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# CSR Report

## 2015/16

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

## Introduction by Jens Maaløe



This report is a statutory report on Corporate Social Responsibility pursuant to the Danish Financial Statements Act section 99a and forms an integral part of the Management's Review for the 2015/16 fiscal year for Terma A/S.

As an international provider of security for countries, alliances, and individuals, we take pride in not just safeguarding our business, but also our surroundings.

In Terma, we strive through our Corporate Social Responsibility (CSR) to make a true difference for our customers, suppliers, employees, environment, and the community. In order to reach this goal, we have made dedicated action plans within each of these focus areas to ensure a continuous positive impact.

I am pleased to see our CSR efforts unfold and create added value for both Terma and society as a whole. From our work with energy optimization at our corporate locations to our continued focus on anti-corruption, we are dedicated to improve our global footprint.

The world will not change overnight, and we understand that a genuine CSR effort takes time. The aim of this report is therefore not only to reflect upon measures taken in the past year, but also to look ahead at planned initiatives within our focus areas.

With these words, I proudly present Terma's CSR report for the fiscal year 2015/16.

A handwritten signature in black ink, reading "Jens Maaløe".

**Jens Maaløe**  
President & CEO

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## Customers

**In Terma, we strive to build a culture of integrity and ethical behavior around the world where we do business.**

Operating in international markets, organizational governance and fair operating practices are essential, and we have a dedicated focus on our interaction with our customers, partners, and other stakeholders.

We therefore have a clear Code of Conduct regarding anti-corruption and a zero tolerance of corruption. This policy is known to management, all employees, and third-party representatives and is in place to secure mitigation of risk in connection with doing business in the defense and security segment.

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**0%**  
**violation of Terma's Code of Conduct and the IFC Performance Standards**  
The Code of Conduct has been in place since 2008.



This fiscal year, we have primarily focused our attention on our agent management system, including launch of a new information tool to our agents and representatives, which among other things also include our updated Code of Conduct regarding anti-corruption. In addition, Terma's Group Management has recently signed a banner to once again increase awareness of our anti-corruption policies. Our representatives have received this information, and the banner is now visible at all Terma locations. Read more on page 6.

As part of our agent management system, each representative has implemented a self-assessment, and we have introduced a plan for the coming year for due diligence of each representative.

All new representatives have been through the assessment in the past year, and entering a new fiscal year, we will finish what we started by continuing the due diligence of existing representatives. We will initiate a catch-up process of existing agents with the overall aim to conclude this due diligence process in the fiscal year 2017/18. In addition to further due diligence activities, we will also carry out training of our sales force and representatives in our Code of Conduct.

By ensuring proper due diligence, information, and training, we have achieved awareness of our zero tolerance of corruption among Terma employees, managers, and third-party representatives.



## Suppliers

**In Terma, we strive to have a responsible supply chain that ensures safe working conditions, environmentally sound business operations, and that business is conducted in accordance with internationally recognized principles for business ethics and human rights. The standards we use are based on the International Finance Corporation performance standards and cover the main areas to ensure sustainability and supplier Code of Conduct, which includes respect for universally recognized principles on human rights including labor rights, the environment, and anti-corruption.**

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**200+**  
suppliers screened and found CSR compliant

Next year, we plan to reach 90% of our supplier base in terms of volume.



As our policy, we expect and require that our suppliers – and their supply chain – adhere to the same high standards as Terma. Our aim is to have evaluated all suppliers by the end of the 2017/18 fiscal year.

### **Socially Responsible Suppliers**

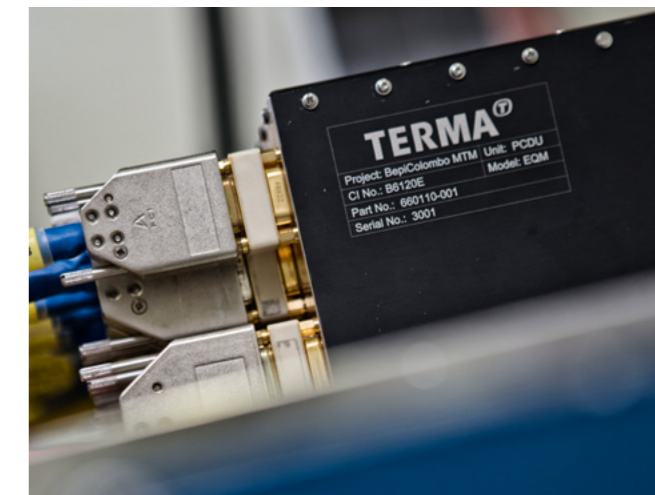
In the 2015/16 fiscal year, we have continued to evaluate our existing suppliers, and by the end of the period, we have screened more than 200 suppliers, which was in line with our goal for this period. The aim was to increase this evaluation of suppliers from 70% in the 2014/15 fiscal year to 85% this year, measured by purchase volume. Nearly 100% of our suppliers are within the OECD countries, and we therefore do not expect any of them to breach Terma's CSR code. Nonetheless, we will continue the screening process in the coming years.

During the evaluation process, our suppliers' CSR policies, business ethics, and behaviors are investigated and reviewed, and they are asked to substantiate that they comply with Terma's ethical standards. Since 2014, all new suppliers have been through the same evaluation process.

The screening process has been very positive and has conveyed a socially responsible supply chain, both when it comes to adhering to fair operating practices and human rights.

The next step will be to continue the screening process in the 2016/17 fiscal year where we plan to reach 90% of our supplier base in terms of volume. Finally, in the 2017/18 fiscal year, all suppliers will have been evaluated.

With the policy and procedures in place for the supply chain, it is our view that we are compliant with the expected standards of society. It is our belief that our continued screening will provide a compliant supplier base and minimize the risk of non-compliance.





## ANTI-CORRUPTION ADVOCACY CAMPAIGN

**In Terma, we take pride in our zero tolerance of corruption. To highlight this, Terma's Management signed a banner to remind all employees that Terma has – and has had for many years – an anti-corruption policy that we take very seriously.**

Photo (from left to right): Steen M. Lynenskjold, Executive Vice President & CCO. Jens Maaløe, President & CEO. Per Thiesen, Executive Vice President & CFO

“In our view, having a credible anti-corruption policy makes you a trustworthy counterpart to governments, customers, partners, suppliers, and other stakeholders. Terma has been countering corruption for years, but this way, we make a strong statement to our employees and everyone who visits us”, says Steen M. Lynenskjold, Executive Vice President & CCO in Terma.

The new banners are visible at all Terma locations worldwide and are a tangible reminder of the Group's ethical stance on corruption. Among other places, Terma's anti-corruption policies are stated in the employer handbook, which all new employees are made familiar with when joining the company.

“It is essential to us to maintain a socially responsible profile – not just on the surface, but in the backbone of the company. By exhibiting these banners, we hope to remind everyone of the importance of ethical behavior on all levels in our company”, Steen M. Lynenskjold explains.

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## Equal Representation of Genders

**In 2013, Terma adopted a policy to target an equal representation of genders in the Boards of the Group's Danish companies.**

The Board must include at least one person of each gender before 31 March 2017.

Terma's Board of Directors is composed of the best qualified individuals. Of the four members on the Board of Directors elected by the stockholders at the annual general meeting, three members are male and one member is female.

In Terma, the differences and diversity in the employees' personal and professional competences are considered a key strength for the Group. The objective is to eliminate discrimination of any kind, including gender-based discrimination.

Management positions must always be filled by the best qualified candidate, and one focus area in this context is a more equal gender balance in the Group's various management levels. Thus, it is our goal to ensure an increase in the number of female managers.

Both historically speaking and today, the candidates for both academic and management positions within our field are predominantly men, and at the

moment, this does not facilitate our ultimate goal of a balanced distribution of gender in the management positions (at least 40% of each gender).

Terma believes that the means to achieve this goal is an increased focus in recruitment situations, both in relation to internal and external candidates, in particular by seeking to ensure that there is at least one female as well as at least one male candidate for a job interview when a management position is to be filled.

Also, we have a special focus on female talent to ensure that the Group will have a broad representation of both genders. In addition, the opportunity to achieve the above goal is enhanced through internal promotions.

At the end of the fiscal year 2015/16, 18.8% of our worldwide management positions were held by females (2014/15 fiscal year: 18.8%).

**18.8%**  
**management positions  
are held by females**

In addition, Terma focuses on attracting and retaining female talents.





## Employees

**Our employees are the building blocks of our organization, and it is important for us to form and maintain passionate and fulfilled employees.**

**We aspire to be recognized as a company with a second to none professional working environment. In addition, we wish to provide our employees with challenges that encourage them to deliver the promise and to develop and retain talents that are in high demand in our fields of expertise.**

As an important part of our employee development program, we conduct a biennial employee survey to measure the satisfaction, motivation, and loyalty of our staff. The aim is to enhance relevant actions to increase job satisfaction and loyalty of our employees via focused and coordinated efforts.

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### **Reducing Accidents and Absence due to Sickness**

The ratio of absence due to sickness is a good indicator of a company's working environment and the employees' job satisfaction. Higher ratio of absence due to sickness could indicate that the employees do not feel comfortable and recognized by their immediate superior. In Terma, we pay attention to our employees' health, and we wish to ensure that they are thriving.

In Terma, the LTI (Lost Time Incidents) is very low. In the 2015/16 fiscal year, there were 4.49 accidents per 1,000,000 working hours for all employees in Terma, Denmark. During the fiscal year accumulated, Terma has experienced 0.13 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 1.5 hours of absence due to accidents per 1,000 working hours (in 2014 figures). In the 2015/16 fiscal year, only our production plant in Grenaa, Denmark, and our location in Germany experienced accidents resulting in at least one day of absence.

## 0.3% points

### **less absence due to sickness**

At Terma, managers are trained in preventive communication to capture early warning signals about employees' health and well-being.



In order to minimize the ratio of absence due to sickness, we train our managers 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 present ratio (2.8%) by 0.25% points within the next year (at the end of the 2014/15 fiscal year, this absence ratio was 3.1%).

Training activities will transform from classroom training to e-learning to reach out to a bigger audience globally in Terma. New training offerings of the Terma Academy will be cultural training and leading virtual teams.

### **Diversity in the Workforce**

We wish to ensure that our workforce reflects society as a whole, and we make an active effort to hire candidates from all groups of society. Specifically, we have set goals for the number of people hired under extraordinary conditions such as reduced working hours, reduced workload, or subsidized employment to compensate for chronic illness.

Terma has a close collaboration with the Danish Defence focusing on helping physically or mentally wounded veterans and their relatives gain job opportunities in Terma. In addition, Terma maintains a strong relationship with InterForce in Denmark.





# Environment

## Our environmental effort is divided into two focus areas; substituting hazardous chemicals and reducing our corporate CO<sub>2</sub> footprint.

### Minimizing the Use of Hazardous Chemicals

Our policy concerning working environment is laid down in the Terma Management System. The purpose is to encourage a good working atmosphere for employees, to prevent occupational injuries, and to comply with applicable legislation.

Our Working Environment Organizations have an annual debate on the working environment based on current and coming issues and draw up an annual strategy with specific tasks.

Due to national and international regulations at our locations and facilities, Terma has a good outset for protecting our workers and the external environment from any hazardous material relative to our manufacturing processes. However, we strive to obtain improved conditions although we face challenges finding less hazardous materials that meet the high requirements particularly within the aircraft industry.

Back in 2007, the EU agreed on an ambitious plan (REACH) concerning the phasing out of substances of very high concern. This ongoing plan is well in line with Terma's substitution strategy as our goal is to substitute at least 1-2 problematic chemicals per year, on average.

Finding alternative chemicals for aerostructures is a long-term challenge, which requires that we follow these four steps for each chemical:

1. Search for new chemicals/materials and/or methods
2. Quality testing according to internal/customer specifications
3. Customer acceptance
4. Implementing the chemicals/materials/methods

During the 2015/16 fiscal year, we have succeeded in removing the following hazardous chemical from our production line:

Chemical	Was used for	Hazard classification	REACH
1-methyl-2-pyrrolidone	Topcoat ingredient for aerostructures	May impair fertility  May damage the unborn child	Substance of very high concern (SVHC) and included in the candidate list for authorization

The aerospace industry is highly affected by the prohibitions determined by the REACH legislation. Several of the hexavalent chromates used for anti-corrosion purposes on metal parts will be banned in the coming years if no permissions for specific use are granted from ECHA (European Chemical Agency).

The primary focus for the coming years will therefore be to minimize the content of chromic acid (CrO<sub>3</sub>) in several surface treatment baths plus substituting strontium chromate contained primers where possible.

Concurrently with the internal substitution project, Terma is participating in a joint application from several major aircraft industries to extend the permission to use sodium dichromate and chromic acid, as it will be difficult for the industry to adjust the production processes and methods for use of alternative substances. The two substances both have sunset dates in September 2017.

### Reducing Terma's CO<sub>2</sub> Footprint

Our main goal is to reduce our consumption of energy and thus reduce Terma's CO<sub>2</sub> footprint. We focus our efforts on our Danish locations since all of our production facilities are in Denmark, leaving the biggest energy consumption here.

In order to achieve this, we will focus on choosing low-energy equipment and utilize our electricity and heat optimally by employing the right control mechanisms.

During the 2015/16 fiscal year, Terma has exchanged fluorescent lamps with LED lighting, and some traditional ventilation systems have been substituted with frequency controlled systems in order to reduce excessive use of energy. In addition, some of Terma's office buildings have been re-insulated and

provided with Class A energy-friendly windows. Terma has also increased the use of gas heating, as opposed to oil, and we improved our central heating control system in order to use the heat optimally.

In 2015/16, regulatory energy audit reports were developed for Terma's Danish locations, stating that Terma is performing well on energy optimization.

The initiatives above have resulted in a 1,300 MWh energy saving – 500 MWh more than we aimed for. This is equivalent to the annual consumption of 260 family houses in Denmark and makes up 10% of Terma's annual consumption at our Danish locations when considering our employee growth and increased production. Our goal for the next fiscal year is to maintain our focus on energy optimization and to save additionally 1,000 MWh through new energy saving solutions.

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# 1300 MWh

energy savings

This is equivalent to the annual consumption of 260 family houses.





## Community

**In Terma, we make it a priority to support educational programs in our local communities. We feel that we have an obligation to educate young people from our surrounding communities, and it is important to us to invest in the educational institutions from which we recruit our future employees.**

**As a result of this, Terma employs apprentices, primarily in our production and our administrative areas, and we have student interns in all areas of our Danish company. At the end of the 2015/16 fiscal year, Terma employed 21 apprentices at our Danish locations. In addition, we support relevant educational institutions by supplying trainers or counselors to specific programs and by participating in advisory boards.**



### Learning from the Best

In addition, Terma has established a unique internship program with Aarhus University (AU), Technical University of Denmark (DTU), and one of the leading U.S. companies in the aerospace and defense industry, Lockheed Martin Corporation. Engineering students from Denmark work out of the Lockheed Martin facilities in Fort Worth, Texas, for a selected period of time and will obtain invaluable experience from one of the world's leading manufacturers of advanced technology. This year, five students from DTU attended the internship program, an increase from last year by 150%. Read a first-hand account of the internship on page 14-15.

The reinforced strategic collaboration with AU and DTU has many synergies, e.g. PhD agreements, company visits, and an increased interest in Terma from the students.

Terma is involved in many other educational programs. We sponsor the Science Cup, participate in the Danish Championships in Skills, and host visitors from

Aarhus Tech's technical design student area. In addition, we are planning an open house event in the autumn of 2016 for members of the Danish Society of Engineers with a focus on competence development.

In order to make young people in the Herlev Municipality in Denmark aware of the many attractive technical vocational educational programs, the municipality, two vocational schools, the Confederation of Danish Industry, and the Danish Metalworkers' Union signed a partnership agreement. The agreement that was the very first of its kind in the metropolitan area was signed at Terma in Herlev on 28 January 2016.

Our goal for the coming fiscal year is to increase the variety of apprentice and intern types at our Danish locations and to expand the model to include more of our international locations as well.

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# 21

### apprentices employed at our Danish locations

In addition, Terma supports relevant educational institutions with trainers or counselors.



# F-35 INTERNSHIPS: LEARNING FROM THE WORLD'S LARGEST INDUSTRIAL PROJECT

LOCKHEED MARTIN

In 2014, Lockheed Martin Aeronautics, Aarhus University - Faculty of Science & Technology, and Terma entered into a partnership on the F-35 Master Internships Program. The idea is to recruit Danish students to complete an internship at the Lockheed Martin facility in Fort Worth, Texas.

In spring 2015, the first two students departed for The Lone Star State. Frederik Midtgaard and Thor Andersen, both MSc students at Aarhus University, were full of expectations before departure.



**Frederik Midtgaard**  
MSc student at  
Aarhus University

**Avid composites  
student writing  
his Master thesis  
about adhesives**

**Thor Andersen**  
MSc student at  
Aarhus University

**Aviation enthusiast  
focusing on fluid  
mechanics and  
aerodynamics**

"I saw the F-35 internship as a unique opportunity to gain knowledge about composites to a degree that is not otherwise possible in Denmark – or maybe even in Europe", says Frederik Midtgaard, who worked in the F-35 Factory Rate Transition Execution Team at the Fort Worth facility. "And I wasn't disappointed. I achieved a whole new understanding of composites in addition to building a valuable network that I still maintain", Frederik continues.

Especially, the relationship building and integration into the workforce – both professionally and culturally – has been one of the biggest experiences of the internship.

"I felt that I was a legitimate part of the team that made it possible for the aircraft to take off. I was right there next to the aircraft, solving real problems and making a difference. Working in Quality and meeting many of the users and customers, you really feel a great deal of responsibility", explains Thor Andersen, who worked with Quality Engineering during his internship.

With aviation as his biggest passion, working so close with one of the most high-tech aircraft has been a dream come true for Thor Andersen. "To get real working experience is good in itself, but to work on the F-35 aircraft and to have the responsibility for

a designated area of such a big program has been mind-blowing", he explains.

Frederik and Thor are finishing their Master studies in the summer 2016, but they have both kept close relations to Terma and the F-35 program.

"The internship has been an invaluable experience, both professionally and personally. It has given us skills, opportunities, and exposure beyond our expectations", says Thor Andersen. Both of the former interns hold student positions with Terma as they work on their final thesis.

"The internship has helped to confirm that the defense and aerospace industry is the right direction for me to go. Getting to work on a large program like the F-35 before even finishing school has been a big motivation and an experience I will never forget", concludes Frederik Midtgaard.

The F-35 internships have been a great success, and a new team of interns, this time from the Technical University of Denmark, left for Fort Worth in January 2016, with another new team arriving in January 2017.





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