employees in the five topics of our Employee Code of Conduct: Anti-Corruption & Business Ethics, Human Rights, Security, Environment, and Global Trade Compliance. It has been a year since Terma launched our two global reporting channels: *Ethics Line* and *Tell us your concerns*. Since then, we have witnessed a growing interest in the reporting channels. Therefore, the campaign ended with a feature video that presents each of the reporting channels, their scope, and guidance on when to use these.

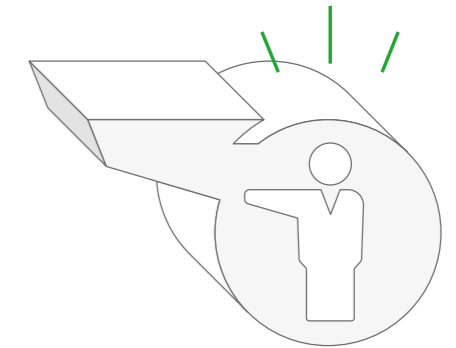
## Reported cases

All cases are confidential, regardless of whether the cases are reported to *Ethics Line* or *Tell us your concerns*. An annual report, limited to the number of reported cases and their topics, is sent to the Boards of Directors and Executive Management.

### Ethics Line

During the financial year 2019/20, Terma has received two whistleblower cases via *Ethics Line*. Only Terma's Ethics Committee and the Chairman of the Terma A/S Board, and when relevant the Chairman of the Terma North

America Board, have access to the reported cases. The Ethics Committee comprises Terma's General Counsel, Head of CSR & Compliance, and Terma North America's General Counsel and Corporate Secretary.



### Tell us your concerns

Terma's internal reporting channel *Tell us your concerns*, solely dedicated to Terma employees, has received 28 cases during the year. The system is for all concerns, incidents, and issues which do not classify to be reported via Terma's *Ethics Line*.

Only the specific investigator and the Head of CSR & Compliance have access to the reported cases which are treated in a confidential and professional manner.



Image: ESA

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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)

