

Profit and performance

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Our procurement and supply chain function identifies and delivers the optimal supply chain solution for our customers, including supplier led innovation, demand management, sourcing, economic and environmental sustainability, supplier engagement and contract management, enabling us to return value to our customers, colleagues and 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 Supplier Code of Conduct, a sustainable approach including 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. External expenditure via third party suppliers, including with Original Equipment Manufacturers (OEMs), accounts for approximately 50% of our turnover and our approach and ability to manage these relationships impact our ability to deliver performance and margin.

We continue to drive efficiencies through our supply chain. 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 our customers that meets their needs and requirements 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. Our focus is on ongoing efforts to obtain efficiencies and lower our cost base to increase profitability. Key metrics are approved by each business unit Finance Director and reported on a quarterly basis to the Executive Committee.

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 our customers 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, enabling us to identify optimal supplier led solutions and continuous through-contract improvements. Where feasible we leverage arrangements with existing suppliers on a cross-sector basis.

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 300 of them. We are building an appropriate engagement model with these partners and preferred suppliers 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 helps us to share best practice across the organisation. We are able to use business intelligence which allows us to work collaboratively with our suppliers and focus on innovation and other value-add 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.

Delivering 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 effectively manage risk whilst encouraging the use of SMEs. Potential suppliers must demonstrate that they are both fit for business with financial, commercial and governance capability and fit for purpose with technical, health and safety capability, to meet our contractual requirements. We also look for a clear demonstration of commitment to corporate social responsibility. 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.

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.

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.

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.

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 Every Day'. 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.



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.

Engaging with SMEs in nuclear

We developed a plan to involve small and medium-sized enterprises in our work to produce glove box systems for Sellafield, including extending our existing development measures and introducing some new features. This allows us to support the NDA 2020 target of spending a third of its budget with SMEs and provides the leadership and dedicated resources that will deliver our SME action plan. It also supports UK Government targets.

Working more closely with SMEs gives us access to a wider base of potential suppliers, increases competition, flexibility and agility and promotes the use of innovation.



We are also working with Bath University supporting SMEs in the nuclear sector through a 10-month development programme, involving masterclasses, job shadowing and action learning, designed to stimulate SME productivity growth.