

# Corporate integrity

We are committed to conducting business honestly and openly, and with integrity. As well as being the right and proper way to behave, this supports our long-term success.

We understand that our reputation and good name are amongst our greatest assets, which could easily be lost by actual or suspected unethical behaviour.

To ensure good governance and ethical behaviour across our Group, we have developed a series of Group policies to guide our actions and those of our employees, suppliers and partners. An outline of our controls can be found on page 82.

## Code of Business Conduct

To protect the Company and reduce these risks, we have set out a policy on how we should conduct business, which we summarise in the form of the Babcock Code of Business Conduct.

Compliance with this policy is compulsory for our employees, business advisors and business partners (or, in the case of business advisors and partners, they must have equivalent standards and procedures in their own businesses).

The Code of Business Conduct comprises a detailed manual, available on the Group's intranet, that contains guidelines, authorisation and other procedures aimed at identifying and reducing ethical risks. The controls that we have in place form an integral part of our risk management arrangements and include the training of employees, regular risk assessments throughout the business and whistleblowing hotlines.

We implement and observe appropriate training and procedures designed to ensure that we and others working for us understand what our Code of Business Conduct and our Suppliers' Code of Business Conduct means for them in practice. We treat seriously breaches of our Codes or associated guidance.

Employees can raise (confidentially if they wish) without fear of unfavourable consequences for themselves, any concerns they have that our Code or its associated guidance is not being followed.

More details of our risk management procedures can be found on pages 80 to 92 and the Ethics Policy and Code of Business Conduct and Suppliers' Code of Conduct can be found on our website. Further information about the whistleblowing process can be found on page 82.

## Human rights

As an international business, we recognise our responsibility for upholding and protecting the human rights of our employees and other individuals with whom we deal in our operations around the world. While we continue to believe that our exposure to the risks of human rights abuses and modern slavery is low within our own business and supply chain, we welcome the opportunity we have to contribute positively to global efforts to ensure that human rights are understood and observed.

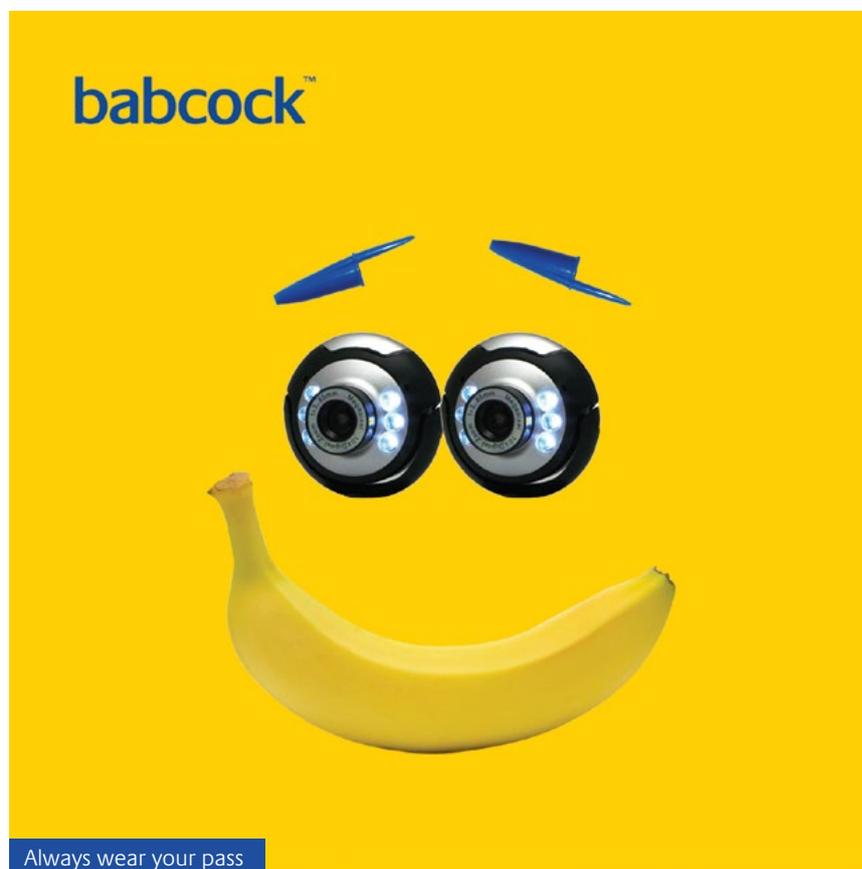
We believe that a culture of respect for, and promotion of, human rights is embedded throughout our business and can be demonstrated by our commitment to ethical conduct in everything we do.

Our Modern Slavery Transparency Statement is reviewed and approved annually by the Board. It is available on our website.

## Cyber security

Our ability to deliver secure IT and other information assurance systems to maintain the confidentiality of sensitive information is critical for our customers. Babcock's Group Security Board meets quarterly to provide governance covering cyber and other security and informational assurance risks, issues and threats facing the Group.

Babcock is a key member of the joint MOD and industry Defence Cyber Protection Partnership which is an initiative to ensure the defence supply chain understands the cyber threat and is appropriately protected against attack. Babcock is represented on all the working groups and DCP Executive committee. Babcock's core IT Services are certified to ISO27001 (Information Security) and ISO22301 (Business Continuity).



Governance

# Diverse and robust supply chains

Diverse and robust supply chains enable us to provide quality and timely delivery. We work closely with our suppliers to develop and deliver innovative solutions that drive value to our customers.

External expenditure via third-party suppliers, including Original Equipment Manufacturers (OEMs), accounts for approximately 50% of our turnover and our approach and ability to manage these relationships impacts our ability to deliver performance and margin.

Our procurement and supply chain function develops and delivers optimal supply chain solutions which enable us to return value to our customers, shareholders and communities.

We buy a wide range of goods and services and need reliable, high performing suppliers across our supply chain.

We work with over 10,000 suppliers. These range from OEMs to Small and Mid-size Enterprises (SMEs). Of these suppliers, 300 are strategic, and are key partners in our ability to deliver continuous improvement and innovative quality outputs.

## Small and Mid-size Enterprises

We recognise the value that SMEs play in the wider economy and we actively encourage them to engage with us. Working closely with SMEs ensures that we have access to optimal solutions and provides enhanced flexibility and agility. See case study below for further examples of our engagement with SMEs.

## Governance

The development and execution of our supply strategy is aligned with the overall business requirements, for both short and longer term.

To ensure a robust supply chain, we have developed a series of procedures that guide our Group-wide procurement activity. In addition, each sector has supporting policies which outline their operating principles and ways of working.

Our supply base design is balanced to meet our customer, regulatory and financial performance requirements. It considers supply chain risk and addresses appropriate mitigating actions.

Business critical suppliers are reviewed with the Audit and Risk Committee on an annual basis to address any risks or concerns.

## Effective engagement

Our activities ensure that we continue to deliver value through working effectively with our supply chains.

By improving upfront supply chain involvement in bid processes, we have been able to engage earlier with potential suppliers.

This enables our suppliers to actively support the design and implementation stages with innovative solutions and deliver enhanced productivity and increased quality.

We use our business intelligence tools, which include ratings agencies, ERP systems and spend analytics, to enable us to work collaboratively with our suppliers and focus on innovation and other value-add initiatives.

The e-procurement tools that we are implementing will embed and in some cases improve our robust processes that enable us to ensure sustainable relationships with our suppliers.



## Supporting Small and Mid-size Enterprises

We recognise the value that working with SME suppliers can bring, and we actively engage with SMEs as part of our supply chain design activities.

Procurement teams lead market-warming activities before letting contracts. This enables SMEs to understand the opportunities available and also allows us to offer guidance on the bidding process. We run industry supplier days to maintain and develop a strong working relationship with SMEs which identifies their capabilities for current and future opportunities. “Lunch and learn” sessions have been held with SMEs to share best practice across a range of topics.

Our procurement teams attend national and local conferences and exhibitions, including DP RTE, DSEI and Farnborough to seek out new suppliers and discuss opportunities during ‘meet the buyer’ events.

### Supplier code of conduct

Our Group-wide Suppliers' Code of Conduct (available on the Group's website) is designed to provide clarity about our expectations of suppliers, including compliance with all applicable laws.

While we recognise that our suppliers operate in different geographic and economic environments, we expect that products and services are delivered in a way that support Babcock's high standards and contribute to the reputation of Babcock and our customers.

The Code reflects the same standards that we hold ourselves and enables a consistent approach to our customers in delivering to the highest ethical standards.

Suppliers and the extended supply chain are expected to meet these standards at all times, and should either be willing to subscribe to our Code or have equivalent standards and procedures in their own businesses.

Our intention is to be a good partner and to work with suppliers to support necessary improvements, but we will not accept any behaviour which is contrary to our ethical codes or health, safety and environmental working practices.

### Supplier due diligence

Before engaging with suppliers, we assess their ability to demonstrate that they are 'fit for business', with financial, commercial, safety and governance capability. We also look for potential suppliers to support our social purpose and sustainability agenda.

Suppliers also demonstrate they are 'fit for purpose', with technical, health and safety capability and security compliance to meet our contractual requirements.

Businesses use appropriate processes to qualify, on-board and periodically revalidate suppliers to ensure compliance with commercial, regulatory and legal requirements.

Protecting the information and physical assets of our customers is an important part of what we do. We always expect high standards of commercial confidentiality. For certain types of supply we have and continue to develop exacting standards of security compliance.

In the UK, we use the JOSCAR due diligence tool, which is a shared industry-wide management system for defence contractors that collects standardised information about individual suppliers across the UK supply chain.

Certain suppliers will be selected for an audit based on risk assessment. These checks will assess suppliers' approach to human rights, data protection, modern slavery, health, safety and environmental issues. If risks are identified, we work with suppliers to address them.

### Prompt payment

We understand the importance of predictable payments when running a business and encourage good practice across the Group. Twenty-one legal entities submit returns to Companies House according to the Payment Practices and Performance Regulations. Average payment for these entities over the past six months is 34.5 days.

We support the Prompt Payment code and encourage our suppliers to adopt the code themselves and promote adoption of the code throughout their own supply chains.

### COVID-19 supply risk

We are working closely with our supply chain to determine the impact of COVID-19 lockdown on their business and the deeper supply chain. At this time, we have not identified material supply chain risk, however, we maintain an open channel of communication with our suppliers,



### Modern Slavery training: supply chain

An important part of our vigilance regarding Modern Slavery relates to scrutiny of our supply chain.

This year, we have developed bespoke e-Learning modules for key procurement and supply chain employees. This aims to ensure staff are alert to any potential for modern slavery in the supply chain and to provide advice on how they can address concerns, including by contacting an independent whistleblowing hotline.

Employees involved in supplier selection and engagement are now required to complete the awareness training programme.