

Profit and performance

The efficiencies we deliver through effective contract management, innovation and through-life management enable us to return value to our customers, our colleagues and our investors.

We buy a wide range of goods and services and need reliable, high-performing suppliers across all aspects of our supply chain. Babcock seeks to ensure that our customers' money is spent efficiently and responsibly and that our supply contracts are managed effectively. We expect our supply chain to adhere to our standards of ethical behaviour, and our environmental, health and safety and other working practices.

Profit

Profit is largely delivered through our ability to manage our operations effectively. A significant part of this is driven through our relationships with suppliers. Over 50% of our cost base is via third party suppliers and our approach and ability to manage these relationships impact our ability to deliver performance and margin.

Over the past year, we have looked for supplier efficiencies across the organisation. This has included contract efficiencies through upfront procurement, involvement in the bid process, operational productivity through increased innovation and quality, and streamlined internal processes.

Babcock has implemented a rigorous programme across our procurement and supply chain function. The objective has been to drive best practices across the organisation. As a result of this initiative, procurement is engaging earlier in order to help provide our customers with the best possible solution while improving profitability. Early pre-bid engagement by the procurement function allows our bid teams to understand potential market capabilities, while engagement as part of the team means we can aim to put together a proposal for the customer that meets the needs and

requirements of the customer in the most efficient way possible, while establishing supplier relationships that are robust and sustainable in the long term.

The output of successful procurement activities is better value for our customers and shareholders through the delivery of effective and efficient sourcing activities. Savings targets are ambitious, and ongoing efforts to obtain efficiencies and lower our cost base help to increase profitability. Key metrics are reported each month to a divisional and Group Governance Board and approved by each business unit Finance Director.

Performance

Building long-term relationships

We are always looking for better, innovative ways of serving our customers. Our responsibility is to provide them with the best options to ensure success. When we identify a more efficient way of servicing their requirements we discuss these options and work in collaboration with the customer to bring efficiency benefits while delivering a quality service.

The Procurement and Supply Chain team is actively engaged in the bidding process with existing and new customers. This enables us to bring the most effective offer to our customers. We are often able to leverage existing arrangements to offer a cost-effective solution.

Suppliers

We believe that establishing long-term relationships with our suppliers is an important part of building long-term relationships with our customers. As part of a structured programme across business units and Group categories, the procurement and supply chain function is raising commercial capability by engaging in supplier relationship management programmes with strategic suppliers.

We have over 10,000 suppliers; however, we have strategic relationships with around 250 of them. By building an appropriate engagement model with

our suppliers, we are able to effectively drive quality and innovation across our supplier base. Strategic suppliers are key partners in our ability to deliver quality service. As a result, we work closely with these suppliers to ensure optimal performance, ongoing improvement and innovation support.

We continue to develop end-to-end procurement tools that enable us to transact efficiently with our suppliers. These tools also provide a common approach, which enables us to share best practice across the organisation. We are able to use consistent business intelligence, which allows us to work collaboratively with our suppliers and focus on innovation and other value-adding initiatives.

The e-procurement tools that we are implementing provide a faster and more effective way of transacting with our supply base, resulting in sustainable relationships that are based on operationally robust processes.

We want to spend time talking to our suppliers about new ideas, operational performance and total cost opportunities – not about payment. We understand the importance of predictable customer payments when running a business. That is why Babcock is a signatory in the UK to the Prompt Payment Code and we would encourage others in our supply chain to make the same commitment.

Delivering business critical support using high-performing, ethical suppliers

Our customers rely on our ability to provide a robust and effective supply chain. We take this responsibility very seriously and work in collaboration with other industry leaders to create a process that optimises risk management while encouraging the use of SMEs. Potential suppliers must demonstrate their financial, commercial and technical capability to meet our contractual requirements. We also look for a clear demonstration of commitment to corporate social responsibility.

Profit and performance continued

We expect high standards of conduct from our suppliers in what they do for us or our customers and will not accept any behaviour contrary to our codes, including bribery, corruption and fraud, threats to health and safety, conflicts of interest or other improper practices.

We pre-qualify suppliers for certain types of supply before admitting them to the supply chain, and this involves satisfying ourselves that they can meet our standards. Certain suppliers will be selected for audit and close monitoring based on risk assessment or supplier performance. Planned reviews of supply chain risk are undertaken by our businesses.

Babcock is a key member of the joint MOD/industry initiative to deliver an effective Defence Cyber Protection Partnership. The Group is tasked with improving the protection of the defence supply chain from cyber threat. Babcock is represented on working groups for each of the three core work strands: information sharing, measurements and standards, and supply chain awareness. A primary objective has been to define a number of risk-based controls to be applied across the relevant supplier base.

We continuously review whether our suppliers comply with the standards set out in our Code of Business Conduct. Last year, we simplified and standardised these procedures in line with the criteria in the anti-corruption and competition compliance policy. Consequently, the self-assessment process for suppliers was updated. In addition to the self-assessment initiative, we now require additional evidence which gives us objective, verifiable supplier ratings.

Babcock is committed to creating a safe working environment that aims to enable all those working on, or visiting, Babcock operations to be able to return 'Home Safe Everyday'. We seek to work only with suppliers who we believe are able to both meet and promote our standards – those that share our commitment to safe behaviour and performance in delivering services and solutions for our customers. Our teams aim to work with suppliers on

safety and share continuous improvement practices to reduce or prevent accidents and injuries.

Protecting the information and physical assets of our customers is an increasingly important part of what we do. We always expect the highest controls of commercial confidentiality. For certain types of supply, we are developing exacting standards of security compliance. For these companies, we need to be certain that information is well managed and protected throughout the supply chain.

Supporting local economies by using diverse, locally procured services

We take our responsibility to support local economies seriously. The varied nature of what we do means that we depend on a wide range of talents and abilities from a wide range of suppliers. As part of our supplier programme, we have been managing compliance through a system of preferred suppliers. This approach is enhancing our supplier relationships and allows us to focus on effective management of our SME supplier base.

Supplier credibility, responsibility, quality and service performance matter. Many of our suppliers are small and medium sized enterprises. We select and manage suppliers to support our own experienced workforce in delivering complex, critical and often bespoke engineering services. Diversification of supply where possible makes our supply chain more robust in helping us to deliver for our customers.

Critical supply partner for through-life support

Joint teams from Babcock and our supply chain engage on a wide range of issues such as maintenance planning, supply support, support and test equipment, training and training devices, and technical data. Targeted supply relationships use data dashboards to monitor performance and progress. Babcock is actively involved with our suppliers in the Aerospace, Defence and Security Supply Chain development programme.

We also lead dialogue with Government, suppliers and skills agencies to help address the skills requirement agenda, with the aim of ensuring that there are enough people with the right skills to fill our own vacancies and those in our supply chain.

Success story in the making

Engineering ace Tom Bennett, who works with Babcock's Defence Systems Technology team in Bristol, joined an elite group late last year when he received a prestigious Institute of Mechanical Engineers (IMechE) Whitworth Award. He was nominated for the award by the University of the West of England (UWE), following a presentation on his experiences of as part of Babcock's four-year Technical Apprenticeship Scheme.

Tom, now a 'Whitworth Scholar', finished the Scheme early and was appointed first as an Assistant Engineer and then Engineer at the Bristol site where his grandfather worked in the 1930s. He is now in his second year of a part-time BEng in Mechanical Engineering at the UWE.

Babcock supported Tom's ambitions from the start of his apprenticeship, giving him well-earned responsibility and the chance to get 'hands on' in the workshops. He got on the fast-track to university after being identified as a keen draughtsman and someone who showed a real talent for engineering.

