

# Sustainability Report 2019

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## UN Global Compact

NKT wishes to protect the environment, safeguard human and labour rights, and work against corruption.

NKT is signatory to the UN Global Compact and this report provides Communication on Progress (COP) for the period 1 January 2019 to 31 December 2019.

# Introduction

This report constitutes the compliance of NKT A/S with Section 99a (CSR) and Section 99b (Diversity) of the Danish Financial Statements Act. It also includes communication on our progress within the principles of the UN Global Compact. All NKT A/S entities are covered by this report unless otherwise stated.

NKT A/S comprises two independent business units specializing in power cables (NKT) and photonics equipment (NKT Photonics). The two business units have separate sections in this report.

NKT A/S has established corporate policies and rules which govern the compliance of the company, its employees and business partners with relevant regulations, laws and our Business Code of Conduct. These mechanisms are described in the present report, which is structured into three focus areas covering company policies, actions and goals and describing relevant risks and risk mitigation. The following sections constitute our social responsibility as required by Section 99a of the Danish Financial Act:

- Anti-corruption
- Environment, energy and climate
- Human and labour rights

### Statement of Representation

To ensure top-level commitment and local support, selected leaders broadly representing the activities of NKT and NKT Photonics are each obliged to sign a Statement of Representation based on the principles of our Business Code of Conduct for the reporting of potential violations. The contents of the individual Statements of Representation are then consolidated and potential actions are taken accordingly.

### Diversity

NKT A/S is firmly committed to equality of treatment for all employees. As part of this commitment, the composition of and developments within the company's workforce are monitored as shown below, and we strive wherever possible to promote increased equality of gender representation. See more detailed description of diversity actions in the section of each business unit.

At Board level, the target is to have at least two out of six members represent the underrepresented gender among members elected at the Annual General Meeting. This target was not achieved for the Board of NKT A/S as there have been no changes in the composition of the Board during 2019. The target is maintained for 2020<sup>1</sup>.

### Diversity in senior management at NKT A/S

	Total	Age profile			Gender		No. of nationalities
		<40	40-54	>54	Female	Male	(The predominant nationality in %)
Board of Directors*	6	0	0	6	1	5	2 (Danish 83%)
NKT**	53	10	32	11	8	45	10 (Danish 38%)
NKT Photonics***	11	0	8	3	2	9	5 (Danish 37%)
Total	70	10	41	19	11	59	11 (Danish 41%)

See more detailed description of the gender composition for NKT on page 19 and NKT Photonics on page 31.

\* Elected at the Annual General Meeting.

\*\* The senior leadership level in NKT consists of the Extended Leadership Team, including members of the Executive Group Leadership Team.

\*\*\* The senior leadership in NKT Photonics is defined as the Global Management Team.

<sup>1</sup> A few Danish subsidiaries are according to local reporting laws obliged to report specific targets on the underrepresented gender at Board level separately. These targets can be found in the annual reports released for each subsidiary.



## Letter of commitment

The development of the global power grids is crucial to ensure the transition to renewable energy, and as a leading provider of power cable solutions NKT is a central player in this development process. We are committed to supporting the global reduction of CO<sub>2</sub> emissions in both our solutions and from our operations. Our power cable solutions provide the backbone for the expansion of power grids needed to ensure the capacity for e.g. the integration of renewable energy, more electrical cars and heat pumps.

Internally, we are constantly focused on reducing our own environmental impact, and in 2019 we have taken significant steps to reduce our carbon footprint by operating both our high-voltage factories on electricity originating from renewable energy. By end of 2020 it is our ambition to have all our production sites operating on renewable electricity.

2019 has also seen continued efforts to strengthen our safety culture and to build responsible business processes in line with the principles of the UN Global Compact.

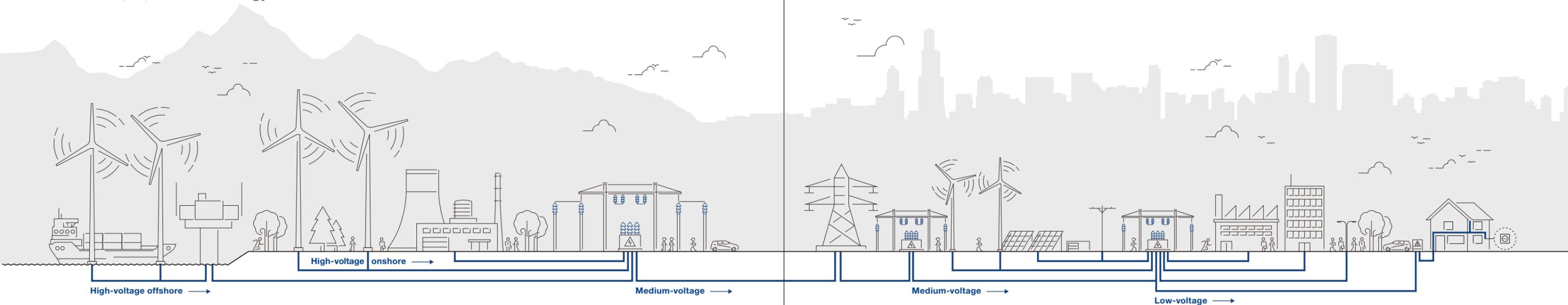
One of our key enablers is our diverse culture driven by engaged employees. We promote diversity and equality across our organization, and we are committed to supporting the global transition towards renewable energy based on rules for responsible and ethical behaviour defined in our Business Code of Conduct. Furthermore, we aim to conduct our business in accordance with the relevant UN Sustainable Development Goals (SDGs) that express the most important global challenges.

Our continuing commitment to the UN Global Compact strengthens our focus on responsible and ethical operation while maintaining our business pledge of bringing power to life sustainably. The principles of the UN Global Compact constitute the foundation for expanding the awareness of sustainability throughout our organization and among external stakeholders.

Alexander Kara  
President and CEO, NKT

# Description of business model

To serve the various parts of the power cable market with differing characteristics and demand patterns, NKT is organized into three business lines: Solutions, Applications, and Service & Accessories. These business lines are supported by global functions primarily comprising Finance, Human Resources, IT, and Technology.



## Solutions

The Solutions business line specializes in high-voltage power cable solutions. NKT provides a broad range of solutions for off- and onshore power transmission systems and can supply both AC (Alternating Current) and DC (Direct Current) power cable systems. NKT offers customers complete and customized end-to-end turnkey solutions, including full installation services.

NKT has two high-voltage production facilities centrally situated in Northern Europe: Cologne, Germany, and Karlskrona, Sweden. Their sea and river accesses enable efficient logistics for offshore solutions in Europe and the rest of the world. These production sites, combined with the company's high-tech capabilities, in-house installation expertise and a dedicated best-in-class cable-laying vessel, make NKT a leading company in the interconnector, offshore wind, and oil & gas segments.

Both high-voltage production facilities operate on green electricity originating from renewable energy sources.

## Applications

The Applications business line offers customers a broad range of low- and medium-voltage power cable solutions. NKT markets high-quality products that conform to the continued increased regulatory requirements and customer expectations, and has developed ergonomic solutions which are easy to install. Telecom power cables are also being developed and marketed with a view to future opportunities in the roll-out of the next-generation 5G mobile network.

NKT holds leading positions in north, central and east European markets. In its Applications activities, the company operates five main production sites situated in the Czech Republic, Denmark, Poland, and Sweden.

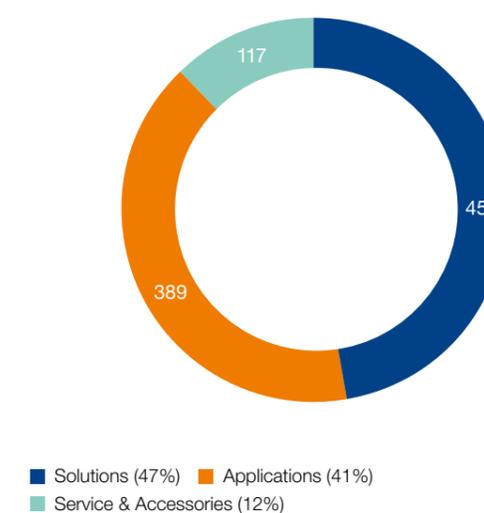
## Service and accessories

The Service & Accessories business line provides services for off- and onshore power cables and offers a full portfolio of power cable accessories across the medium- and high-voltage categories.

The Service business focuses on high-voltage power cables. These generally require surveillance, but limited maintenance. However, incidents will occur due to external damage caused by anchor drag, excavation works, etc. To reduce such incidents and shorten potential power cable downtime, there is demand for monitoring solutions and rapid response, and NKT has service teams based in Denmark, Germany and Sweden.

Accessories are critical components in any power cable system. In the high-voltage market, the technological competence possessed by NKT is key as only a limited number of suppliers can match the numerous requirements that accessories must meet for reliable and consistent performance. NKT provides market support for accessories from three production sites in Germany and Sweden.

## Revenue distribution 2019 (EURm)\*



\* Std. metal prices

# Sustainable Development Goals 2019

The UN Sustainable Development Goals (SDGs) define the greatest sustainability challenges globally and provide guidelines for the necessary actions. At NKT, we are committed to running our business in a way that contributes to a number of the targets. The goals and underlying targets with the most significant impact for NKT are set out below. More information on how we work to support the SDGs is provided across this report and in the target overview on page 23.

## Very high Impact



**7. Affordable and clean energy**  
NKT designs, manufactures and installs power cables that constitute the backbone of the global power grid. We link countries through interconnector systems, and we have extensive experience in connecting offshore wind farms to the onshore power grid, thus integrating renewable energy into the global energy mix. The integration of affordable and clean energy is essential for mitigating climate change by reducing CO<sub>2</sub> emissions and supports many of the legislative goals of renewable energy both at national and international level.



**9. Industry, innovation and infrastructure**  
NKT is actively supporting the development of the infrastructure needed to bring power to industries, cities and societies all over the world. We provide the cable technology and expertise needed to exchange energy across borders, and at a global level we have installed city cables for grid operators providing the infrastructure supporting a modern lifestyle.

## Moderate Impact



**5. Gender equality**  
NKT believes that a diverse organization provides the best foundation for developing the competencies needed to generate the company's targeted financial results. We are committed to providing equal opportunities to our employees, and we will not tolerate discrimination or harassment based on race, religion, gender or any other factor.

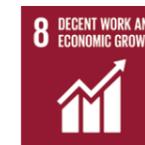


**14. Life below water**  
NKT has extensive experience operating in the offshore industry and strives to protect aquatic biodiversity and wildlife when installing and laying cables. We safeguard the seabed during trenching and cable burial, maintain a safe distance from wildlife during offshore operations and have experience from several operations in high-risk marine environments.

## High Impact



**13. Climate action**  
As a front-end partner and cable solutions provider for the global power grids, NKT is supporting the transition to renewable energy. Maintaining and building the infrastructure needed to integrate and distribute renewable energy to the power grids is paramount for mitigating climate change, increasing temperatures, and reaching energy targets nationally and internationally. In the performance of these activities we strive to do business ethically, responsibly and sustainably. Part of our climate action is to run our two high-voltage manufacturing sites on green electricity.



**8. Decent work and economic growth**  
Providing a safe working environment for all employees is a NKT priority. Safety is one of our core values, and we strive continuously to strengthen our safety culture at all company levels. We participate in industry initiatives, operate within international standards, respect and comply with local labour laws, and support freedom of association. All our employees are engaged on contracts which adhere to local laws and regulations. Furthermore, health and safety compliance is embedded in our qualification process for vendors and business partners minimizing the risk of interactions with partners not complying with our Business Code of Conduct for Vendors & Business Partners.



**12. Responsible consumption and production**  
NKT continuously focuses on minimizing the environmental impact of its activities through reduced consumption of energy and natural resources. We strive to maintain high material utilization, and we operate one of the very few specialist recycling plants for power cables, which ensures re-use of materials and sustainable disposal of non-recycling components. Furthermore, we run our high-voltage manufacturing sites on green electricity to minimize our carbon footprint. All our production sites are certified according to ISO 14001, the international standard that specifies requirements for effective environmental management.



**15. Life on land**  
NKT plans and manages its onshore operations with focus on preserving the environment and minimizing impact on nature and wildlife. We have processes in place to monitor our environmental footprint and mitigate the risks of environmental incidents.



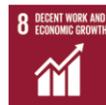
**16. Peace, Justice and strong institutions**  
NKT is committed to responsible business practices and refrains from all forms of bribery, fraud or corruption. This is described in our Business Code of Conduct, which establishes the fundamental principles and rules of behaviour for all NKT employees. Anti-bribery and principles of fair competition similarly form part of our assessment

process for vendors and business partners minimizing the risk of interactions with non-compliant vendors. We are also an active member of several organizations working to promote sustainable and fair conditions in the industry. We have a compliance program in place, which also operates a corporate whistleblower hotline, where both employees and external stakeholders can report any misconduct or concerns anonymously.

# Ethics and compliance

A global mindset and responsible business conduct are key to NKT and we are committed to promote ethical behaviour across the company.

## Related SDGs



NKT operates in an increasingly complex regulatory and global environment in which ensuring compliance is a fundamental challenge. We are continuously improving our compliance approach and we have a broad-reaching compliance programme in place that encompasses anti-bribery and anti-corruption, anti-trust law (competition law), data privacy, and export controls and sanctions. We are compliant with applicable laws, regulations and international standards, we strive to meet stakeholder expectations, and we are constantly building a strong compliance mindset throughout our organization.

### Business Code of Conduct

The NKT Business Code of Conduct remains key to our compliance approach. It defines the fundamental principles and rules governing the behaviour that is demanded and expected of all our employees in relation to vendors, business partners and the public. The Code defines how we do business across our organization and includes policies covering aspects such as business integrity, anti-corruption, environment, energy and climate, fair competition, human and labour rights, information security, product compliance and quality, compliance management, and reporting of misconduct.

### Governance

In 2019, we established an Ethics & Compliance Committee organized by our Ethics & Compliance Officer, chaired by the CEO, and including participation by the CIO, CHRO, General Counsel, a Business Line representative, and Risk Management & Compliance. The Committee meets quarterly and is responsible for developing and overseeing the implementation of our Ethics & Compliance Strategy. In 2019, the Committee initiated a self-assessment of our compliance programme as the foundation for a new 2020+ Ethics & Compliance strategy setting the direction for the compliance programme and strategic initiatives.

The Ethics & Compliance function collaborates with Financial Compliance on implementing internal controls to increase our efforts in detecting potential compliance issues.

### Data privacy

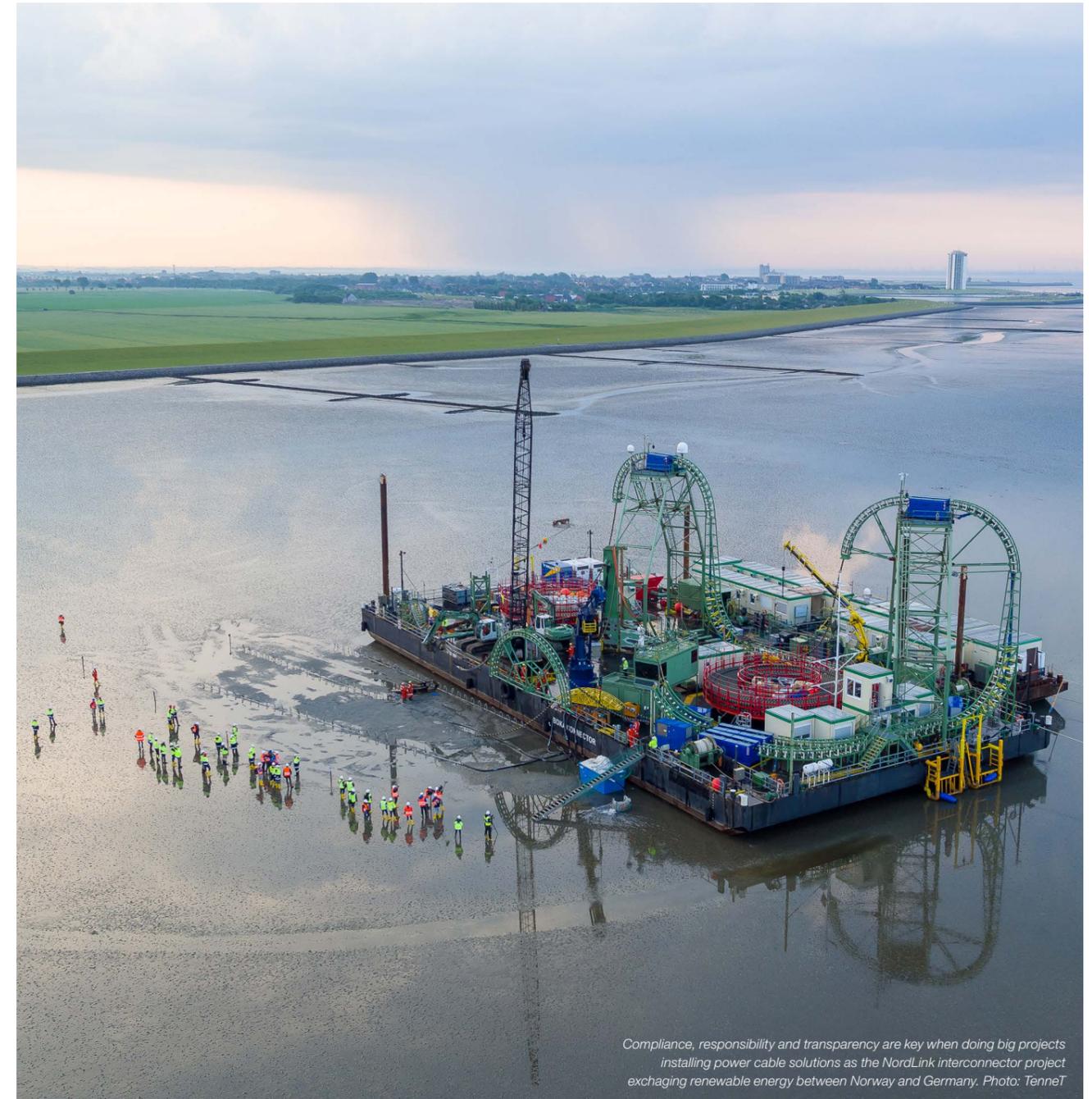
NKT remains fully committed to data privacy in respect of all personal information relating to employees and third parties. Data privacy constitutes a focal component in our new 2020+ Ethics & Compliance strategy with view to further developing and improving the technical and organizational measures in place to ensure compliance.

### Third party compliance

In 2019, new processes were developed and implemented to further increase third party screening and due diligence. The aim is to strengthen the responsibility and transparency throughout our value chain, with focus on suppliers and customers.

### Responsible tax

NKT is a responsible taxpayer and we base our tax reporting on responsibility, openness and transparency in all aspects of tax related reporting and compliance, wherever the company and its subsidiaries operate. We are committed to work with relevant stakeholders to drive transparency and the development of efficient tax systems and aim to follow recommendations of Good Governance on tax affairs in the countries in which the subsidiaries of NKT are located. NKT does not operate in tax havens and any future operations in tax havens will be of purely commercial reasons. Our commitment to responsible tax is particularly supporting SDG target #16.6 focusing on the development of effective, accountable and transparent institutions at all levels.



Compliance, responsibility and transparency are key when doing big projects installing power cable solutions as the NordLink interconnector project exchanging renewable energy between Norway and Germany. Photo: TenneT

Goals and actions 2019	Outcome	Status	SDGs
Strengthen our ethics and compliance approach	Ethics & Compliance strategy developed and implemented	✓	16.6
Future plans, goals and actions	Target		SDGs
Strengthen our ethics and compliance approach	Develop new Business Code of Conduct		16.6

# Anti-corruption, anti-bribery and fair competition

NKT refrains from and opposes all forms of bribery and corruption and abides by the rules of fair competition. We have a clear policy covering these areas which is implemented and communicated company-wide through our Business Code of Conduct.

## Related SDGs



In the Business Code of Conduct we clearly state that, when doing business, no employee may directly or indirectly offer, give or take money or anything else of value to obtain an improper advantage. Furthermore, we explicitly distance ourselves from participation in unfair trading and illegal anti-trust activities.

### Key risks

Our principal exposure in regard to corruption and bribery relates to interaction with external vendors, suppliers and business partners in connection with tenders and business agreements. We strive to minimize this exposure both internally and externally through various initiatives, including targeted training and awareness campaigns, and through our increased third party compliance process developed during 2019 to strengthen responsibility and transparency throughout the value chain. An improved risk assessment process is under development and planned to be implemented in 2020 to help further identify key compliance risks.

Anti-corruption is an integral element in the training provided to NKT employees under our Business Code of Conduct, and also forms part of our business contracts. Anti-corruption is similarly incorporated in our Business Code of Conduct for External Vendors & Business Partners, with which we expect full compliance from the parties involved.

Within the framework of our Business Code of Conduct, NKT operates a whistleblower hotline that can be used by both employees and external stakeholders to report unethical behaviour. Awareness of the whistleblower hotline has been raised with a new video, and the scope and the processes for investigations have been further refined and improved. In 2019, all reports received were acted upon in accordance with established procedures.

### Increased training activities to ensure anti-trust compliance

Focused activities have been undertaken in 2019 to further increase the level of anti-trust training and awareness of all relevant employees. These activities included the development and implementation of new, mandatory anti-trust compliance guidelines and an online e-learning training module, followed up by additional face-to-face training and communication efforts. The guidelines and the online e-learning will be assigned annually to all employees in scope.

These activities were part of a strategic initiative adopted following the EUR 4m fine imposed on NKT and confirmed in July 2018 by the European General Court following the investigation by the European Commission into alleged price-fixing on high-voltage power cable projects. The case is currently under appeal to the European Court of Justice<sup>2</sup>.



*We refrain from and opposes all forms of bribery and corruption and abides by the rules of fair competition.*

Goals and actions 2019	Outcome	Status	SDGs
Update and implement specific guidelines on anti-trust behaviour	Relevant employees have been trained Guidelines on anti-trust behaviour have been updated, implemented and internally communicated	✓	16.5

Future goals and actions	Targets	SDGs
Strengthen general risk assessment	Develop and implement an improved risk assessment process covering all areas within the Ethics & Compliance program and targeting all key functions within NKT	16.5

<sup>2</sup> Find more information about the case in Note 7.2 in the Annual Report 2019

# Environment, energy and climate

As a key player in the global transition towards renewable energy NKT is committed to minimizing its environmental impact through sustainable business practices and operations.

## Related SDGs



NKT is committed to developing a long-term sustainable business by continuously reducing its environmental footprint. Our products are therefore designed, manufactured and installed with careful consideration for the environment, utilization of natural resources and energy consumption.

Furthermore, we expect all employees to comply with the principles in our Quality, Health, Safety and Environment (QHSE) Policy and to act with respect for the environment as stated in our Business Code of Conduct.

## Key risks

Our principal environmental exposure relates to the handling and use of chemicals, the consumption of energy arising from manufacture of power cables and accessories, and the consumption of fuel for power cable installations and transport of goods. To mitigate this exposure, we have established a dedicated QHSE policy as well as procedures for ensuring compliance with internal guidelines and external regulations.

In 2019, we continued the implementation of a company-wide incident reporting system, IA<sup>3</sup>, covering health, safety and environment. The IA system strengthens our reporting process, ensures the necessary transparency for effective action, enhances decision-making and provides improved documentation for future mitigation and prevention. To continuously track and minimize our environmental footprint we operate with a clear KPI framework that includes monthly follow-up procedures for analysis of data.

During 2019, we experienced a chemical leakage of non-hazardous bitumen from a truck at a filling area at our facility in Cologne, Germany. The incident was handled in accordance with all relevant procedures and contained locally where rehabilitation was performed. The local authorities were informed, and the incident led to knowledge sharing with view to the mitigation of similar incidents.

## Environmental Management Systems

All NKT manufacturing sites operate under an ISO14001-certified environmental management system. In 2019, to abide by local laws and regulations, most sites also completed an annual third-party audit that complement our internal monitoring of regulatory changes locally.

## Energy reporting

In 2019, we reinforced and aligned our corporate reporting processes for environmental incidents and measurement processes company-wide. The reporting is supported by an Energy Efficiency Tracker that gathers data from all sites on water usage, energy and fuel consumption.

## Reducing our carbon footprint

As part of our focus on reducing environmental impact, we have taken significant steps to reduce our carbon footprint. In 2019, our high-voltage factory in Cologne, Germany, was powered with electricity based on renewable energy, thus joining our plants in Drammen, Norway, and Karlskrona, Sweden, which are already powered by renewable energy.

NKT Victoria is the world's most energy-efficient cable-laying vessel and plays a key part in our ambition to consistently minimize the environmental impact arising from our offshore operations. Here, she is laying a high-voltage power cable solution connecting the islands of Jersey and Guernsey in October 2019. Photo: Guernsey Electricity Ltd.

<sup>3</sup> Informationssystem om Arbetsmiljö (Information system for working environment) Referred to as TIA in last year's report

In NKT, we have a clear ambition to continuously reduce our environmental impact. Hence, we aim to have all our production sites powered by electricity produced from renewable energy sources by the end of 2020.

Furthermore, a number of initiatives were completed in 2019 aimed at enhancing energy efficiency across the company. These included new lighting, optimized manufacturing processes and improved material recycling. Also implemented was Energy Walks, an initiative intended to ensure constant focus on energy efficiency activities. This initiative also serves to strengthen knowledge sharing across the organization.

A pilot project highlighting the potential of driving further energy efficiency has been initiated at the NKT manufacturing site in Warszowice, Poland. The project, which includes strategic investments in new

air compressors, BMS<sup>4</sup> system implementation, upgraded machinery cooling systems and conversion to LED lightning, is planned to run until Q2 2020 when an evaluation will be performed with view to potentially implementing the project company-wide.

**CO<sub>2</sub> emissions**

In 2019, direct CO<sub>2</sub> emissions from our gas and fuel consumption, including fuel for operating our cable-laying vessel NKT Victoria amounted to 7,815 tonnes. Indirect CO<sub>2</sub> emissions from consumption of purchased electricity and district heating and corporate travel amounted to 66,504 tonnes. Total emissions therefore amounted to 74,319 tonnes, which was higher than in 2018 due to improved reporting and changes in the purchased energy mix at several manufacturing sites negatively impacting our CO<sub>2</sub> emissions. The calculations were performed using the CO<sub>2</sub> emission factors for purchased electricity mixes and fuels.

Goals and actions 2019	Outcome	Status	SDGs
Improve measurement processes for energy consumption	Process for tracking has been improved and reinforced	✓	12.6
Improve existing water measurement processes	Process for tracking has been improved and reinforced	✓	12.6
Strengthen focus on energy efficiency	Company-wide initiatives have been implemented	✓	12.6
Strengthen focus on reporting of environmental incidents	Environmental incidents have been included in company-wide reporting process for health and safety	✓	12.6
Strengthen focus on evaluation of environmental factors	Process developed and in use on several sites	(✓)	12.6
Increase material utilization compared with 2018 (96.9%)*	97.3%	✓	12.5

Future plans, goals and actions	Targets	SDGs
Reduce our carbon footprint	All manufacturing sites to run on green electricity ultimo 2020	12.6
Increase focus on energy efficiency	Complete and evaluate pilot project on energy monitoring and set high level implementation plan	12.6
Reduce our environmental impact	Zero Environmental Impact Incidents <sup>5</sup>	12.5

\* Reporting period from October, 2018 to October, 2019

<sup>4</sup> Building Management System

<sup>5</sup> An incident negatively impacting the environment or stakeholders e.g air pollution, oil and chemical spills with impact to the environment

# NKT Recycling Centre

NKT operates one of the few facilities specialized in the recycling of scrap from the power cable industry. Each year, this plant processes large quantities of cable scrap originating both from our own production sites and from customers. Located in Stenlille, Denmark, the NKT Recycling Centre plays a key part in our ambition to limit environmental footprint.

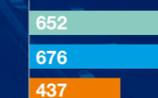
**Recycled cable scrap, tonnes**

■ 2017 ■ 2018 ■ 2019

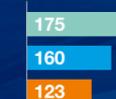
**Total weight of processed cable**



**Recycled PEX**



**Total weight of cable received from customers**



**Recycled PVC**



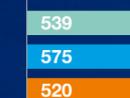
**Recycled copper**



**Received halogen-free retardants**



**Recycled aluminium**



# Human and labour rights

A healthy, safe, secure and diverse working environment is fundamental to the continued growth of NKT, and we consider our people key to successful company relations.

## Related SDGs



As stated in our Business Code of Conduct, NKT is committed to delivering a working environment based on respect, employee engagement and safety. To honour this policy, appropriate systems and processes have been introduced with specific targets in the above key areas, including leadership development.

### Key risks

Our principal exposure in the area of human and labour rights relates to threats to employee safety in the form of occupational injuries and accidents. To mitigate this exposure we have clear processes and policies in place. Safety is a key priority and we are continuously monitoring and improving standards across our organization. We have also established an improved procurement process for vendors and business partners to strengthen our supplier assessment in areas such as human rights and diversity. Exposure to forced and child labour is not considered material as we mainly operate in low-risk countries. A key element in risk prevention is our whistleblower hotline, which is open to both employees and external partners.

### Human and labour rights

As a signatory to the UN Global Compact, NKT is committed to conforming to all aspects of the Universal Declaration of Human Rights. We respect and abide by local labour law, we support freedom of association, and all our employees have contracts complying with local laws and regulations.

At our factories we are currently implementing systems, processes and procedures that conform to SA 8000, the international standard on social accountability and fair treatment of workers across industries.

### Safety at the heart of our corporate culture

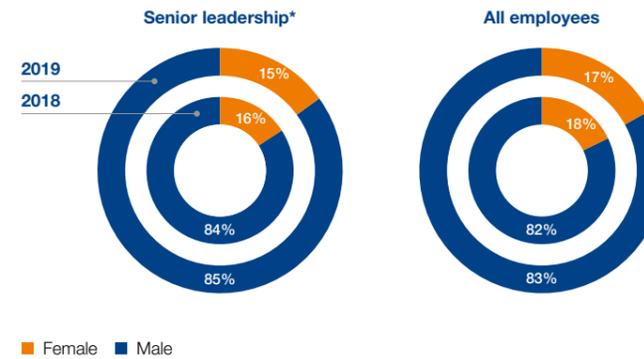
With the ongoing implementation of an IA system<sup>6</sup> on all manufacturing sites, we are strengthening our reporting, analysis and data collection on a global scale, ensuring increased transparency. The IA system is designed for reporting incidents and in the fields of health, safety and environment and for tracking the related actions and countermeasures. When fully implemented the IA system will enable us to better design and focus our improvements and mitigations. Final system implementation has been deferred to 2020 due to the completion of a major update.

To continue to improve our processes, monitor our progress and build a strong corporate safety culture with the overall ambition of eliminating accidents, we also conform to OHSAS 18001, a management system standard for occupational health and safety. However, we are currently working on a global implementation of the new Health & Safety Management standard ISO 45001 and expect the upgrade to be finalized and certified company-wide during 2020.

In 2019, we have seen our Lost Time Severity Rate<sup>7</sup> increase slightly on 2018 and we also registered an increase in our Lost Time Accident Rate<sup>8</sup>.

As a reaction to the above results, we continue to focus on strengthening our safety culture and expect to be certified for the Level 3 Safety Culture Ladder program in 2020. The intention is to initiate and drive employee engagement, developing risk awareness and building a safety-focused mindset

## Gender diversity in NKT



and behaviour. The Safety Culture Ladder program will provide a framework to create safer working conditions and encourage safety awareness with the overall goal of reducing the number of unsafe situations and safety incidents.

To maintain and further develop the safety culture we expect to launch a mandatory HSE training to drive awareness and empower employees to mitigate accidents and unsafe situations company-wide. The mandatory training will accompany the already ongoing initiatives focusing on improving health and safety in NKT.

Furthermore, the increase in the Lost Time Accident Rate has triggered an in-depth review of our mitigating activities, the calculation and our data collection. As a result, the definition of key targets within health, safety and environment has been aligned with OSHA<sup>9</sup> regulations resulting in a focus on Lost Time Injury Rate<sup>10</sup> (LTIR) for 2020 and onwards. We are deliberately setting an ambitious target of a LTIR of 0.50 for 2020 to maintain the strong focus on strengthening our safety culture. In addition, we have improved the method for collecting 'worked hours' supporting the increased accuracy in our monitoring enabling a stronger mitigation going forward.

### Diversity and equality

As described in our policy for diversity and inclusion, NKT is committed to promoting equal gender representation and diversity in the workplace. We firmly believe that a diverse organization provides the best foundation for developing the competencies needed to deliver targeted company performance.

In 2019, diversity and inclusion has continued as part of the mandatory training for all leaders in NKT where they have been introduced to the benefits of having diverse teams. Furthermore, they received training in assessing the composition of their teams in relation to diversity to enable potential adjustments. The focus on diversity in leadership training is maintained for 2020.

We work to ensure a more balanced gender composition and aim always to have a diverse field of candidates for all positions at senior leadership level which throughout the year has been stressed to both internal and external recruiters. This expectation will naturally be part of a planned update of our recruitment policies during 2020.

### Diversity in senior leadership\*

	Total	Age profile			Gender		No. of nationalities
		<40	40-54	>54	Female	Male	
2018	58	13	38	7	9	49	8
2019	53	10	32	11	8	45	10

\* Consists of the Extended Leadership Team, including members of the Executive Group Leadership Team.

<sup>6</sup> Informationssystem om Arbetsmiljö (Information system for working environment). Referred to as TIA in last year's report

<sup>7</sup> Lost Time Severity Rate describes the average number of lost work days experienced on the Lost Time Accidents that occurred during 2019.

<sup>8</sup> Lost Time Accident Rate is a standardized way to measure and compare accident frequency in organizations. From 2020 LTAR will be replaced by Lost Time Injury Rate due to implementation of new KPI framework based on OSHA definition (see footnote 10)

<sup>9</sup> Occupational Safety Health Administration, has created globally recognized HSE KPI definitions for continuous monitoring and improvement for occupational health and safety

<sup>10</sup> LTIR = (Number of LTI x 200,000) / worked hours

<sup>11</sup> As of 31 December 2019

The senior leadership level in NKT is designated the Extended Leadership Team. This entity includes members of the Executive Group Leadership Team and consists of a total of 53 persons comprising ten nationalities. Age distribution is fairly even, the majority of members being in the 40–55 age group. 15% of the Extended Leadership Team currently is female, a slight decrease from last year. Female representation in the Executive Group Leadership Team is 13%, a decline from 2019 due to organizational changes. In 2020, we expect the diversity composition in senior leadership to be at the same level as in 2019.

**Engaged, committed employees**

NKT considers a diverse culture driven by engaged employees to be a key enabler, and employee engagement is a central part of our strategy.

An annual employee engagement survey is conducted to track progress towards our strategic target of an Employee Engagement Index above 80. The index in 2019 was up on 2018, and leaders at all levels will continue to initiate actions forstoring engagement.

We believe that strong employee engagement is closely linked to high-quality leadership. In 2020, focus will therefore be placed on launching new leadership programmes for project managers, practical leadership for managers in production, and a follow-up initiative to anchor our leadership model after completed training.

**Reporting according to UK Modern Slavery Act**

Our Human & Labour Rights policy clearly states that we reject any form of forced labour and do not condone the hiring of child labour. At NKT, employees have employment contracts, they are educated in our Business Code of Conduct including our Human & Labour Rights policy, and they are committed to continuously identifying and eliminating potential violations.

NKT business partners are expected to comply with the principles of our Global Third Party Compliance Policy and our Code of Conduct for Vendors & Business Partners, in which our Human & Labour Rights Policy for Suppliers is also an integral part.

Goals and actions 2019	Outcome	Status	SDGs
Increase Employee Engagement Index for 2019 (>61)	65	✓	8.5
Increase the number of unsafe situations and behaviours compared with 2018 (≥1,620)	2,181 reports	✓	8.5
Reduce the Lost Time Accident Rate compared with 2018 (≤0.53)	0.73	÷	8.5
Reduce the Lost Time Accident Severity Rate compared with 2018 (≤20)	29	÷	8.5
Redefine the reporting of safety related incidents and create new baseline for implementation in 2020	Aligned KPI definitions with OSHA regulation	✓	8.8
Full implementation of integrated reporting system	Deferred to 2020 due to a major system update. More precise calculation methods have been implemented group-wide	(✓)	8.8
Complete two SA 8000 audits	One completed	÷	8.8

Future plans, goals and actions	Targets	SDGs
Increase Employee Engagement Index for 2020	>65	8.5
Implement Safety Culture Ladder	Level 3 Certification	8.8
Reduce the Lost Time Injury Rate (LTIR)	≤0.50	8.8
Strengthen reporting and monitoring of safety culture	Full implementation of IA System on all manufacturing sites	8.8
Strengthen corporate safety culture	Complete transition from OHSAS 18001 to ISO 45001	8.8

# Vendors and business partners

At NKT, we expect and require our business partners to fully comply with all applicable laws, rules and international regulations, as well as with our Global Policy for Third Party Compliance and our Business Code of Conduct for Vendors & Business Partners.

**Related SDGs**



As part of our ongoing efforts to improve transparency in our vendor network we have now implemented a cloud-based procurement system with global reach that embraces all our suppliers and vendors. The system will strengthen transparency in the vendor value chain, enabling us to monitor compliance with sustainability and legal requirements in areas such as human rights and anti-corruption.

Furthermore, it will ensure the overall compliance of the vendor value chain with our Global Policy for Third Party Compliance and our Business Code of Conduct for Vendors and Business Partners. This global facility significantly reduces the risk of interaction with vendors not complying with established policies, rules and regulations. Furthermore, we have embarked on a process of identifying high-risk vendors and suppliers and conducting due diligence on the parties concerned.

**Vendor qualification**

As part of our procurement process, we now operate vendor registration and qualification procedures to ensure that business partners are assessed against expectations set out in our Global Policy for Third Party Compliance and our Business Code of Conduct for Vendors and Business Partners. The qualification procedure covers areas such as health and safety, financial health and legal compliance, and demands acceptance of both the aforementioned instruments.

In 2019, we registered 350 suppliers with the cloud-based procurement system representing close to 85% of our Group spend. All our strategic suppliers have now agreed to the Business Code of Conduct,

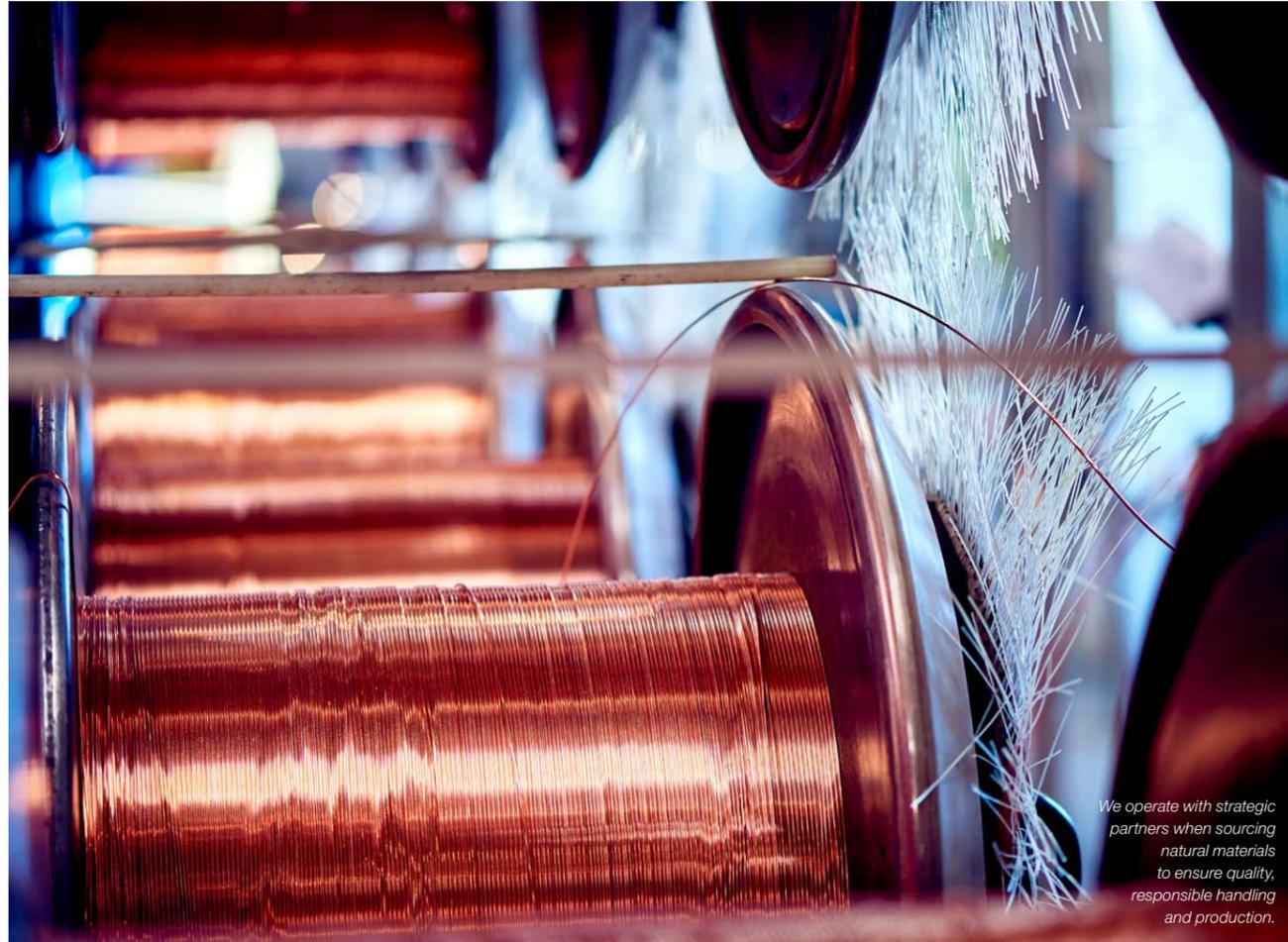
thus confirming their commitment to a sustainable future. The vendor qualification and evaluation process includes self-assessment questionnaires, interviews, desktop reviews, and/or other relevant measures.

During 2020, we will continue and widen this journey by launching our Supplier Relationship Management (SRM) program, which focuses beyond the regular cost benefits and aims to develop a cadre of trusted suppliers for discussion of long-term commitments and potential co-development of sustainable products through Supplier Enabled Innovation (SEI). In accordance with our supplier segmentation, our ambition is to have our A and A+ suppliers included in the SRM programme by the end of 2020.

**NKT Market Place**

In 2019, we introduced NKT Market Place – a smart, digitized and automated ordering platform which facilitates compliant ordering from NKT-approved vendors. NKT Market Place also includes all relevant internal policies active at NKT and a ensures that procurement from vendors complies with our Global Policy for Third Party Compliance and our Business Code of Conduct for Vendors and Business Partners.

NKT Market Place was implemented at our high-voltage manufacturing sites in 2019 and will automate 30–40% of our indirect spending by the end of 2020.



We operate with strategic partners when sourcing natural materials to ensure quality, responsible handling and production.

Goals and actions 2019	Outcome	Status	SDGs
Complete registration procedure for all existing vendors with an annual spend of >EUR 100,000	All existing vendors with annual spend of >EUR 100,000 have been registred	✓	16.6
Register all new vendors according to the procedure	New vendors are registred according to procedure on an ongoing basis		
Complete qualification procedure for all vendors in the following categories: <ul style="list-style-type: none"> <li>■ Production, Materials and Accessories</li> <li>■ Components</li> <li>■ Installation</li> <li>■ Investments</li> </ul>	Supplier registration completed including qualification of most strategic vendors.	(✓)	16.5

Future plans, goals and actions	Targets	SDGs
Strengthen transparency and vendor compliance	All strategic vendors (defined as A+ and A) to be qualified according to process	16.6
Strengthen transparency and vendor compliance	Develop and implement Supplier Relationship Management programme covering our strategic vendors (A+ and A)	16.6

# Target overview

	Goals and actions 2019	Outcome	Status	SDGs
<b>Ethics and compliance</b>	Strengthen our ethics and compliance approach	Ethics & Compliance strategy developed and implemented	✓	16.10
<b>Anti-corruption, anti-bribery and fair competition</b>	Update and implement specific guidelines on anti-trust behaviour	Relevant employees have been trained Guidelines on anti-trust behaviour have been updated, implemented and internally communicated	✓	16.5
<b>Environment, energy and climate</b>	Improve measurement processes for energy consumption	Process for tracking has been improved and reinforced	✓	12.6
	Improve existing water measurement processes	Process for tracking has been improved and reinforced	✓	12.6
	Strengthen focus on energy efficiency	Company-wide initiatives have been implemented	✓	12.6
	Strengthen focus on reporting of environmental incidents	Environmental incidents have been include in company-wide reporting process for health and safety	✓	12.6
	Strengthen focus on evaluation of environmental factors	Process developed and in use on several sites	(✓)	12.6
	Increase material utilization compared with 2018 (96.9%)	97.3%	✓	12.5
<b>Human and labour rights</b>	Increase Employee Engagement Index for 2019 (>61)	65	✓	8.5
	Increase the number of unsafe situations and behaviours > 1,620	2.181 situations reported	✓	8.5
	Reduce the Lost Time Accident Rate compared with 2018 (0.53)	0.73	÷	8.5
	Reduce the Lost Time Accident Severity Rate compared with 2018 (20)	29	÷	8.5
	Redefine the reporting of safety related incidents and create new baseline for implementation in 2020	Aligned KPI definitions with OSHA regulation	✓	8.8
	Full implementation of integrated reporting system	Deferred to 2020 due to a major system update. More precise calculation methods have been implemented group-wide	(✓)	8.8
	Complete two SA 8000 audits	One completed	÷	8.8
<b>Vendors and business partners</b>	Complete registration procedure for all existing vendors with an annual spend of >EUR 100,000	All existing vendors with annual spend of >EUR 100,000 have been registred	✓	16.6
	Register all new vendors according to the procedure	New vendors are registred according to procedure on an ongoing basis		
	Complete qualification procedure for all vendors in the following categories: <ul style="list-style-type: none"> <li>■ Production, Materials and Accessories</li> <li>■ Components</li> <li>■ Installation</li> <li>■ Investments</li> </ul>	Supplier registration completed including qualification of most strategic vendors	(✓)	16.5



**“We operate in a global industry characterized by increasing focus on sustainability”**



## Letter of commitment

NKT Photonics manufactures a wide range of products used in solutions that have a long-term perspective of supporting the transition to renewable energy and improving human health and safety. Examples include cable monitoring systems to extract more power from offshore wind farms, lasers used in manufacturing semiconductors and solar cells, and light sources used in equipment for eye surgery and disease detection.

We operate in a global industry characterized by increasing focus on sustainability. The entire supply chain, from the suppliers of our product materials and components to the end-users of solutions supplied by our customers, is geared to delivering environment-friendlier products and to ensuring they are manufactured safely and responsibly.

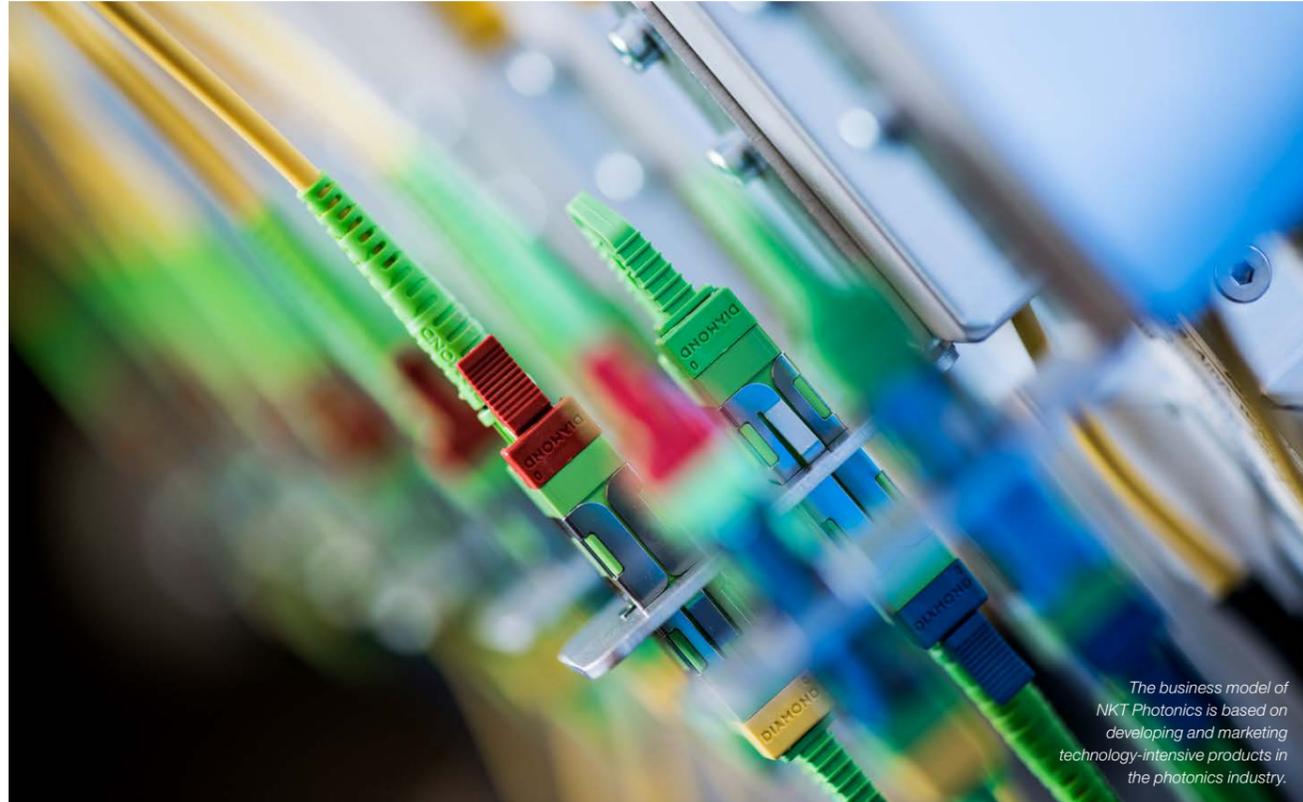
Products from NKT Photonics are marketed and sold with a reputation for high quality and they rely upon significant investment and R&D. It is, therefore, crucially important for us that players in our industry

compete on fair terms, and we will tolerate no form of bribery or other acts contributing to unfair competition.

As a company on the cutting edge of photonics technology, it is vital that we can attract highly committed, top-qualified people and provide them with incentive to do their best. Consequently, we strive to offer a good, stimulating and challenging work environment with ongoing dialogue on both job- and non-job-related development, goals, and performance.

We believe that our strong focus on sustainability and our adherence to the principles of the UN Global Compact will support our business opportunities and at the same time contribute to improved living conditions for future generations.

Basil Garabet  
*President and CEO, NKT Photonics*



*The business model of NKT Photonics is based on developing and marketing technology-intensive products in the photonics industry.*

# Description of business model

NKT Photonics is a leading supplier of fiber lasers, photonic crystal fibers and distributed temperature systems (DTS) as well as having a strong foothold in ultrafast lasers. The products are sold into three main markets: Medical & Life Science, Industrial, and Aerospace & Defense, where the industrial markets were the biggest in 2019 with approximately 70% of the revenue.

The company presides over a strong patent portfolio and employs many highly skilled specialists driving technology development and deployment in our field.

NKT Photonics is headquartered in Denmark and has additional manufacturing sites in Germany, Switzerland, UK, US, and Sweden. Including our worldwide sales and service operations we employed approximately 400 people at end-2019.

Our business model is based on developing and marketing technology-intensive products in the photonics industry that enable our customers to improve their offering and gain advantages in terms of energy efficiency, safety or operating costs. We go to market both directly and through partnerships with OEM customers.

# Ethics and compliance

We consider a global mindset to be key to our success. Responsible and ethical conduct is at the heart of all our actions, and as an active corporate citizen we embrace a value-based approach to the way we do business globally.

Developing and fostering relationships with stakeholders is integral to our business philosophy, and we intend to continue in this direction by consistently delivering on the requisite compliance. We are also meeting growing demands from stakeholders who wish to ensure we are an ethically and responsible business partner.

### Compliance landscape

In 2016 we adopted an updated compliance landscape covering the period 2016–2020. The purpose of this initiative is to ensure compliance to applicable laws, regulations, international standards and stakeholder expectations. Our compliance work in 2019 was performed in line with the established compliance landscape.

The baseline for the compliance landscape is a Business Code of Conduct applicable to all employees. Our vision is to establish a strong compliance mindset throughout the company by ensuring that all employees are properly trained.

### Business Code of Conduct

Our Business Code of Conduct describes the fundamental principles and rules governing the conduct of all employees internally within the company and externally in relation to vendors, business partners and the general public. The principles set out in the Code are designed to guide us, help us make the right decisions in internal and business-related actions, and protect us while we are at work.

The Business Code of Conduct covers the entire value chain, how we do business in all parts of our organization. The Code includes policies governing areas such as business integrity, anti-corruption, environment, energy & climate, fair competition,

human & labour rights, information security, product compliance & quality, compliance handling, and procedure for reporting misconduct. A narrow due diligence and risk assessment process has been conducted to ensure that the content and scope of the Business Code of Conduct are correct and relevant for our company.

### Training and awareness

An extensive communication and implementation package for our Business Code of Conduct was rolled out to existing employees prior to 2017, and now includes all new employees as part of the onboarding process with NKT Photonics. The CEO explains in a video presentation the importance of correct business conduct and describes what the Business Code of Conduct means to NKT Photonics. Various awareness campaigns were continued in 2019, and employees are required to sign the Code to indicate that it has been read and understood. Employee training is provided in the form of an e-Learning course culminating in a test.

### CSR focus areas

To ensure the commitment of management both at the top and locally to the principles of the UN Global Compact the Senior Management Team of NKT Photonics are obliged to sign a personal Statement of Representation. These individual statements are then consolidated and actions will be taken accordingly. Policies, actions, goals and plans are presented in the sections below for the following topics:

- Anti-corruption
- Environment, energy & climate
- Human & labour rights

# Anti-corruption, anti-bribery and fair competition

Participation in corruption and bribery is contrary to our business values, and as a company we refrain from such activities.

NKT Photonics has a clear anti-corruption policy where it is clearly stated that no employee may directly or indirectly offer, give or accept money or anything else of value as part of business dealings in order to obtain an improper advantage. Key risks in regard to corruption and bribery are primarily linked to our interaction with external vendors, suppliers and business partners.

We work to minimize these risks both internally and externally: Anti-corruption is an integral part of internal corporate training in our Business Code of Conduct in which all employees receive appropriate training in. In 2016 we extended our whistleblower hotline to enable instances of unethical behaviour such as corruption and bribery also to be reported by external stakeholders.

Goals and actions 2019	Outcome	Status
Enrol new employees in awareness programme	New employees enrolled in awareness program	✓
Provide training for employees exposed to above-average levels of corruption	Training provided to target group	✓
Goals and actions 2020		
All above goals are maintained for 2020		



*In NKT Photonics, we are committed to working for a sound environment through sustainable business practices.*

# Environment, energy and climate

As stated in our Environment, Energy & Climate Policy we are committed to working for a sound environment through sustainable business practices.

The Environment, Energy & Climate Policy has been implemented companywide through awareness campaigns and training ensure a high level of awareness throughout the organization.

Our product manufacture is associated with a modest environmental footprint and relatively small amounts of raw materials are utilized. We do not consider the risk of environmental impact material. The majority of our products are manufactured in compliance with the RoHS directive, which restricts the use of hazardous substances in electronic and electrical equipment, and similar regulations.

Our operations have very limited environmental impact compared with traditional industry. Our total energy consumption is also determined more by our current product mix – e.g. the ratio of high-power lasers to lower power lasers – than by the energy saving initiatives we introduce. It is therefore difficult to define relevant KPIs for consistent and long-term measurement and no such KPIs have therefore been introduced.

# Human and labour rights

Ensuring a healthy, safe and secure working environment is fundamental to the continued growth of our company, and is therefore an intrinsic part of our everyday activities.

We greatly value all our employees and consider them key to our success. NKT Photonics perceives diversity in the workplace to be a key asset and we do not tolerate any form of harassment or discrimination. We are also firmly committed to providing equal opportunity to all our employees.

At NKT Photonics, principal risks in terms of human and labour rights relate to employee safety and employment. To mitigate these risks, we have clear processes and policies in place. All our employees have contracts that comply with local employment laws and we closely monitor the safety of our employees. Risks relating to forced and child labour are not considered material as we mainly operate in low risk countries. A key element in risk prevention is our whistleblower hotline which is open for both employees and external partners.

### Reporting according to the UK Modern Slavery act

As stated in our Human & Labour Rights Policy we reject any form of forced labour, including bonded labour, indentured labour, slave labour, or human trafficking. We also do not condone the hiring of child labour. In view of the countries we mainly operate in

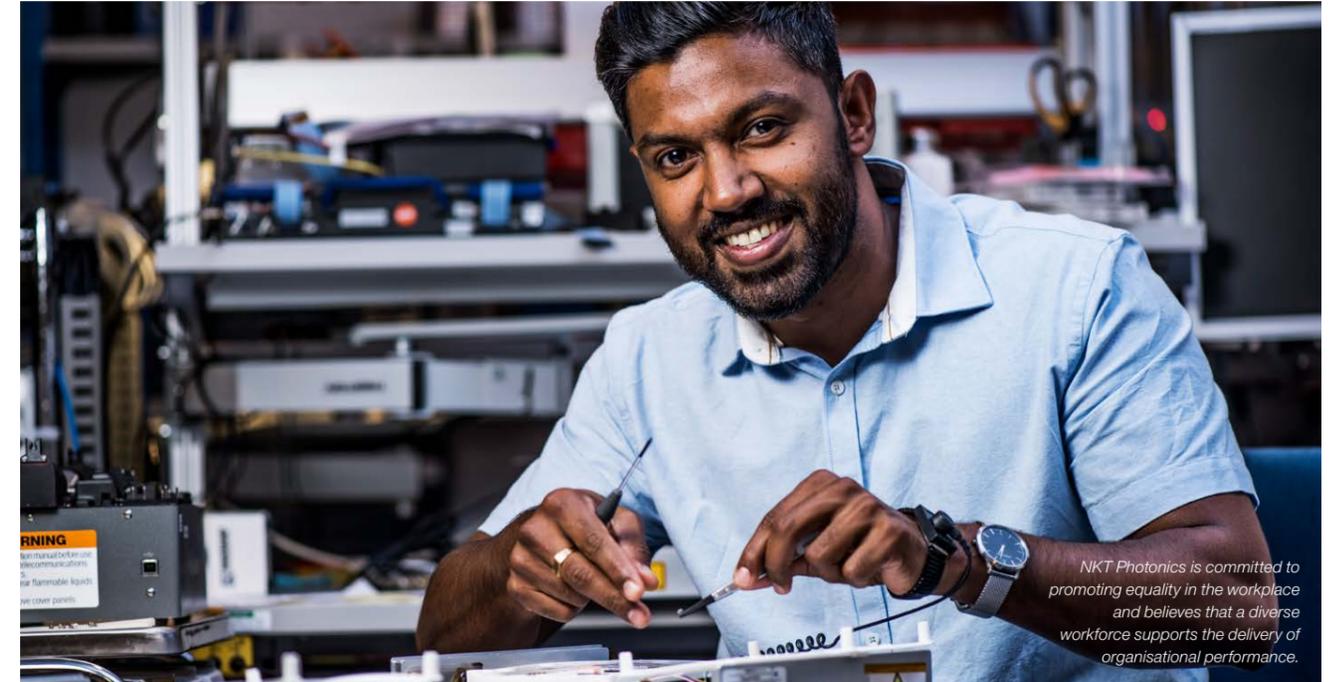
and the nature of our production there is considered to be no material risk of forced labour and child labour. However, our employees are committed to continuously identifying and mitigating potential violations.

The company's business partners are expected to comply with the principles set out in our Business Code of Conduct, and we pursue relevant due diligence processes in conjunction with mergers and acquisitions. Our whistleblower process has furthermore been extended to external stakeholders in order to increase efforts to detect improper business practice.

There have been no reported violations of human and labour rights for 2019 considering NKT Photonics and our business partners.

### Diversity reporting

We encourage diversity in our organization and we believe it enriches our corporate culture as well as our long-term competitiveness. In NKT Photonics, we are committed to ensure that, whenever possible, more equal gender representation is promoted without compromising on qualifications in terms of



NKT Photonics is committed to promoting equality in the workplace and believes that a diverse workforce supports the delivery of organisational performance.

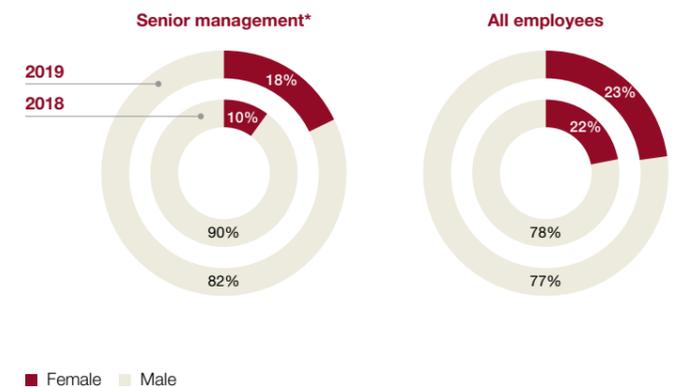
professional skills and personal competencies. Our industry – especially in R&D departments – typically has an overrepresentation of males.

NKT Photonics is committed to promoting equality in the workplace and believes that a diverse workforce supports the delivery of organisational performance. In 2019, we focused our attention on our recruitment process for internal and external recruits and implemented a new Recruitment Policy which incorporates an equality statement. All Managers have been trained on this new Policy and training will be provided for all new Managers during 2020.

In 2019, the diversity of our Senior Management extended in gender and nationality but remained unchanged in age distribution. We do not expect the distribution to change significantly during 2020.

In 2020, we plan to create an Equality Policy and determine what areas we need to focus on for improving the diversity within our organisation.

### Gender diversity in NKT Photonics



### Diversity in senior management\*

	Total	Age profile			Gender		No. of nationalities
		<40	40-54	>54	Female	Male	
2018	10	0	8	2	1	9	5
2019	11	0	8	3	2	9	5

\* Defined as the Global Management Team.

Goals and actions 2019	Outcome	Status
No employee accidents	6 accidents reported	÷
No injuries by high-intensity lights detected in two-yearly tests	0 injuries reported	✓
Conduct employee survey which includes employees from newly acquired businesses	Deferred to 2020	÷
Goals and actions 2020		
All above goals are maintained for 2020		

# Vendors and business partners

Implementation in 2019 of a new Global ERP system delayed progress in this key area, however NKT Photonics now has a stable foundation to drive improvements from.

NKT Photonics went live with Dynamics 365 ERP solution in August 2019, setting a strong foundation for vendor management. Entering 2020, the ERP system is fully operational and consolidates material purchasing for NKT Photonic's global Laser business.

The focus in 2020 turns to utilizing this data to drive improvements in all areas of our business, including targeted supplier audits and compliance management. Through 2020 KPI's will be introduced that measure and inform the business in this key area.

Goals and actions 2019	Outcome	Status
Develop inspection plan to monitor the extent of supplier compliance	Deferred to 2020. Requires a consolidated supplier base, which in turn required ERP to go-Live.	÷
80% of our procurement (above EUR 50,000 in value) to be supplied by partners adopting the UN Global Compact principles	Deferred to 2020. Requires a consolidated supplier base, which in turn required ERP to go-Live.	÷
Goals and actions 2020		
Goals are maintained for 2020		

# Whistleblower hotline

In 2016, we extended our whistleblower scheme to enable instances of unethical behavior also to be reported by external stakeholders. Our whistleblower policy has also been made part of our Business Code

of Conduct which has been implemented through awareness campaigns and an e-Learning course. No reports were filed during 2019 necessitating material adjustments in business procedures.

# Reporting principles

NKT A/S monitors progress on sustainability by means of three main elements:

1. Key Performance Indicators (KPIs) have been developed based on relevant policies and corresponding data is collected. This data covers parameters such as occupational injuries, environmental impact, material utilization and diversity development at Board level. The business units are responsible for KPI quality and data collection.
2. An annual Statement of Representation covering the principles of our Business Code of Conduct is signed by selected leaders broadly representing the activities of the two business units.
3. A whistleblower hotline, maintained by an external provider, allows all employees as well as external stakeholders to raise concerns about seemingly inappropriate conduct, events or circumstances.

## Reporting methodology

The reporting parameters used in 2019 are largely unchanged from previous reports.

The present report covers all entities of NKT A/S unless otherwise stated.

## Data integrity

We consider our data to be sound and valid.

## Auditing

The present report has not been audited by an external auditor.

**NKT A/S**

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