

POWER YOUR POTENTIAL™

Communication On Progress Report.

**April 2016
-
April 2017**



POWER YOUR POTENTIAL.

Kohsel is a Scandinavian supplier of customized transformer solutions. We strive to unleash the full potential in transformer design through dedicated engineering and close collaboration.

We are founded in 1969, and today we produce transformer solutions for customers all over the world. Our headquarter is located in Denmark, and we are present with our own business and production sites across Europe and Asia.

Together with our customers' procurement team and construction engineers, we optimize transformer designs to ensure superior performance, reduced thermal loss and weight, as well as minimum costs related to materials used in production.

With more than 300 employees, we have the agility, experience and expertise to effectively prototype and deliver ISO 9001 certified transformer solutions with built-in know-how.

On time. Every time. Anywhere.

 **KOHSEL**
TRANSFORMER SOLUTIONS

CEO Statement.

Ever since the company was founded in 1969 we have always had a great focus on our employee's wellbeing as well as behaving as a respectable company in matters regarding human and labour rights, the environment and anti-corruption. Today this has become a natural part of our company culture.

Regardless of whether we are looking at our headquarter in Denmark or our production facilities in Latvia or Thailand, we spend a lot of time making sure everything lives up to the standards we require. We consider a sustainable mindset throughout our organisation as a key priority for our business model.

In our role as supplier to large international corporations, we want to be a trustworthy business partner fulfilling the sustainability expectations and requirements of our customers. Regular audits, improvements, new initiatives are a part of our company culture and has the attention of our employees and our suppliers daily. We strongly believe that by continuously developing our systems, evaluating our processes and doing improvements, Kohsel will continue to grow and new business opportunities will appear.

In 2014 we took the step to formulate our implicit behaviour regarding sustainability into an explicit CSR vision: "We are a responsible company promoting a sustainable development". This has continued to be a part of our everyday business and joining the Global Compact in 2016 and fully supporting the 10 Principles was a natural part of this development process.

This is our first of many global compact progress reports to come, and I'm excited for the journey ahead. We acknowledge that we can always get better, but we are committed to learn and unceasingly improve ourselves and our business along the way.

**Yours sincerely,
Henrik Sørensen,
CEO / Managing Director**





Sustainability Code of Conduct.

Our core values support a strong commitment to economic, environmental and socially sustainable development. We strongly believe that it is in the mutual interest of both Kohsel and our suppliers to meet the present and future requirements of the markets and society. This is done by demonstrating responsibility towards the people taking part in the manufacture of our products.

We follow these principles:

Child Labour

We respect the children's right to development and education. Therefore we do not support child labour, meaning that we do not use children as a work force in production.

Discrimination

We respect cultural differences and do not want to cooperate with suppliers who practice discrimination at work by race, religion, age, nationality, or sexual orientation.

Forced Labour

We don't tolerate forced or involuntary labour.

Working Environment

We support the fundamental human right to have sound working conditions.

Environment

Through our environmental policy, we aim to reduce the negative environmental impact.

Working Hours and Salary

We recognise the need for a sound balance between working time and leisure time for all employees. Unless the national law is different, the maximum working time is 48 hours per week plus maximum 12 hours overtime work. Except in extraordinary circumstances, all workers have the right to have at least one day off in a period of seven days. Salaries for overtime work shall be in accordance with the law.

The Right to Organise and Collective Bargaining

We respect the employees' right to organise and to collective bargaining.

Corruption

Corruption and bribery are recognized as some of the barriers for sustainable development and a barrier to free trade. We do not accept these practices and therefore do not offer or accept any kind of undue payment. Our financial systems are set up to control and ensure transparency of all monetary transactions and we regularly educate our management and employees to handle possible borderline situations. Our organisational culture is built upon high ethical standards.

The above principles are a key part of our organisational culture. This code-of-conduct is available on our website and all new employees are introduced to it. Also, we recognise our responsibility as a contractor and have prepared an even more specific code-of-conduct guiding our sub suppliers. Aligning these sustainability principles is a key priority when engaging in cooperation with new suppliers, and our purchase vision guides our choice of suppliers.

Purchase vision:

- **We have long term relationship with our suppliers**
- **We have suppliers that are promoting a sustainable development**
- **We demand that suppliers operates according to international laws and regulations**
- **We only contract with suppliers that signs our Code of Conduct**
- **We only contract with suppliers that are in compliance with our negative list for Hazardous Substances**





Human & Labour rights.

Good working conditions is a major priority in Kohsel at all our sites. We recognise that from an international point of view, unfortunate working conditions appear relatively more often in Eastern European and Asian countries than in Denmark. Thus, we have had an especially high focus on ensuring the right human and labour conditions at our sites in Thailand and in Latvia.

We strive to comply 100% with all international standards and national rules regarding working hours, salary levels, medical assistance, lightning conditions, working positions etc.

Social responsibility audits

Many of our major customers audit our company on a yearly or biyearly basis to ensure we live up to their standards and requirements. An increasing amount of the audit standards are concerning sustainability and human conditions. To be at the forefront with the customer audits, we have during the last year decided to engage an international sustainability auditing company, SGS, to regularly make a very thorough SMETA audits at our production sites. The first audit was conducted in beginning of 2017, a follow-up audit will be carried out during summer 2017, and thereafter we will together with SGS set-up a regular auditing schedule.

This new auditing process will enable us to globally standardise and ensure that the products we sell are always made in safe working conditions, at fair rates of pay and respecting the human rights of those involved in production. Our goal is to ensure that we comply with all international and local laws and requirements. We are 100% committed to taking care of our employees and treat all our employees at least as well as can be expected.





Safety

Safety is a key concern for Kohsel, and a description about how to handle situations regarding safety, fire, safe workwear, handling of dangerous materials etc. is made available in an employee handbook. We always follow manufacturer guidelines when dealing with dangerous materials or equipment and all employees receive proper training.

Working Environment

- High safety when working
- High security and firesafety at our factories
- Training in production and safety
- High quality working light
- Focus on sustainable development in waste management

Conflict Minerals

We do support human rights and wish to contribute to transparency in the supply chain. We have looked into our supply chain to ensure that our suppliers exercise appropriate conduct and are not in any way related to the use of tin, tantalum, tungsten and gold (3TG), originating from the Democratic Republic of Congo (DRC), Republic of Congo, Central African Republic (CAR), South Sudan, Rwanda, Uganda, Zambia, Angola, Burundi and Tanzania – also known as Conflict Minerals.

We do however recognize that the global supply chain is very complex, and the investigation of our supply chain is therefore an ongoing process, where we will keep on ensuring that Conflict Minerals are not related to our supply chain. We rely on the information provided by our suppliers regarding their sourcing of these materials. We expect that any products and components, we receive from our suppliers, are not considered to be Conflict Minerals.

Environment.

We promote a culture encouraging all our employees to feel responsible and be motivated for suggesting environmental improvement activities.

Our environmental system is a management system that focuses on goals, policies, responsibility with the shared purpose to reduce the environmental impact. This is done through the proactive use of general processes and standardised key processes.

ISO 14001

Our environmental system was DS/EN 14001:2015 certified in Denmark in 2016 and in Latvia in 2017. In Thailand, we are in the process of building new facilities, and will thereafter also get the system certified in Thailand.

Proper waste handling is a part of our ISO 14001 system, and we sort our waste according to the categories made available in the different countries. Residual waste from copper and steel is collected and returned for melting and recycling.



Choice of materials

As a production company we are very strict in our choice of materials. Kohsel is committed to providing customers with the highest quality products, but also aspires to the highest standards of social responsibility and ethical conduct.

We have integrated the choice of materials into the design phase, meaning already when designing new products, we consider factors like durability, recycling opportunities etc. Also regarding packaging, we strive not to use foam, rubber, flamingo or PVC, but instead use carton or wooden pallets that are reusable. In close cooperation with our customers we setup recycling processes whenever possible.

Materials:

- **All suppliers operate according to international laws and regulations**
- **No supplier use conflict materials in their supply chain**
- **All RoHS applied materials**
- **All REACH applied materials**
- **All materials outside the negative list**



Environmentally friendly buildings

We wish to minimise our environmental footprint and are committed to making our buildings and facilities as environmentally friendly as possible.

In 2016 we evaluated our facilities in Denmark regarding environmental improvements. Based on this we have exchanged all windows and the roof to improve the energy efficiency of the building. A new heating system has been installed to better regulate the heat during opening and closing hours, which has lowered the heat consumption by 50%. For the moment, we do not have any further plans for environmental improvements in Denmark.

In Thailand, we are currently in the process of designing and building a new factory. In this process, we focus on further improving the working conditions and are willing to make the right investments regarding the environment and energy efficiency. Air condition is inevitable with the warm climate so with a proper ventilation system combined with the right insulation and solar panels on the roof, we aim at making the building CO2 neutral. The building is expected to be ready in 2018.

When the Thailand factory is ready we expect to renew our factory in Latvia, also improving both the working and the environmental conditions. The building is expected ready by 2019. Today the factory in Latvia already has Solar panels on the roof. In 2017 we are testing the impact on changing lightning to an LED solution. If the test turns out successfully the project will be expanded and continued.

CO2 neutral website

On the smaller scale we have chosen to support the CO2 neutral website project to ensure that the traffic on our website doesn't leave any negative traces. All websites emit carbon dioxide, both via the power used by the company's servers that host the websites and via the visitor's computers and screens. Through the project we compensate for our CO2 emission by purchasing CO2-quotas, which is afterwards cleared with the Danish Energy Agency.

By supporting the project, CO2 Neutral Website, Kohsel also supports CO2-reducing projects around the world. All the projects are approved by The Gold Standard, supported by WWF, which is the most rigorous certification standard globally for carbon offset projects.



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