

# CSR REPORT 2020/21



# Word from the CEO

COVID-19 turned the world on its head this year. Countries, companies, and communities around the world have been struggling to manage health and economic risks which have arisen due to the pandemic.

In addition, changes in the political landscape and new global risks affecting human rights are emerging, generating new challenges to both Terma's operations and value chains.

Working with human rights is an imperative for Terma and part of our 3-year CSR strategy under the headline *Allies in Responsibility*. In the strategy, we focus on overall human rights, as well as specific areas such as diversity, health and mental well-being, and safety. The strategy aims at ensuring Terma as a diverse, inclusive, and safe workplace with due diligence processes in place. Also, we increasingly require the same of our customers, partners, and suppliers.

The strategy was launched during the spring, with an exhibition containing six CSR "houses" featuring videos and learning materials. Employees not able to attend in person were invited for a digital tour. We were pleased to receive positive feedback from employees who felt the material and "houses" made the strategy much more tangible.

In late spring 2020, Terma caught Danish media attention based on a journalistic investigation made by the online media Danwatch, concerning some of Terma's export to the UAE. The investigation questioned Terma's actions, legal compliance, and our commitment to working with human rights. It was subsequently established that Terma's understanding of our legal obligation was correct.

Our purpose and vision is to secure people through advanced technology. As a company in the defense industry, we have a special obligation to be cognizant about our potential impacts on human rights. We believe open and honest conduct is key and therefore it is important for us to know and show impacts. We recognize potential

adverse impacts as working in this industry means that we both deliver products in times of peace, but also in conflict. That is why human rights was chosen as a focus area when developing our CSR strategy back in 2019.

We have learned a lot the last year, and the lessons learned have led us to reviewing and strengthening internal processes and training, as well as sharpen our decision-making abilities.

Despite the many challenges of 2020, I am proud to share that we have been able to progress on our CSR work and strategies. In this report, you can read how each of the focus areas are progressing and what activities we have undertaken to reach our targets.

Despite national lockdowns and restrictions due to COVID-19, critical parts of Terma's workforce had to conduct their work on location e.g. in the factories. It has been a collective effort to protect these colleagues, and I want to stress my recognition for all employees who have shown extraordinary flexibility and team spirit.

It truly takes a global team to develop and grow a company, and our employees play a key role in ensuring that we grow responsibly and economically. Therefore, despite the many challenges we had in 2020, it has been a good year for Terma. It is impossible to predict what the aftermath of COVID-19 will bring, but I am confident that Terma has the workforce, strategies and will to be a valuable contributor to society.

I look forward to sharing our progress as we continue our journey.



**Jes Munk Hansen**  
CEO and President



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Image: Lockheed Martin Aeronautics

# Our Business Model

- Operating in the Aerospace, Defense, and Security sectors
- Facilities in 11 countries on 3 continents
- 1752 employees
- Owned by the Thomas B. Thrige Foundation





# Accounting Policies

This Corporate Social Responsibility (CSR) report encompasses Terma's CSR efforts in all our locations in Denmark, the U.S., the Netherlands, Germany, Belgium, France, Singapore, the UAE, India, and Indonesia. The data in this report covers the financial year from the 1 March 2020 till 28 February 2021.

In accordance with sections §99a and §99b of the Danish Financial Statements Act, the report represents our statements on CSR and underrepresented 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.

COMMUNICATION  
ON PROGRESS



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

We welcome feedback on its contents.

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

This year, the International Energy Agency Emission Factors (2020) and DEFRA GHG Conversion Factors (2020) were used to calculate our CO<sub>2</sub> emissions. 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 diesel from company-owned cars and generation of heating. These are calculated using International Energy Agency Emission Factors (2020). The emission factor used for natural gas which covers generation of heating is 230.3 g CO<sub>2</sub>/kWh and the emission factor used for diesel oil for company owned cars is 3.2 kg CO<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 (2020). The emission factor used for Denmark is 101.1 g CO<sub>2</sub>/kWh for electricity and 102.6 g CO<sub>2</sub>/kWh for heating. The emission factor used for electricity in Germany is 349.9 g CO<sub>2</sub>/kWh, 721.4 g CO<sub>2</sub>/kWh for India, and 382.8 g CO<sub>2</sub>/kWh for Singapore. For these three countries heating is part of the rent and therefore not part of the data.

For the rest of Terma's international offices, Belgium, France, the Netherlands, the UAE, UK, the U.S., and Indonesia, the purchase of electricity, heating, and cooling is part of the rent and therefore not part of the data. As 83% 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 are calculated using the International Energy Agency Emission Factors (2020), where the emission factor for diesel oil is 3.2 kg CO<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 (2020). The data covers our offices in Denmark, Belgium, Germany, France, India, the Netherlands, Singapore, the UK and the U.S.

#### Waste

The data covers emissions from waste disposal from all three Danish locations and is calculated using DEFRA's GHG Conversion Factors (2020). The emission factor used for combusted and closed loop commercial and industrial waste and wood is 21.3 kg CO<sub>2</sub> and 458.2 kg CO<sub>2</sub> for landfill disposal. The emission factor used for recycled/closed loop electrical and electronic equipment, metal, plastic, paper, and board is 21.3 kg CO<sub>2</sub>. The emission factor used for combusted organic waste is 10.2 kg CO<sub>2</sub>. Finally, the emission factor used for open loop batteries is 21.3 kg 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 28 February 2021.

#### 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.

#### Number of female applicants

Change in number of female applicants is calculated as follows: (Number of female applications current year/Number of female applicants last year) - 1.

#### Number of female applicants hired

Change in number of female applicants hired is calculated as follows: (Number of female applicants hired current year/Number of female applicants hired last year) - 1.

#### 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.

#### Training data

Number of employees in total and in percentage who have completed training. The data is stated per 28 February 2021.

#### Reporting channels

Terma's two reporting channels, *Ethics Line* and *Tell us your concerns*, are hosted by an external third party EQS Group AG, formerly known as 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 Terma employee with access to the data in both systems and extracts statistical data regarding number of reported cases for the CSR report.



# ALLIES IN RESPONSIBILITY

TERMA'S CSR STRATEGY 2020/23

# CSR Strategy Launch

In March 2020, we officially launched our CSR Strategy, *Allies in Responsibility*, covering the period 2020-23. For a strategy to truly be embedded in the organization, there is a need to go beyond traditional communication. E-mails and messages on an internal company portal are not enough for employees to relate to a strategy. There is a need to tailor the communication to employees, so they are aware how each of them have a role to play in the successful fulfilment of the strategy and its targets. The strategy should be relatable, tangible, and concise.

Therefore, an unusual launch was planned. Six CSR houses were built and placed in our headquarters in Lystrup, Denmark. Each house represented a focus area of the strategy. Together, the houses made up a CSR landscape inviting all employees on an exhibition where they could learn about our aims, activities, and targets. Employees based in our offices outside Denmark were invited for a digital tour of the exhibition and all received hard-copies of the strategy booklet. Through a mix of videos, visuals, quizzes, and evaluation schemes, the exhibition was curated to encourage employees to engage in the implementation of the strategy.

The feedback was positive. Many employees have suggested new ideas for projects as well as provided feedback to the chosen activities and targets. This engagement has fostered a great ongoing dialogue with our employees.

The plan was to have the houses travel to our other two locations in Denmark, Grenaa and Herlev. The houses were set up in Grenaa mid-March, however due to the COVID-19 pandemic, the exhibition was suspended shortly after. The exhibition re-opened in our location in Herlev in September. Unfortunately, a new wave of the COVID-19 pandemic resulted in the launch of the houses in Grenaa to be postponed to the next fiscal year.

## Allies in Responsibility

*Allies in Responsibility* is the formulation of our key corporate social responsibility (CSR) ambitions, action points, and commitments for 2020-23. The focus areas were chosen by Executive Management and the CSR Board in a materiality assessment workshop held in August 2019.

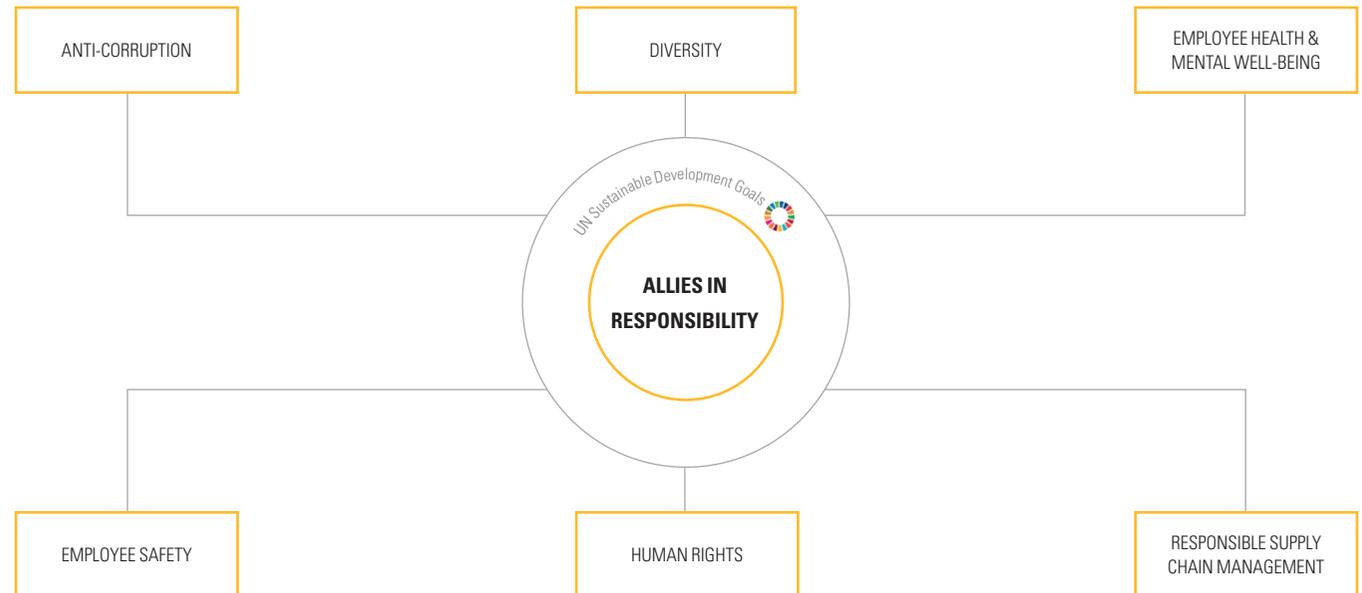
The strategy contains six focus areas: Anti-Corruption, Diversity, Employee Health & Mental Well-Being, Employee Safety, Human Rights, and Responsible Supply Chain Management.

*Allies in Responsibility* is, at the same time, a means to support the collective discourse and become a trusted partner within the sustainable development agenda. Therefore, all six focus areas are carefully aligned with specific UN Sustainable Development Goals.

## CSR Governance

Terma's CSR Board sets the strategic direction for CSR at Terma, works to align business and CSR strategies, as well as embeds CSR in our business operations. The Board is chaired by our President and CEO and is comprised of the various Business Areas and support functions to ensure that the organization is truly represented.

The CSR Board is supported by the CSR Department, as well as focus area owners across the organization that implement and drive the daily CSR initiatives.



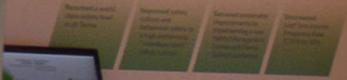


EMPLOYEE SAFETY

Our aim

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

In 3 years, we will have:



NO MENTAL WELLBEING

We will achieve this by empowering managers



ANTI-CORRUPTION

Our aim

"We want to ensure compliance with relevant international and national self-discipline legislation."

In 3 years, we will have:



WELCOME EMPLOYEE SAFETY

WELCOME MENTAL WELLBEING

WELCOME ANTI-CORRUPTION

# Strategy Performance FY2020/21

Below is an overview of the CSR strategy performance for the first year. The strategy spans over three years. You can read the progress and performance in more detail under each focus area in the report.

## Anti-Corruption

### Activities (Timeline: first strategy year 03/20-02/21)

- ✓ Strengthen the Anti-Corruption Compliance Program
- ✓ Develop annual wheel for the Anti-Corruption Compliance Program
- ✓ Update due diligence procedures for Terma's third parties
- ✓ Develop and launch e-learning for medium and high-risk job functions
- ✓ Strengthen monitoring and internal control function
- ✓ Strengthen trust in and awareness of *Ethics Line* and *Tell us your concerns*
- ⚡ Train external marketing consultants
- ⋯ Conduct mandatory anti-corruption training workshops for high-risk employees in all Terma's locations globally

### Targets (Timeline: first strategy year 03/20-02/21)

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

## Diversity

### Activities (Timeline: full strategy period 03/20-02/23)

- ✓ Recruitment training to ensure diversity HR to challenge managers during hires to push for more diversity
- ⚡ Define local targets for diversity
- ⚡ Ensure broad appeal in language, pictures, and messages in Employer Branding
- ⚡ Specific branding campaigns highlighting the need for and current diversity in Terma
- ⋯ Closer cooperation with initiatives supporting women in STEM (Science, Technology, Engineering and Mathematics)
- ⋯ Encouraging women in Terma to be ambassadors
- ⋯ Review compensation and benefits procedure and update to appeal more broadly to a diverse talent pool

### Targets (Timeline: full strategy period 03/20-02/23)

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

## Employee Health & Mental Well-Being

### Activities (Timeline: full strategy period 03/20-02/23)

- ✓ Develop additional leadership training courses covering all leadership levels
- ✓ Leadership training focused on creating well-being, including avoidance, assessing, and handling of stress
- ✓ Develop e-learning with good advice on how to prevent and handle stress
- ⚡ Continue with present leadership training courses
- ⚡ Develop a toolbox for leaders with guidelines, advice, and best practice on how to create high performing stress-free teams
- ⚡ Annual awareness campaigns on: good tone at work, collaboration and respecting diversity of opinions, stress, etc.
- ⋯ Implement various health activities across our locations
- ⋯ Establish walk and talk lanes on all locations

### Targets (Timeline: full strategy period 03/20-02/23)

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

### Activities

✔ Completed   ⏸ In progress   ⋮ Not started

### Targets

✔ Completed   ⏸ In progress   ✖ Not reached

## Employee Safety

### Activities (Timeline: full strategy period 03/20-02/23)

- ⏸ Establish a governance structure and dedicate resources
- ⏸ Assess Terma's various sites to determine their current safety level and what is required to reach the ambition set
- ⏸ Continuously monitor and evaluate the safety culture and behavior, as well as performance
- ⋮ Implement safety initiatives in the various locations

### Targets (Timeline: full strategy period 03/20-02/23)

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

## Human Rights

### Activities (Timeline: full strategy period 03/20-02/23)

- ✔ Conduct human rights impact assessment and due diligence
- ✔ Update human rights policy in accordance with the requirements of the UNGPs
- ✔ Prepare communication material with results of the assessment and findings to be internally and externally communicated
- ⏸ Assess whether Terma's grievance mechanisms, such as Ethics Line and Tell us your concerns, are in alignment with the UNGPs
- ⋮ Train relevant departments in human rights
- ⋮ Communicate assessment and findings internally and externally

### Targets (Timeline: full strategy period 03/20-02/23)

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

## Responsible Supply Chain Management

### Activities (Timeline: full strategy period 03/20-02/23)

- ✔ 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.

### Targets (Timeline: full strategy period 03/20-02/23)

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

## FOCUS AREA

# Anti-Corruption

In the first year of the strategy, significant resources and efforts were invested to meet the established activities and targets.

### Training

In June 2020, we launched an e-learning for employees with a medium- and high-risk job function. The e-learning consisted of small videos, each one depicting a scenario related to a specific corruption form including bribery, facilitation payments, kickbacks, fraud, embezzlement, conflict of interest, and extortion. By reviewing all the various corruption forms, employees are better equipped to distinguish among the forms, as well as be guided on how to handle various dilemmas.

For employees with a high-risk job function, the e-learning will be supplemented by in-person anti-corruption workshops. Unfortunately, due to the COVID-19 pandemic, the workshops were postponed. The high-risk employees will complete the in-person training workshops during the coming financial year.

Moreover, we launched a mandatory anti-corruption e-learning for our global marketing consultants. It was launched at the end of the financial year, where 36% of our marketing consultants managed to complete the training by the end of the financial year. The remaining consultants will complete the training in the beginning of the new financial year.

Finally, the **Employee Code of Conduct** e-learning was updated since its first launch two years ago. The revised training was launched to all employees in January 2021 along with an updated Employee Code of Conduct brochure. This training is the basic training for all employees, as depicted in the model to the right.

### Anti-corruption training completed by employees 2020/21



Type of mandatory training	LOW Risk profile	MEDIUM Risk profile	HIGH Risk profile	Frequency
Employee Code of Conduct e-learning	✓	✓	✓	Every 2 years
Anti-Corruption e-learning		✓	✓	Every year
In-person workshop			✓	Every year

*The level of anti-corruption training corresponds to each employee's job function risk profile. The training percentage for employees with a high risk profile covers this year the two trainings Employee Code of Conduct and Anti-Corruption, as the in-person training will be implemented next financial year.*

### Due diligence

During the year, a great deal of effort has been invested to updating and strengthening our third-party due diligence process. Close collaboration among several departments across the organization has resulted in a improved process which is currently being finalized before implementation throughout the organization this summer. One of the elements was to convert our Supplier Code of Conduct to a **Business Relationship Code of Conduct** targeting our third parties and aligning the content with global standards such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines.

### Internal control and monitoring

For an anti-corruption compliance program to remain effective and robust, continuous monitoring of processes, behaviors, and actions is needed.

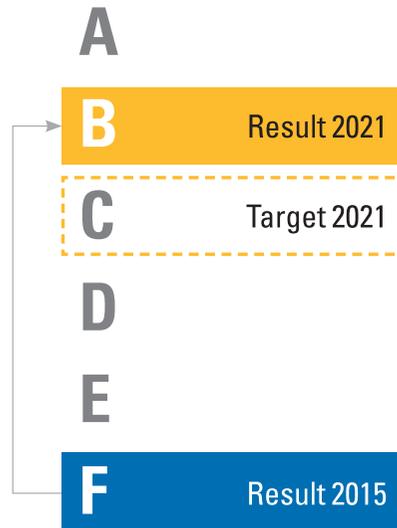
Executive Management receives a monthly status and report on anti-corruption compliance, which is sent to the Board of Directors on a quarterly basis. The overview is a good indicator of the compliance temperature in the organization and enables us to target our efforts where needed.

Moreover, we have developed an annual anti-corruption wheel which gives an overview of the various tasks performed during the year.

### The Defense Companies Anti-Corruption Index

Transparency International Defence & Security (TI DS) publishes the Defence Companies Anti-Corruption Index which sets standards for accountability, transparency, and anti-corruption programs. The score given to each company is based on publicly available information within predefined categories, such as but not limited to, leadership, internal controls, offsets, third parties, and supply chain management.

### Defense Companies Anti-Corruption Index score



Our last assessment in 2015, unfortunately ranked us at the bottom band, Band F, where Band A is the highest. This score has helped us emphasize internally the importance of publicly disclosing all the good work we do within anti-corruption. Our stakeholders are interested in knowing what we do and how we work with anti-corruption. Therefore, we chose to focus on increasing the communication of our anti-corruption efforts on our website and in our reports. Moreover, we decided to set a target of reaching as a minimum Band C in the next publication of Transparency's Index. Transparency International published their ranking in the beginning of 2021 where they ranked us in Band B. 134 of the world's leading defense companies across 38 countries were ranked, where 2 companies received Band A and 14 companies received Band B. We are very pleased with this result and our progress, and we will continue to focus on fighting corruption and working proactively with anti-corruption, as well as strive for transparency and accountability in all of our CSR work.

### NEXT YEAR'S ACTIVITIES:

-  **Maintain Anti-Corruption Compliance Program**
-  **Continue strengthening due diligence procedures**
-  **Conduct in-person training workshops**
-  **Monitor and internal control**

## FOCUS AREA

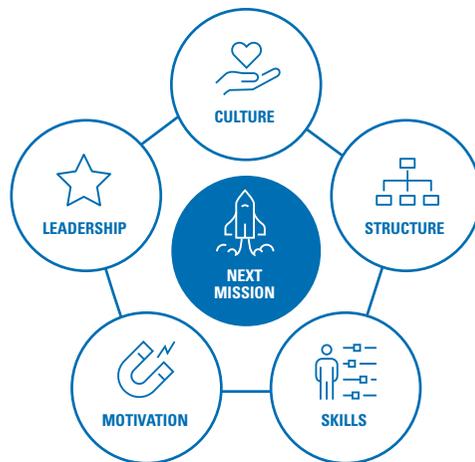
# Diversity

We aim to be an attractive workplace with high performing diverse teams and the ability to attract new diverse talents. This financial year, despite COVID-19 challenges, we were able to make progress within this focus area.

### Definition of local targets

The HR Department is currently developing a process for organizational review. The main purpose is to ensure that each business area has the right mix of people, positions and skills to support Terma's next mission and strategy.

The review is divided into five elements – one of which is dedicated to culture and encompassing both behavior and diversity. All Business Area Managers will be required annually to report on status, goals, and gaps for each of these elements through a data driven process. The gap analysis will provide an overview of which diversity attributes are lacking in a business area and which actions they will be tracking to increase diversity.



Terma's Organizational Review framework.

Several pilots will be conducted in the beginning of 2021. Once the feedback from the tests has been incorporated in the process, all Business Area Managers will be required to complete the organizational review process by fall 2022.

### Employer branding

Our employer branding strategy is an extension of Terma's overall strategy. Its aim is to expand Terma's brand to appeal to a broad spectrum of talent and thereby be able to attract key specialists to support the organizational development going forward.

In April 2021, Terma will launch a new website led by the Marketing Department. The Department, together with HR, have collaborated on developing visual content to ensure a broad appeal in language, pictures, and messages. For instance, testimonial videos showcasing different employees' narration about their work life in Terma will be added to the website.

### Compensation and benefits

The HR Department also began the process of reviewing Terma's compensation and benefits procedure with the goal of appealing to a talent pool with diverse attributes. The initial step was to engage with relevant stakeholders and external advisors regarding a potential expansion of family related insurances in our health coverage. This is an area that differs depending on country of employment. Therefore, our focus is now on trying to close gaps and ensure benefits' equity for all employees. We will continue to focus on this effort going forward.

### An Inclusive Terma for All

In October, CEO and President, Jes Munk Hansen, sent all employees a letter on the importance of inclusion. The letter was intended to segment how Terma as a workplace value diversity and see it as an essential component of a healthy working environment.

### Recruitment Training

At the end of 2020, all HR Business Partners agreed on how to make managers value inclusion and diversity when recruiting employees and management positions. A recruitment e-learning and a new assessment tool was made available for all managers to support objectiveness and diverse decision making when recruiting. This will help ensure that not only more women are hired, but also employees with different background, management levels, competencies, and experience.

We had a target of 5% annual increase in female applicants, which we reached with an actual increase of 16.6%. At Terma, we have changed our practice so that we no longer register the gender of applicants during the application process. Data on increase in female applicants are therefore based on an estimated split, provided by our Applicant Tracking System provider (HR-ON) based on a match between candidate name and an international name list with typical gender names. Deviations can therefore be expected due to lack of precision in data. We have therefore decided to obsolete this target from next year.

Moreover, we had a target of 4% increase in number of female applicants hired. Even though we hired more women this year in absolute numbers than last year, we unfortunately had a decrease of 5.6% female applicants hired this financial year. This is due to an increase in absolute numbers of job positions, where a higher percentage of these were awarded to men.

The two above targets and data cover applications at our European locations, as these make use of the Applicant Tracking System Provider (HR-ON) in the recruitment process. Our non-European locations mainly use external recruiters where we do not gain access to the statistical data regarding applicants.

### Gender Distribution in Management Levels

Acknowledging that we operate in industries traditionally dominated by men, we have included a target for an annual increase of 3% in the female composition of leadership. Unfortunately, we did not reach this target, our gender distribution remained at 20%.

### Gender distribution in management across the Group



*For Terma A/S the gender distribution in management was 20% both for FY2020/21 and FY2019/2020. For Terma Aerostructures A/S it was 21% for FY2020/21, while it was 31% for FY2019/2020, which can be explained by organizational changes leading to a reduction of management positions, where some of these were held by women.*

We will continue to strive toward a more balanced gender representation at the board level. 1 out of 4 of our Terma A/S Board members is female. Terma Aerostructures A/S' Board of Directors consists of Terma A/S Executive Management comprised of 3 male members. Our aim is one female board member within 2024. As no new members were elected for the board in 2020, the target was not met in 2020.

The TNA Board, likewise, recognizes the importance of diversity and will endeavor to identify candidates from diverse backgrounds as new members are recruited for Board appointments.



### NEXT YEAR'S ACTIVITIES:

-  Review policies
-  Encourage women ambassadors
-  Strengthen recruitment training
-  Cooperate with STEM initiatives
-  Develop branding strategies

## FOCUS AREA

# Employee Health & Mental Well-Being

The COVID-19 pandemic has changed how we meet and work together. Thus, this year's effort concerning health and mental well-being has been focused on learning how to manage in this peculiar situation and providing a toolbox to address the new challenges.

### Pulse report

Many Terma employees have been required to work from home due to COVID-19 restrictions. Therefore, to take the pulse on the organizational well-being of all employees, an optional global survey was created in November 2020 to find out how employees had been affected by working from home.

673 employees out of the 1,120 employees whose job-function allows them to work from home answered the survey. The results showed that motivation and effectiveness when working from home is high. However, some issues were also highlighted including that many employees missed the interaction with colleagues and that working from home could challenge employees' work-life balance.

The results have been discussed in management teams to assess future actions on how to handle the situation. In addition, all employees were reminded to take part in the shared responsibility of making an extra effort to reach out to their colleagues.

### Empowering managers

Throughout this financial year Terma's Leadership Training continued for our employees in all locations. The training focuses on equipping managers with tools to execute, relate, and perform – all qualities that should strengthen our managers' capacity to lead in a considerate manner.

A course in Global Mindset has also been offered this year. The course is mandatory for all people managers at all our locations. This has been established to ensure that managers are educated in how

culture influences how we work, as well as becoming aware of personal bias. The training objective is to gain skills to be able to avoid miscommunication, as well as handle misunderstandings and conflicts in a collaborative way.

Finally, to accommodate the findings from the survey, a course on virtual leadership was developed this year. This was prioritized not only because many employees have been working from home, but also to acknowledge that managerial skills are needed to ensure good collaboration across sites, cultures, time, and languages. This course is part of the toolbox for leaders with guidelines, advice, and best practices on how to create high performing diverse teams. The leadership toolbox will continue to be expanded over the coming years.

### Empowering employees

The health activities scheduled to be implemented across locations were postponed due to COVID-19. Instead, focus was shifted to efforts on ensuring well-being across the organization throughout the pandemic.

Therefore, the choice has also been to convert the planned pixie book into an e-learning option for all employees. After careful consideration, it was decided that employees will become better equipped on how to prevent and handle stress through an interactive e-learning rather than through a pixie book. Through the e-learning, we will also obtain a better opportunity for retrieval of statistics on the number of employees who have completed the training.

Finally, all HR Business Partners work continuously with the business leaders to push for good tone at work, collaboration across differences, and respecting diversity of opinions. Terma's employee survey for Satisfaction & Motivation has been postponed. It has been decided to evaluate the survey process in Terma to ensure that the chosen process fits the stated purpose.

### Sick leave

A good measurement of the well-being of Terma's employees is sick leave. One of the strategy's targets is to reduce female sick leave absence to maximum 4.2% by end FY2022/23, as over the past years we have scored above benchmark for absence among our female employees in general. This was identified to be related to our hourly paid employees in our manufacturing facilities. Following benchmarks from the Confederation of Danish Industry, a tendency is prevalent of higher absence levels among these employees.

Unfortunately, we did not reach our target this year. In general, we see a tendency amongst female employees, both hourly and salaried, for increased absence compared to the same male population of employees. For female salaried employees we are however on par with the benchmark from the Danish Confederation of Industry. For female hourly paid employees with the type of manufacturing that Terma performs, we are significantly above the benchmark from the Danish Confederation of Industry. Even though COVID-19 has impacted sick leave for our female hourly paid employees, it is not the sole reason and therefore further assessments are needed to understand the root causes of the high level of sick leave.

### Sick leave absence by gender and age

		Below 35	35-55	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>
2019/20	Men	3.0 %	2.2 %	2.6 %	<b>2.7 %</b>
	Women	4.5 %	4.6 %	5.2 %	<b>4.9 %</b>
2020/21	Men	2.9 %	2.1 %	2.3 %	<b>2.3 %</b>
	Women	5.0 %	6.3 %	6.7 %	<b>6.2 %</b>

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



## NEXT YEAR'S ACTIVITIES:



Continue expanding toolbox



Continue developing training



Implement health activities



Create awareness campaigns



Establish walk and talk lanes

## FOCUS AREA

# Employee Safety

Safety has always been a key priority for Terma, and this year's global health crisis has further underscored the importance of employee safety and well-being.

### Self-assessments

To ensure a sound safety culture and mindset among managers and employees, one common approach and measuring system is needed. A measuring system was developed in the beginning of the year with inspiration drawn from the Bradley Curve™, developed by Dupont and adjusted to Terma's needs. The system will enable us to measure the development of our safety culture.

The measuring system consists of a self-assessment tool containing 12 parameters covering leadership, structure, processes, and actions. Within each parameter, 5 levels are described, and the department assesses, based on the description of these levels, which level best represents their current state. 5 is the highest level indicating a safety excellence culture while 0 is the lowest level where great efforts within safety are needed.

After having scored the 12 parameters, the department will be able to assess where they lie on the Bradley Curve™.

At Terma, we aim 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. This means that we need to move from level 2 which represents the dependent culture to level 5 which is the interdependent culture.

The plan was to conduct self-assessments of the Lystrup and Grenaa sites by the end of the financial year and have the two production sites hold workshops together to exchange knowledge and inputs. This was unfortunately affected by the COVID-19 pandemic and its restrictions.

### Self-assessments

#### Leadership

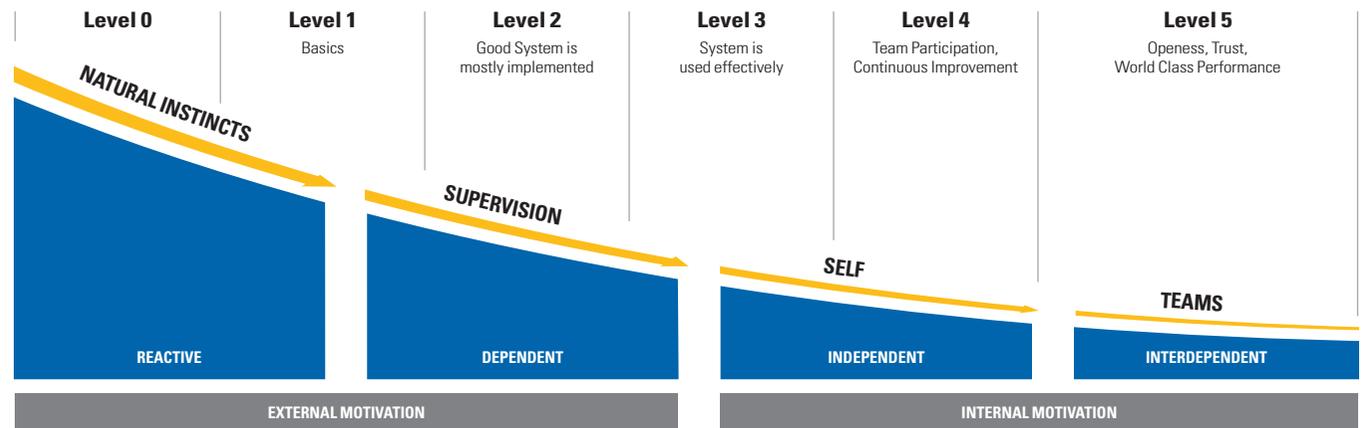
Management commitment	3.3
Policy and principles	3.2
Goals, Objectives & Plans	3.8
Procedures & Performance Standards	3.3

#### Structure

Line management Responsibility	3.3
Safety Personnel	4.8
Integrated Organization Structure	4.0
Motivation & Awareness	2.6

#### Processes & Actions

Incident Investigation	4.1
Observations & Audits	3.3
Effective Communication	4.0
Training & Development	2.0



Bradley Curve™

Given the virus, it was decided to postpone the self-assessments and the workshops until next year. However, to avoid losing momentum and motivation, a self-assessment pilot project in Grenaa was conducted.

**Pilot project**

Two out of the site’s ten Work Environment Groups were randomly selected to conduct a self-assessment using the tool. They went through the 12 parameters, scoring each of these on 5 levels. The two Work Environment Groups scored the current safety level to an average of 3.5 as visually depicted on the left.

The score places the safety culture on the Bradley Curve™ as being independent, a score that was above management’s initial expectations of having a dependent culture. The score indicates where the organization can improve e.g. "Observations and Audits" which scored 3.3. Here is an obvious area to focus on improvements, just like "Training & Development" that with a score of 2.0 should be improved.

These positive results support our strategy target to reach a world class safety level across Terma.

We look forward to conducting the remaining site self-assessments as the pandemic resolves, hopefully next year.

**Safety initiatives**

The findings of the self-assessments will determine which safety initiatives are needed in the various Terma sites. This was initially a task planned for this year. However, the postponement of the self-assessment consequently resulted in the postponement of determining and implementing suited safety initiatives. These will be done next year once the results of the self-assessments are known.

**Monitoring and Evaluation**

Another strategy target is to decrease our Lost Time Injuries Frequency Rate (LTIFR) by 50%. Last financial year, we were proud to state a LTIFR of 0.9. With this rate, we have already decreased substantially from the 4.5 rate in FY2018/19. Thus, it is an ambitious target to reach the aspired 0.45 in 2023. This year, we had a LTIFR of 2.8.

Moreover, throughout the whole of Terma, we globally had 44 working accidents of which 7 accidents resulted in absence from work.

**Lost Time Injuries (LTI) Frequency Rate**



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

In our manufacturing facilities in Grenaa, three departments making up the Metal Flow in Aerostructures Manufacturing and comprising 135 employees had worked 1,000 days without any lost-time injuries.

We constantly monitor and evaluate our performance with safety KPIs such as Lost Time Injuries, accidents, near misses, and safety observations. Obtaining a high number of reported near misses and safety operations is key to avoiding accidents and a low LTIFR. However, analysis has shown that reporting has room for improvement. This will be of focus going forward.

**NEXT YEAR'S ACTIVITIES:**

-  **Establish governance structure**
-  **Conduct location assessments**
-  **Implement safety initiatives**
-  **Measure & evaluate**

## FOCUS AREA

# Human Rights

Respect for human rights is an essential focus area for Terma where we aim to be in compliance with the procedural requirements set forth by the UN Guiding Principles (UNGPs). To achieve our aim and the targets set, we have, during the course of the year, developed a Business Relationship Code of Conduct, updated our Human Rights Policy and conducted our first human rights impact assessment.

### Business Relationship Code of Conduct

Operating in the Aerospace, Defense, and Security sectors, we recognize that we may become part of impacts on human rights. We recognize that we may become linked to such impacts through our business relationships. Therefore, we also require our business relationships to adhere to the UNGPs.

In this connection, we have updated our Supplier Code of Conduct into a Business Relationship Code of Conduct which can be read [here](#). It is aligned with internationally agreed standards for responsible business conduct, the UNGPs and the OECD Guidelines.

### Human Rights Policy

During the year, our human rights policy was updated and aligned with the UNGPs. External expertise was consulted to review the policy to ensure that it fulfilled the procedural requirements of the UNGPs. Moreover, the policy was approved by the Board of Directors. You can read the policy [here](#).

The policy is part of the updated Employee Code of Conduct which was launched in January 2021. All employees received the Code and are trained in all of its elements. Human rights are part of the training where employees, among others, are presented with the 48 human rights as listed in the International Bill of Human Rights.

### Human Rights Impact Assessment

Another activity undertaken this year was to conduct a human rights impact assessment for our three Danish locations, including our headquarters in Lystrup. Our Danish locations constitute 83% of our employees.

The process included identifying risks or potential impacts on all 48 human rights, assessing actions, processes and systems to prevent or mitigate potential impacts, and indicators to measure effectiveness. The impact assessment can be read [here](#).

### Next steps

Next year, we will commence human rights impact assessments for our overseas locations. This will be a close collaboration between the CSR & Compliance Department and relevant stakeholders in the overseas locations as it is important that the assessments are embedded in the locations. This will also ensure that these locations have the knowledge and capacity to update the assessments going forward.

Our current human rights impact assessment (year one) only focuses on potential impacts. As part of establishing our human rights due diligence process, we will revisit our impact assessment annually for the Danish locations and assess and address any actual human rights impacts during the year. Also, we intend to engage our employees, who are potentially impacted stakeholders, by encouraging them to read our assessment and provide for suggestions for improvements in preventing or mitigating impacts.

## Terma and the UAE

Terma delivers products and services both in times of peace and in times of conflict, and along with this comes a special obligation to act responsibly. We are very conscious of this obligation. It is a key focus for us, and it is further emphasized in our vision of *securing people through advanced technology*.

It was, therefore, natural for our CSR Board and Executive Management to prioritize human rights as a focus area for our strategy, Allies in Responsibility, in summer 2019. Targets and activities were set to reach our aim of being in compliance with the procedural requirements set forth by the UN Guiding Principles.

In May 2020, Terma was criticized by the Danish online media Danwatch in connection with sales of certain equipment and spare parts to the United Arab Emirates (UAE). Danwatch questioned Terma's export compliance and commitment to human rights.

The case focused on whether some of our products had been used in relation to the Yemen conflict. It concerned two of our products: navigation radars, SCANTER 2001, delivered during 2011-2016 to the UAE Navy and self-protection equipment delivered March 2018 to IOMAX, USA, for Archangel Border Patrol Aircraft, with the UAE's Air Force as end-user. According to Danwatch, the products had been used by the UAE in connection with the Yemen conflict.

### Due diligence

Danwatch suggested that Terma should have known how the products might be used and the potential for negative impacts on human rights. Moreover, as Denmark had restricted exports of military equipment towards the UAE, there were also questions about whether Danish export control procedures had been followed.

As a consequence of the media coverage the Danish Business Authority initiated an investigation. As the self-protection equipment was a military product and had been exported with all the needed export licenses, it was not part of the investigation.

The investigation therefore centered into the specific circumstances of the delivery of the SCANTER 2001 radar spare-parts. In October, the authority concluded its investigation by transferring the matter to the police for their assessment of the relevance of raising charges against Terma due to Terma's export to UAE of spare parts for the SCANTER 2001 radar; a commercial navigation radar which is neither classified as military nor a control listed dual-use product.

The issue under investigation relates to the legal interpretation of the catch-all provisions of the EU Dual-Use Regulation and after the transfer of the issue to the police, the EU has confirmed that the interpretation applied by Terma is correct. The Danish Business Authority has fully acknowledged the determination delivered by the EU and has adjusted its guidelines accordingly.

We believe that these subsequent legal clarifications and the resulting adjustment in administrative policy have demonstrated that Terma has acted entirely within and in accordance with the law.

Terma takes export control compliance very seriously and complies with applicable export regulations of Denmark and other countries relevant to the products we manufacture and sell.

The media coverage has emphasized the importance in working with human rights and that the decision we made to prioritize human rights as a focus area in 2019, prior to the coverage, was imperative.

We have created awareness and strengthened understanding of human rights across the organization. Moreover, we have revisited relevant procedures and policies, as well as strengthened our due diligence processes.

To retrieve more information, please visit our [website](#).

## NEXT YEAR'S ACTIVITIES:



Continue conducting human rights impact assessments



Train relevant departments



Communicate findings



Create awareness campaign

## FOCUS AREA

# Responsible Supply Chain Management

Within this area, the focus this year was to further develop a Responsible Supply Chain Program. This was done in close collaboration among the Global Supply Chain and Quality Department and the CSR & Compliance Department. Each department brought a set of skills, knowledge, and experience which ensured that the processes in the program were aligned with existing procurement processes. It was vital for us not to create a parallel process but build on existing processes. During the year, we went through three steps.

### Step 1

The first step was to map existing processes, as well as requirements to assess the gaps. Actions based on these gaps were determined, and the following tasks were completed.

All sourcing categories were risk assessed based on the sectors' risks and potential impacts on human rights, the environment, and corruption. The risk of conflict minerals being present in the sourced product was a key element we looked at as conflict minerals are commonly associated with severe human rights impacts. Belonging to the technology sector, a lot of the materials and products we source contain 3TGs: tin, tantalum, tungsten, and gold. Therefore, it was essential for us, as a technology company, to include the risk of conflict minerals in our risk assessment.

Moreover, to supplement these risk assessments, Transparency International's Anti-Corruption Perception Index, as well as the World Bank's list of Fragile and Conflict Affected Situations, were used.

Together, the above assessments, variables, and data created a framework for which we could rate suppliers into low, medium, and high-risk categories. The level of risk category determined which due diligence process they needed to undergo. A visual depiction of this process can be found to the right.

### Step 2

Once the suppliers were placed into risk categories and the due diligence process flow was defined, the supporting material needed to be developed. Our existing supplier code of conduct was replaced by a Business Relationship Code of Conduct aligned with the UN Guiding Principles for Business and Human Rights and the OECD Guidelines. Moreover, a self-assessment tool was also developed.

### Step 3

After all documents and processes were created, a condensed version of our [Responsible Supply Chain Program](#) was written and published on our website along with the [Business Relationship Code of Conduct](#). It is important for us to be transparent about our efforts and our requirements.

### Next steps

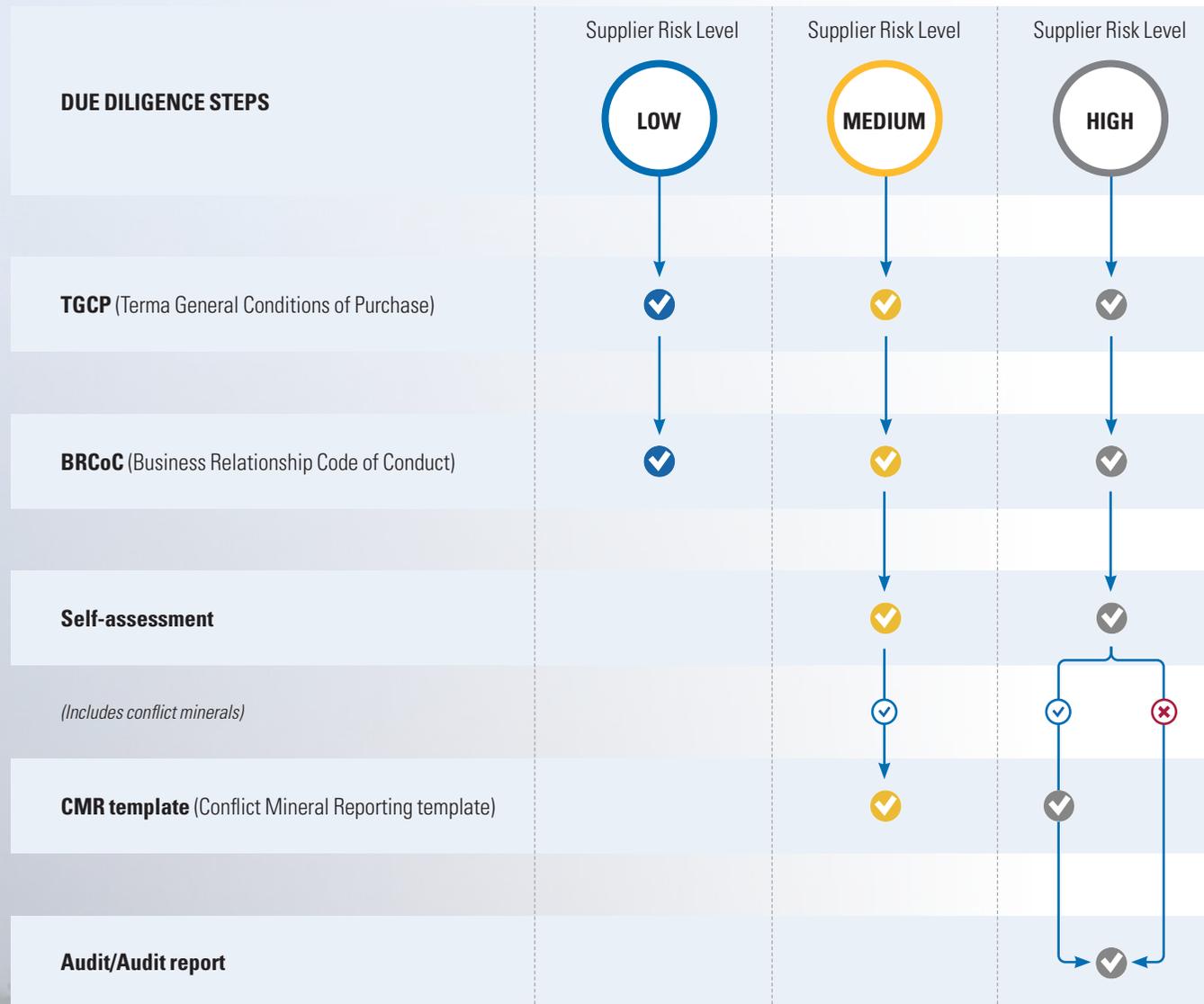
Implementation is the last and most important step. If a process is not embedded in the organization and there is no ownership and support, then the process will not be successful.

To ensure a successful implementation, training materials, checklists, and other guidance will be developed in the coming year. Moreover, in-person training sessions will also be held and are planned for Q2 2021. Once the relevant departments are trained, the procedures will be set in motion. All new suppliers and existing suppliers with whom we are re-negotiating contracts will have to undergo the due diligence process in order to be an approved supplier to Terma.

In addition, we will reach out to our suppliers to obtain their reports on conflict minerals. The data retrieved will help us finalize Terma's conflict mineral reporting template by end FY2021/22.



## Supplier due diligence process



## NEXT YEAR'S ACTIVITIES:



Roll-out the Responsible Supply Chain Program



Complete Conflict Mineral Reporting template

# Environment

At Terma, we strive to reduce the negative environmental impact of our business operations. We focus on constantly improving our production processes, resources and the use of chemicals and hazardous substances. Moreover, we cooperate closely with relevant authorities and stakeholders in this regard.

We also note an increased expectation from our stakeholders for documentation of our efforts in this regard. These expectations are aligned with our internal ambition to be more data driven and continuously strengthen our environmental reporting.

## Environmental Management System

A few years ago, Terma considered implementation of the Environmental Management System ISO 14001. At that point, our customers had showed little interest in our environmental affairs, and it was therefore decided to use the forces more directly on environmental risk mitigation and data collection.

Our customers' and employees' interest in Terma's environmental footprint has now changed. During the autumn 2020, the CSR & Compliance Department initiated a gap analysis to identify the actions needed for our current processes and systems to be aligned with the principles and standards of ISO 14001. Initial results showed that albeit having key competencies and required processes in place, there were still various procedures and processes needed to have an environmental management system compatible with ISO 14001. The final results of the analyses will be presented and discussed with relevant departments in the coming year.

The above results also support the fact that our environmental efforts today are still largely driven by national and international legislation and passionate employees within different fields. There is a need for a strategic direction across the locations and a governance structure to support this. This is an area that we will focus on over the next years.

## Data and transparency

To gain an understanding of our negative and positive impacts on the environment, we rely on data to guide our efforts. This is the fourth year we are reporting our emissions using the Greenhouse Gas (GHG) Protocol. Lessons from last year taught us to engage with stakeholders earlier in the process to ensure lean and accurate data.

Another lesson gained was the need to communicate on the fact that the better we become at retrieving emission data for scope 3, the more the scope number will increase. This was particularly evident in last year's report where we expanded scope 3 to include data on waste. This resulted in our CO<sub>2</sub> emissions increasing from 1,480 to 20,071 tons of CO<sub>2</sub>.

For a full overview of our Scope 1, 2, and 3 emissions, please see the figure to the right.

## Efforts to minimize emissions

We continuously review data to identify patterns and areas where we can focus our efforts to provide solutions that would minimize our emissions.

During this fiscal year, the Facility Department has focused on solving challenges related to handling our production waste in a sustainable manner. One example is the challenge of recycling expanded polystyrene (EPS) and plastic foils. Terma EPS waste emanates from the receipt of frozen materials in insulated boxes, while plastic foil waste comes from protective wrapping around received products.

The challenge with these materials is finding a recycling solution which is economic and environmentally sound. During the year, we found a solution where an external party transports the EPS to Asia where it is granulated and recycled. This solution is far from satisfactory to our Facility Department who will keep on searching for a better alternative. This example clearly emphasizes the complexity surrounding waste management.

## Hazardous chemical

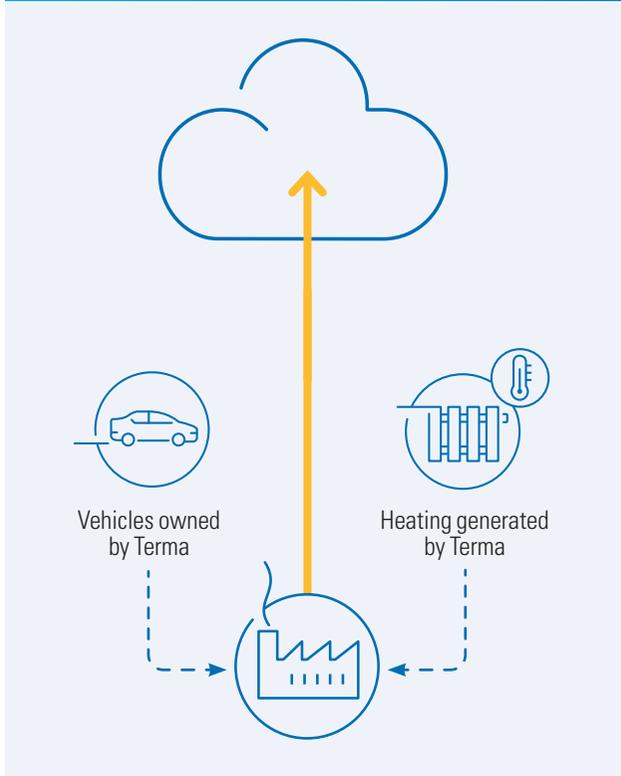
In the creation of high-technological products, the use of chemicals is essential. Aware of the risks combined, Terma has dedicated years of efforts to constantly seek to minimize our chemical footprint.

The EU RoHs and REACH legislations require that we control the substances that pose negative impact on the environment. To ensure control, Terma utilizes various independent systems.

During 2020, a working group, governed by the Product Certification and Safety function in Technology & Innovation, has created a new system adapted to hold all compliance information in one system. Full implementation is expected by summer 2021.

Terma's greenhouse gas emissions

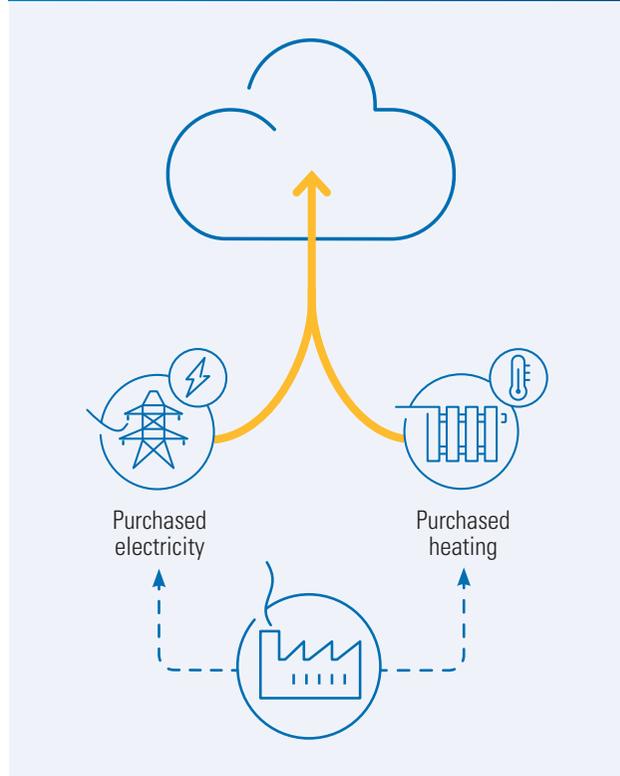
**Scope 1 Direct emissions**



Direct GHG emissions in metric tons of CO<sub>2</sub> equivalent



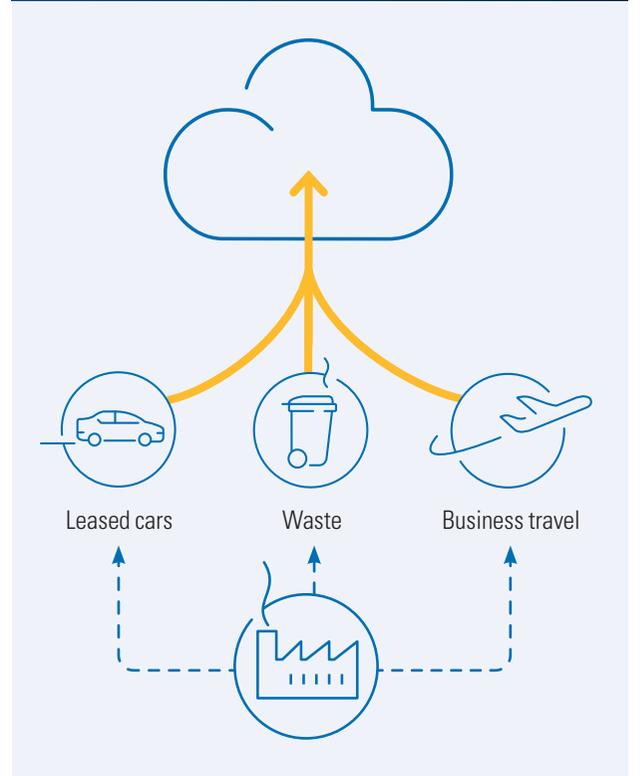
**Scope 2 Indirect emissions**



Energy indirect GHG emissions in metric tons of CO<sub>2</sub> equivalent



**Scope 3 Other indirect emissions**



Other indirect GHG emissions in metric tons of CO<sub>2</sub> equivalent



\* The increase in the years 2019/20 and 2020/21 compared to previous years is due to the inclusion of waste in the data.

# Reporting Channels

January 2021 marked the two-year anniversary of the launch of our two reporting channels *Ethics Line* and *Tell us your concerns*, as well as our Employee Code of Conduct.

As it has been two years since the launch, the autumn of 2020 was dedicated to updating the Employee Code of Conduct and supporting e-learning.

In addition to updating the content, thought went into creating a more user-friendly layout so the Code would function as an encyclopedia where employees could easily find policy expectations.

The new **Code** and its e-learning were published globally in January 2021. Both contain a description of the two reporting channels. In addition, the e-learning contains a video describing the two channels, their scope, and how to use them.

## Reported cases

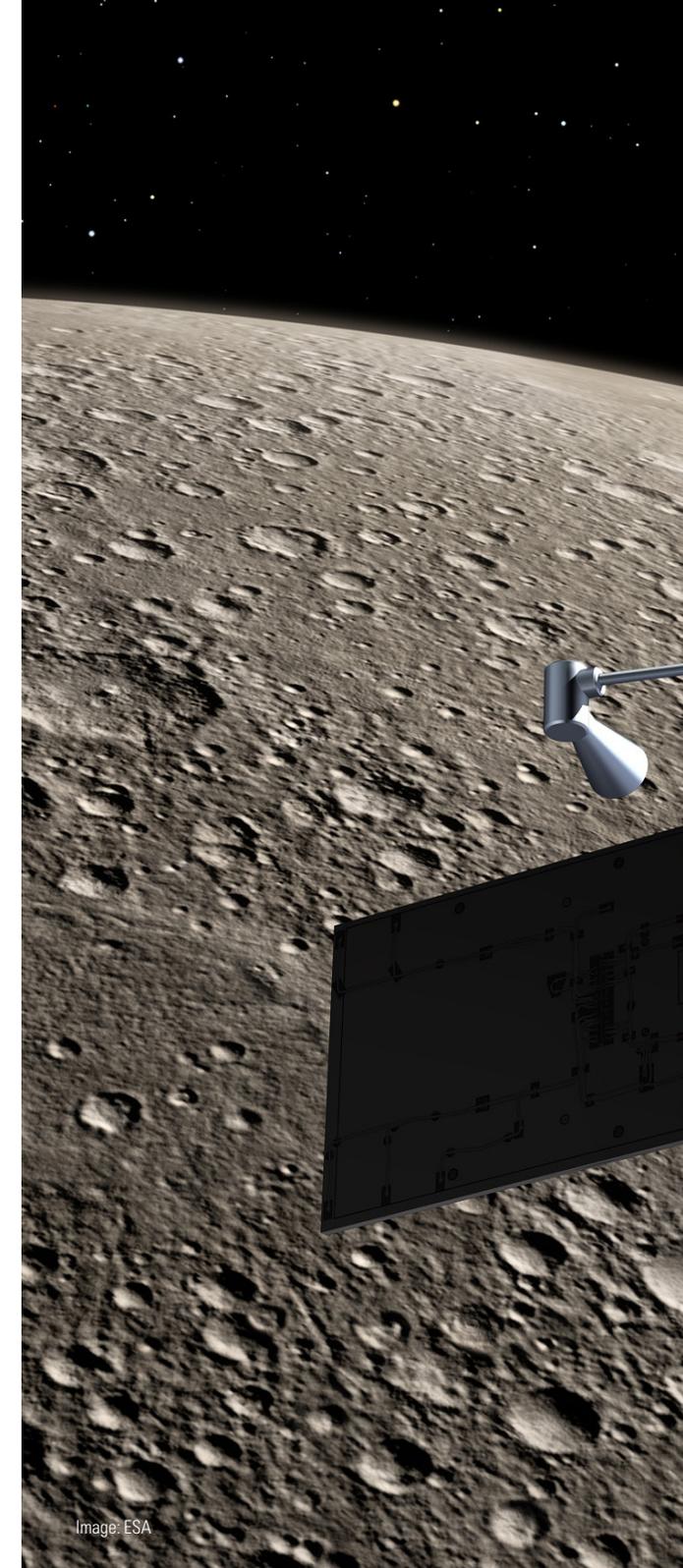
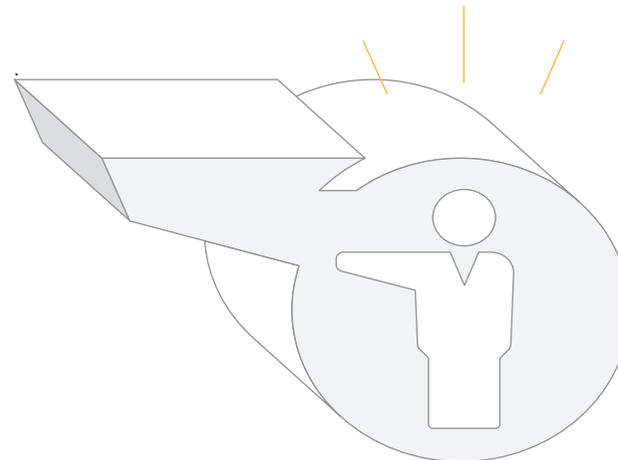
All cases are confidential, regardless of whether the cases are reported to *Ethics Line* or *Tell us your concerns*. An annual report, limited to the number of reported cases and their topics, is sent to the Boards of Directors and Executive Management.

## ETHICS LINE

During the financial year 2020/21, Terma received 0 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 and TNA's General Counsels and the Head of CSR & Compliance. In the financial year 2019/20, Terma received 2 whistleblower cases via *Ethics Line*.

## TELL US YOUR CONCERNS

Terma's internal reporting channel *Tell us your concerns*, solely dedicated to Terma employees, received 5 cases during the year. Last year, we received 28 cases in the system. The system is for all concerns, incidents, and issues which are not of the type 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 manner.







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