

Governance – Commercial integrity

We are committed to conducting business honestly, transparently and with integrity. As well as being the right and proper way to behave, this will ensure we uphold high ethical standards across the Group and support our long-term success.

We understand our reputation and good name are amongst our greatest assets, which could easily be lost by actual or suspected unprincipled 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. These are reviewed periodically to ensure that they meet current best practice principles and legislative needs. By establishing transparent policies and procedures we can reduce risk to our business and to our customers. An outline of our risk management and assurance processes can be found on pages 85 to 86.

Ethics policy and Code of Business Conduct

To protect the Company and reduce 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 Ethics policy comprises a detailed manual, available on the Group's intranet, containing guidelines, authorisation and other procedures aimed at identifying and reducing ethical risks. These include extensive policies around anti-bribery and competition law prohibitions that clearly show our zero tolerance for any form of bribery or anti-competitive behaviour.

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 as referenced in our Diverse and robust supply chains section mean for them in practice.

We treat breaches of our Codes or associated guidance seriously. Employees can raise any concerns they have that our Code or its associated guidance is not being followed without fear of unfavourable consequences for themselves. We provide a range of channels for employees to do so, including a new initiative "Ask David" which allows employees to raise questions directly to our new CEO, David Lockwood. We also have independent whistleblowing hotlines in each country where we operate so that employees can raise issues confidentially if they wish, with assurance that we will not take action against anyone who makes a report. All reports to the whistleblowing line are sent directly to the Company Secretary who decides the appropriate course of investigation.

More details of our risk management procedures can be found on pages 85-86 whilst our Ethics policy, Code of Business Conduct and Suppliers' Code of Conduct can be found on our website.

Human rights

As an international business, we recognise our responsibility for upholding and protecting the human rights of our employees, our suppliers and business partners 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 to contribute positively to global efforts to ensure that human rights are understood and observed.

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

Our Modern Slavery Transparency Statement, which is referenced again in our Diverse and robust supply chain section, 78, is reviewed and approved annually by the Board. Our statement during the year was assessed by the TISC report AI system and Babcock was placed in the top 6% of companies meeting the minimum criteria. Additionally Babcock was included in its published list of links to exemplar statements. Our statement remains available on our website.

Cyber security

We recognise the very real risk of malicious cyber breach and work hard to ensure both our customers' and our own information assets remain protected. 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 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 DCPPE Executive committee.

Babcock's core IT services are certified to ISO27001 (Information Security) and ISO22301 (Business Continuity). In addition, following a recent external assessment, we retained our Cyber Essentials Plus certification which is mandatory for all suppliers of Government contracts that involve handling personal information and providing certain IT products and services.

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 for our customers and shareholders.

External expenditure via third-party suppliers, including Original Equipment Manufacturers (OEMs), accounts for a significant part 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 supply chain solutions which enable us to return value to our customers, shareholders and communities.

We buy a wide range of goods and services from over 14,000 suppliers. These range from large multinational OEMs to Small and Mid-size Enterprises (SMEs). Of these suppliers, 300 are key partners in our ability to deliver continuous improvement and innovative quality outputs.

Sustainable sourcing

The development and execution of our supply strategy is aligned with the overall business strategy.

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. We review our business-critical suppliers on an annual basis to address any risks or concerns.

We are aligning our processes and standards to ISO 20400 (Sustainable Procurement) and this includes ensuring that we consider circular economy principles including recycling and disposal options.

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 combine technology, market intelligence and business process to engage with our supply base to form long-term sustainable relationships.

Working with 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 with SMEs ensures that we have access to innovative new solutions and provides enhanced flexibility and agility.

Fair operating practices

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 supports Babcock's high standards and contributes to the reputation of Babcock and our customers.

The Code reflects the same standards to which 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.

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.

Our businesses use appropriate processes to qualify, on-board and periodically revalidate sub-contractors 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.

Payment to suppliers

Historically we have not been good customers around period ends; however we will be improving our practices. We understand the importance of predictable payments when running a business and will ensure good practice across the Group.

Twenty-one legal entities submit returns to Companies House according to the Payment Practices and Performance Regulations. Fourteen of our legal entities are signed up to the Prompt Payment Code and are compliant as of 31 March 2021.

Average payment across the Group over the past six months to March is 29.6 days, an improvement versus 34.5 as reported last year.

We actively 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. We have put in place measures to ensure that we continue to comply with the UK Government's January reforms of the code.

Focus for FY22

- Work towards aligning procurement processes and standards with ISO 20400
- Actively encourage supplier diversity and social inclusivity by engaging with SMEs and minority owned businesses
- Support Scope 3 carbon emissions mapping