



Corporate Social  
Responsibility Report  
2016/17

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

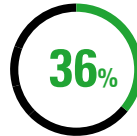


**TERMA**  
at a glance

## Revenue split according to Business Areas

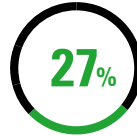
### Command, Control & Sensor Systems

Scalable command and control systems for naval and air defense and protection of critical infrastructure. Radar sensors for small target detection in extreme weather conditions



### Airborne Systems

Advanced and combat proven airborne electronic warfare and 3D-Audio solutions



### Global Support & Services

Maintenance, support, and update of Terma products and solutions



### Space

All phases of a space mission's lifecycle: from feasibility studies, realization, operation, to the exploitation of results



### Aerostructures

Advanced composite aeronautical structures for commercial and military aircraft

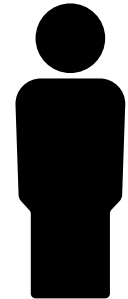


## 1,339 full-time employees worldwide

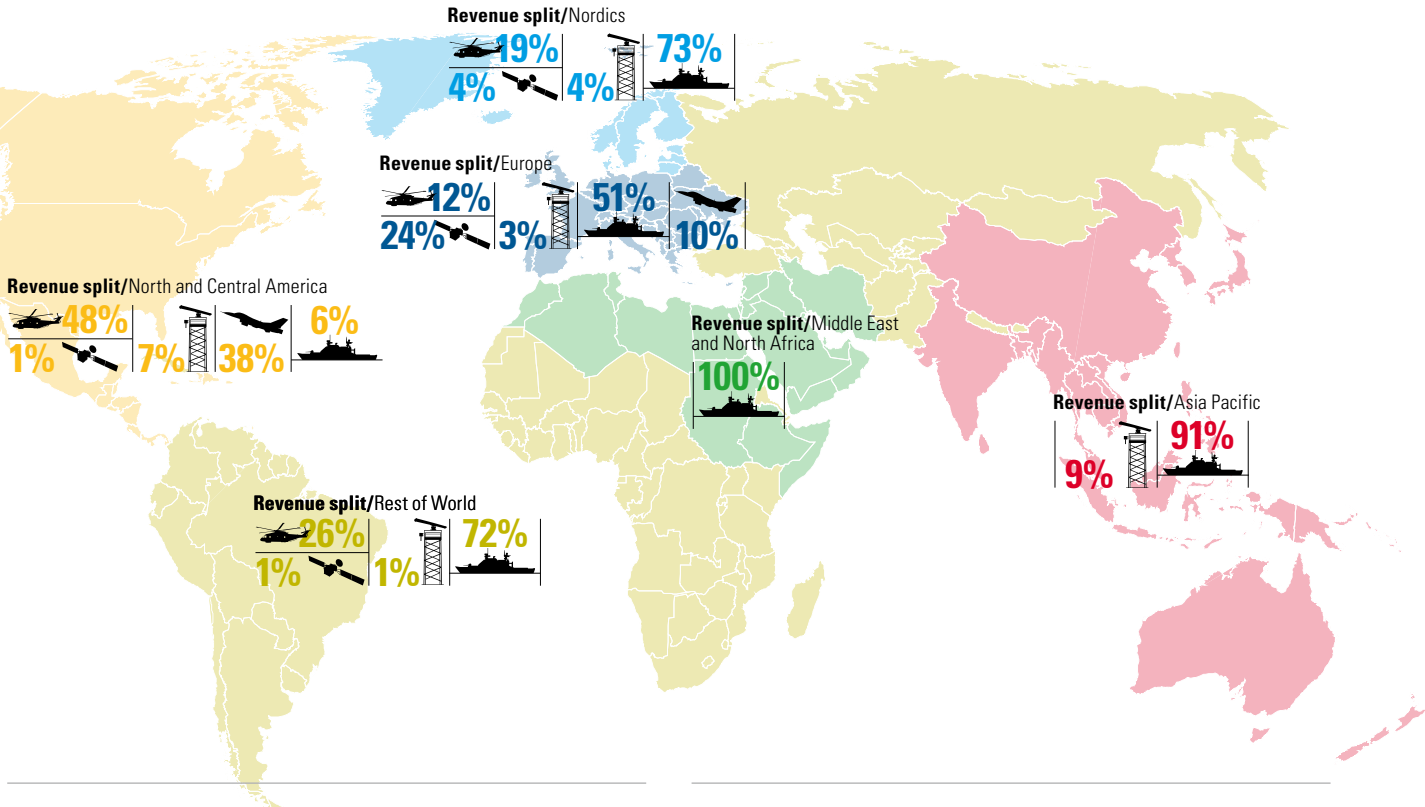
# 27%



# 73%



# Regions and key numbers



## About this report

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This report covers Terma's activities worldwide for the financial year 2016-2017. The report aims at providing a balanced and comprehensive view of our activities and operations.

Furthermore, we have applied the principles of materiality, responsiveness, and completeness.

This report is Terma's second separate CSR report. It is a statutory report on Corporate Social Responsibility pursuant to the Danish Financial Statement Act section 99a and forms an integral part of the Management's Review for the 2016/2017 fiscal year for Terma A/S.

Terma is focusing its Corporate Social Responsibility work on its relations with its customers, suppliers, employees, environment, and communities. You can read more on each of these engagements on the following pages.



# Welcome words from the CEO

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This is the second independent Corporate Social Responsibility (CSR) report, and Terma is yet reaching another milestone on its CSR journey.

In early April, we took one step further in our engagement by signing up to the UN Global Compact (UNGC), and thereby visibly committing to respect its 10 principles. For many years, CSR has been a part of our behavior and of the conscious way we do business. Signing the UNGC translates this long-term engagement into the international best practice.

Terma's ambition of being responsible and ethical will be further reinforced by this milestone as it supports a systematic and strategic approach: the key element to thorough and continuous improvement.

I am proud of these developments, but I also recognize that CSR is a journey. We have many plans yet to come to light and more steps to improve on our existing initiatives. Our main goal is to ensure that our corporate responsibility is soundly embedded in our organization so that it can truly deliver its full potential for our customers, our owners, our business, our employees, and for the communities we operate in.

I am pleased to present this report to you in which I hope you will be able to note the progress and ambitions demonstrated by our company and witness yet another step on our CSR journey.

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**Jens Maaløe**  
President & CEO



# CUSTOMERS AND SUPPLIERS

**Tanja Skøtt Koefoed**

Contract Manager in Contract  
& Risk Management  
*MSc (Business Administration  
and Commercial Law), CBS,  
Denmark*

## Responsible business partner in all our relations

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### Focus on anti-corruption with our agents

**Terma strongly dissociates itself from any kind of bribery and works hard to ensure that the company and our employees step back from bribery or any other kind of corruption; neither as a provider nor as a recipient. Typically, working with agents can bring additional risks, and we have therefore for a long time focused on these business partners. This focus was continued and further expanded in 2016/17.**

Additional material has been made available to our agents and representatives to ensure their continued adherence to our requirements and that their awareness and understanding of Terma's expectations are further strengthened. Furthermore, we have committed to making an external screening of all the agents who work for Terma.

The work has started and will continue in 2017 with the objective of having all current agents screened and representatives re-screened in 2018. All new agents and representatives are screened beforehand.

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**Tone from the top:**  
**In 2016, Terma's Management signed banners making Terma's commitment to anti-corruption evident and tangible for everyone who either visits or works at any of our locations worldwide.**

**Reviewing our anti-corruption compliance**

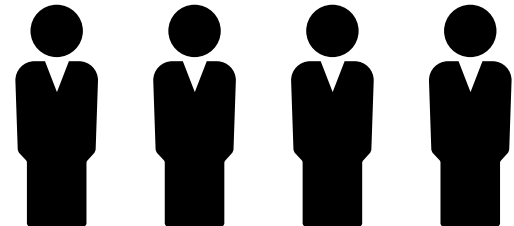
Terma has implemented several anti-corruption procedures and measures. In 2017, a new initiative was implemented to review our existing activities

and systematically analyze where to further improve. Our ambition is to continuously progress and improve on the tools and procedures we have in place. The United Kingdom Bribery Act will be used as one of the main points of reference in this work. The new initiative will start with a comprehensive risk assessment of the business and will be used as a basis for the subsequent risk mitigating activities and compliance program development. We expect to launch the full program in 2018.

**60%** of our agents reached in 2016/17



**100%** in 2017/18



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### **Engaging with our suppliers for a responsible supply chain**

Suppliers are essential in our daily operations, and we want to ensure that our ties with them are strong and ethically sound. We expect our suppliers, and their own supply chain, to adhere to the same high principles and standards as we do in Terma, and it is essential that we have a common understanding of responsible business and ethical standards.

To reach this goal, we implemented and launched a screening process in 2011, initially focusing on our suppliers outside the OECD. Having done that, we moved on to our supplier base within the OECD, and so far, we have screened more than 90% of our global supplier base according to our procurement volume in 2016/17 which is part of our bill of material. All screened suppliers comply with our standards. This process will continue, and we will even raise the bar in the coming years to be sure that we do not overlook important aspects.

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# 90%

of our global  
supplier base  
screened  
in 2016/16



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In addition, all new suppliers are screened in order to verify that they comply with responsible business principles.

### **Way ahead 2017/18: raising the bar**

Taking into account the growing complexity of requirements and of our supply chain, we have decided to revisit our approach to the business ethics compliance assessment of our suppliers. In 2017/18, we will focus on renewing the risk assessment within the supply chain, apply the relevant tools and processes to support this work, and engage with the suppliers on the challenges that will arise.

It is also a natural step after several years to look at the best practice and raise our standard requirements to encourage continuous improvement.

We will also take a more thorough look at the suppliers and conduct in-depth risk identification with regard to responsible business practice.



# Our employees are our most important resource

## Focusing on our employees' well-being

At Terma, we focus on our workforce, and the first priority is keeping our people safe. We also work hard to develop our employees and our workforce in general. A committed and diverse workforce is the key to our success now and in future.

## Lost Time Incident frequency

	2015/16	2016/17
	<b>4.49</b>	<b>4.43</b>



During the fiscal year accumulated, Terma has experienced 0.16 hours of absence due to accidents per 1,000 working hours. In comparison, numbers from the Confederation of Danish Industry show that the industry average is 1.4 hours of absence due to accidents per 1,000 working hours (in 2015 figures). In 2016/17, only our production plant in Grenaa and Lystrup, Denmark, experienced accidents resulting in at least one day of absence.

## Absence due to accidents frequency

	2015/16	2016/17
Confederation of Danish Industry	<b>1.5</b>	<b>1.4</b>
Terma	<b>0.13</b>	<b>0.16</b>



# EMPLOYEES



**Alf Kvist**  
 Skilled Laborer in Tooling,  
 Operations, Aerostructures  
*Trained as Engineering  
 Worker/Tool Maker*

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We pay attention to our employees' health, and we wish to ensure that they are thriving.

In order to minimize the ratio of absence due to sickness, the managers are trained in preventive communication. It is important for us that our managers capture early warning signals and conduct interviews about health and well-being with the employees to ensure that potential complications are identified and resolved before they evolve.

We expect to reduce the absence ratio (3.3%) by 0.25% points within the next year (at the end of 2015/16, this absence ratio was 2.8%).

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### Expected absence ratio reduction within the next year



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### Three career paths to nurture talents

In Terma, we encourage our employees to seek inspiration, training, awareness, and personal development. We work actively with three career paths designed to cater for all categories of employees in order to support our employees' growth and development.

Based on the defined career paths, we have developed a variety of courses and training that will support the employee on his or her journey. Examples range from cultural awareness training to specialized IT and system training.

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### Three career paths





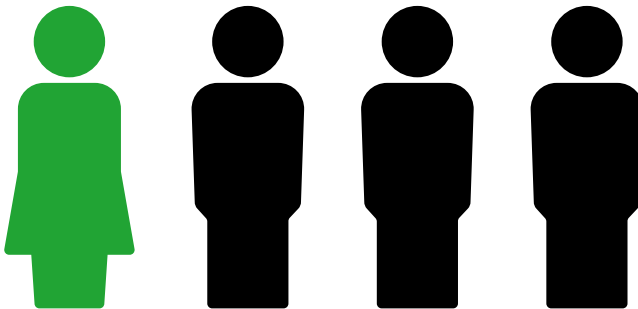
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### A diverse workforce

A diverse workforce brings a variety of perspectives together which in turn provides a better understanding of the business environment we work in and of the stakeholders we cooperate with. It is essential for us to understand our customers, our business environment, and to provide our employees with a rich and inspiring environment. We wish to ensure that our workforce reflects different groups of the society we are a part of, and we make an active effort in hiring candidates to have a diverse selection. Terma puts emphasis on the fact that openness, tolerance, and mutual respect on all levels is an integrated part of our company culture and norms.

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### Gender equality in Board of Directors



- Terma has reached its goal that before 31 March 2017 at least one person of each gender is included in the Board of Directors. One of the four members on the Board of Directors elected by the stockholders at the annual general meeting is female.
- At the end of 2016/17, 19.8% of the Global Management positions were held by females (2015/16: 18.8%). We will continue to focus on this in recruitment situations for management positions by ensuring that at least one of each gender is invited for an interview.
- In 2016/17, we had 13 employees, hired under extraordinary conditions such as reduced working hours, reduced workload, or subsidized employment to compensate for chronic illness.
- Senior employees are a valuable resource, a cornerstone in Terma's culture, and represent a unique competence base. During 2016/17, 15 employees celebrated 25th or 40th anniversary, and we had a total of 26 employees at age 55 or above with reduced hours, to accommodate for individual needs.
- Terma collaborates with the Danish Defense, focusing on helping physically or mentally wounded veterans and their relatives gain job opportunities in Terma. In 2016/17, Terma has welcomed two veterans for an internship.



# COMMUNITY

## **Kristoffer Berthelsen**

Administrator in Helpdesk  
& Support, IT  
*Trained as Data Technician*

## Engaged in developing our communities

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### **Partner in education**

**At Terma, we acknowledge our social responsibility to educate young people in order to secure a skilled and competent workforce for the future. The reinforced strategic collaboration with Aarhus University (AU) and Technical University of Denmark (DTU) has many synergies: PhD agreements, knowledge sharing events, company visits among others and an increased interest in Terma from the students.**

### **Apprentices**

In 2016/17, we had approximately 33 apprentices at our Danish locations, an increase of 57% compared to last year. They were in training within the areas of electronics, IT, catering, administration, and production. Our ambition is to maintain the level of apprentices in Terma, as a minimum.

By creating good learning environments combined with the Terma value to “Learn and improve”, the apprentices programs have resulted in highly skilled employees. Several official recognitions such as receiving honor acknowledgement from the Danish Industry and the Craftmanship Medal have been awarded to Terma’s skilled apprentices every year.

Every second year, Terma apprentices have the possibility to participate in an apprentice study trip. In 2016, a group of 15 apprentices joined the study trip to the United States where they among others visited local Terma offices and some of Terma’s business partners.

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2015

2016

Number of received honors for apprentices' exceptional craftsmanship



Craftmanship Medal/  
Østjyllands medalje fond



Craftmanship Medal/  
Østjyllands medalje fond



ML Prisen/  
Danish Industry

57%

increase in number from last year. Up from 21 to 33 apprentices



2.8%

of all Danish staff are apprentices



## Interview with one of our apprentices

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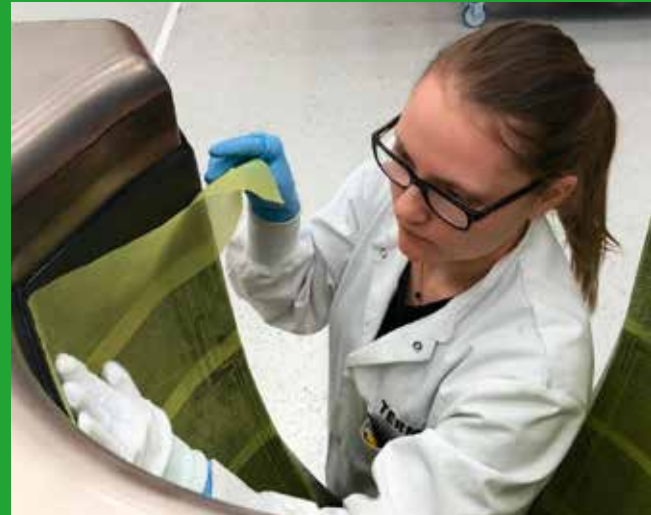


**I get to work on one of the most challenging F-35 projects with complex parts. It's not always easy, but I enjoy a work well done and when you can see the end product looks good, as it should.**



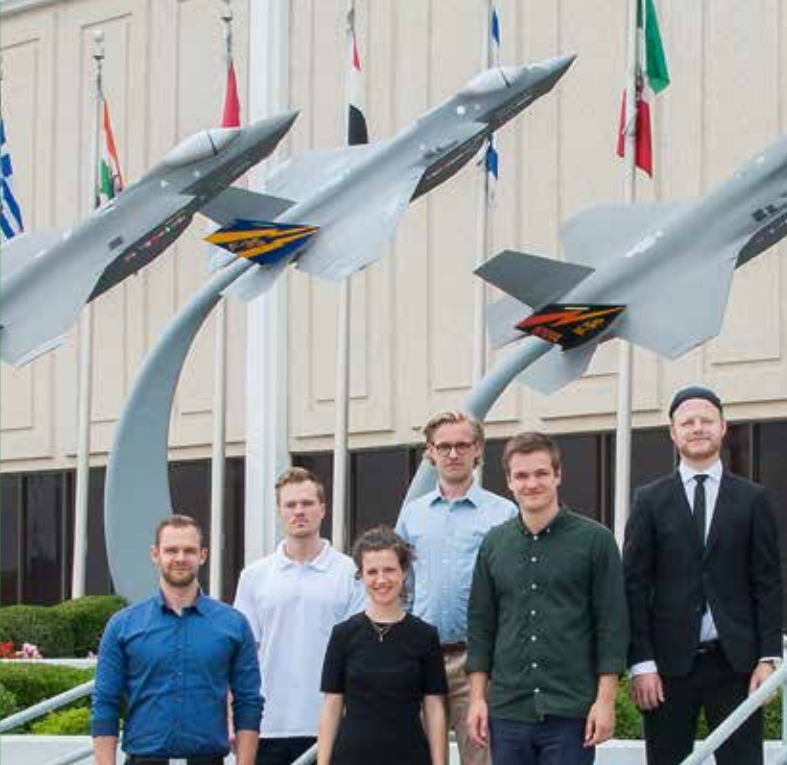
Meet one of our apprentices, Malene Maarslet, who works as a Plastics Engineer Apprentice at the Terma Aerostructures production facility in Grenaa, Denmark. She is engaged in her studies at technical college and will have to take four 5- to 10-weeks study sessions over a period of four years to graduate.

**"It's a good working environment, we are many working here in a good atmosphere, and you really get to know your colleagues."**



Malene started working at Grenaa on 1 January 2016 on Terma Aerostructures' production line where she lays up the composite material that constitutes the parts produced. She is a part of the team producing Gun Pods that are to be installed on two of the three F-35 fighter variants.

**"Here in Terma, we truly get a hands-on experience with composite material during our work."**



### Interns

This year, Terma again supported engineering students from Aarhus University (AU) and the Technical University of Denmark (DTU) to take part in a five-month internship with Lockheed Martin Corporation. An invaluable experience for them and for Terma, which helps set up the internships. It is a great opportunity to witness potential future employees acquire additional engineering expertise.



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### Human rights



Acknowledging and respecting human rights is a natural part of Terma's thinking and responsibility as a company; it guides our behavior and engagement towards our stakeholders.

Terma is committed to respecting fundamental human rights, and we require the same commitment from our business partners. In order to further anchor our commitment, Terma is currently formalizing its human rights policy which will be finalized and rolled out during 2017/18.



# ENVIRONMENT



**Justine Wojkowski Graff**

Compliance Officer in  
Compliance Management  
*MA in International Security,  
Defence, and Business Intelligence,  
Nice University, France*

## Addressing our environmental footprint

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### **Living up to strict environmental requirements**

**Terma has its production activities located in Denmark and is fully compliant with Danish environmental legislation including the regular reporting requirements of its environmental performance to the authorities. Living up to this strict framework has meant that Terma has not yet identified a need to formulate a specific company policy on environment. In addition, Terma has to balance its environmental concerns with the requirements from its customers with product specifications that include technologies and materials that are not always environmentally friendly.**

### **Focusing on energy consumption**

We focus on the energy consumption in new building projects, renovations, choice of new tools, and production equipment. We concentrate our efforts on the Danish locations where we have our production and most employees, hence, the major part of our energy consumption. We have around 60,000 square meters of buildings (office and production).

Our aim is to reduce the emission of CO<sub>2</sub> through continuous reduction of energy use.

During 2016/17, we have changed several ventilation and lighting installations as well as IT equipment, and we have replaced 200 windows with class A windows to help reduce energy and heat consumption.

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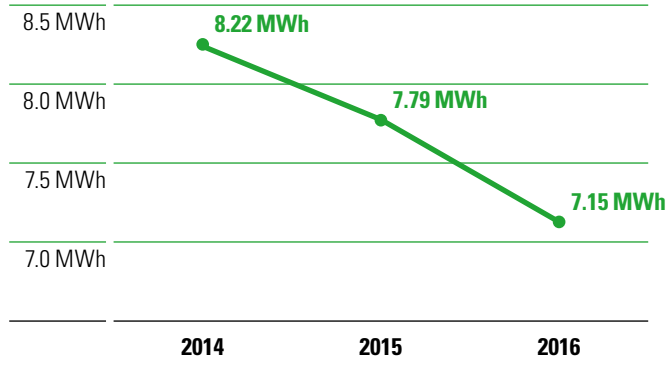




The goal for 2016/2017 was to reach 1,000 MWh. We reached 1,340 MWh (140 MWh coming from the heat consumption and 1,200 MWh on energy consumption).

Despite the savings implemented, our total energy consumption is not reducing as we are growing, both in terms of production and number of employees. Nonetheless, we can see that our efforts are paying off in terms of energy efficiency. Comparing our energy use with our number of employees, we can see a trend showing steady reduction. We will maintain the efforts on energy optimization with the goal of next year to save another 1,000 MWh.

### Energy consumption / Full-Time Employees



Covers Danish locations including production facilities



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## The challenge of substituting chemicals

**Terma is making dedicated efforts to maintaining compliance to the REACH regulation. This regulation from the European Union was adopted to improve the protection of human health and the environment from the risks that can be posed by chemicals.**

REACH consists of lists which limit or restrict use of certain substances. Especially these years, coating and surface treatment industries are affected by the limitations.

We are actively working to find substitutions that can both meet the required technical specifications and REACH requirements.

One of the substances EU is focused on is the reproduction of toxic 1-methyl-2-pyrrolidone. In 2015/2016, we succeeded in removing 1-methyl-2-pyrrolidone from the topcoat ingredients.

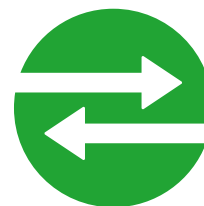
Other toxic surface treatment substances are candidates for limitations by EU, which is a motivation for substitution.

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**For 2016/17, our targets were to:**



- Minimize the content of chromic acid (CrO<sub>3</sub>) in several surface treatment baths: We have identified the requirements for each process, and negotiations with our prime customers for finding both functional and more environmentally friendly solutions are in progress.



- Substitute strontium chromate contained in primers: We are now using environmentally friendly primers in more than 85% of our products, and the remaining are planned for substitution through 2017-2019.



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**For 2017/18, our targets are to:**



The focus will be the continued search for acceptable substitutions for especially anodizing and conversion coatings.

It is a real challenge, not only for us but also for the industry, and that means that we have to work closely with our customers to find the relevant solutions. It is of course of the utmost importance for our employees and the environment.

In order to find further solutions, Terma has from January 2016 been part of the innovation foundation “fast track” project, a coalition of Danish companies and research institutes. One of the main areas of interest is the identification of new materials that will help live up to REACH while maintaining the required properties as well as the quality and safety of our products.

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