

## GOVERNANCE



### 5 Being a collaborative, trusted partner across the supply chain

We are committed to conducting business honestly, transparently and with integrity. Diverse and robust supply chains enable us to provide quality and timely delivery of products and services.

External expenditure via third-party suppliers, including original equipment manufacturers (OEMs), continues to account for a significant part of our turnover and we recognise how our ability to deliver performance and margin is affected by our approach and ability to manage these relationships.

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. To support this process we have invested in an AI risk monitoring solution that will allow us to map our supply chain ecosystem, monitor activities and alert us when hidden risk is exposed in our sub-tier supply chain. This has been rolled out in Q1 FY22.

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). Approximately 250 of these suppliers are considered to be key partners supporting our ability to deliver continuous improvement and innovative quality outputs. We combine technology, market intelligence and business process to engage with our supply base and form long-term sustainable relationships.

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 both the design and implementation stages of our work with innovative solutions and deliver enhanced productivity and increased quality.

Over the past year we have undertaken a structural reset of our procurement and supply chain, appointing a new Chief Procurement Officer to lead its transformation. We have made strong progress with the implementation of the Group Procurement and Supply Chain operating model and standardisation of key business processes. The purpose of this strategy is to create a Group procurement and supply chain team with a common purpose and strategy which is fully integrated and aligned with the business. We aim to achieve consistent long-term value creation for our interested parties by continually enhancing our supply chain to deliver best-in-class and sustainable products, goods and services.

#### Sustainable sourcing

Babcock aims to maintain strong and sustainable supply chains and we recognise that to be successful we must work collaboratively with our suppliers and sub-contractors to identify and deliver ever more sustainable goods and services. Our intention is to reduce the environmental footprint of our supply chain and provide social benefits to society in parallel with meeting our business goals.

We continue working to align our processes and standards to ISO20400 (Sustainable Procurement) including circular economy principles such as recycling and disposal options. A strategic roadmap has been developed which establishes the framework required to integrate sustainability within procurement and supply chain activities, driven by the need to deliver sustainable outcomes through our supply chain. Our procurement and supply chain business processes will continue to be developed and aligned to ISO20400 guidelines throughout 2022, with a view to full alignment by the end of 2023.

To support this intent we have published a new Supplier Sustainability policy which is being rolled out to our supply chain through planned communication activities and supplier engagement events during FY23.

Supporting guidance has also been produced in the form of our Sustainable Procurement Supplier guide. This document is provided to assist suppliers in meeting the requirements of our Sustainable Procurement policy. It identifies areas for emphasis, reference documents and some regional requirements arising from national policies.

Our suppliers and their extended supply chains are required to share our commitment to respecting, protecting and promoting human rights and to support our efforts to achieve transparency within higher-risk supply chains and take responsibility for the issues we uncover such as hidden labour exploitation.

### Scope 3 carbon emissions mapping

We are currently conducting an assessment of upstream Scope 3 emissions (categories 1 and 2) to establish data for Babcock's upstream value chain emissions.

A spend-based calculation methodology is being adopted for the mapping activity to produce tabular and graphical results for Babcock's upstream value chain emissions and provide a baseline for developing Babcock's carbon strategy further.



See Environmental section page 57

### Working with SMEs

We recognise the value that SMEs play in the wider economy and we actively encourage them to engage with us. We will continue to engage with both smaller and local suppliers, especially those that help inclusion of under-represented groups, which fosters economic prosperity and societal integration.

Working with SMEs also ensures that we have access to innovative new solutions and provides enhanced flexibility and agility. As part of the wider Group procurement and supply chain strategy, we expanded key performance indicators throughout FY22 to measure and monitor our percentage spend with SMEs. This is now a key measure within the procurement and supply chain function and our performance against benchmark targets is subject to ongoing management review, which supports both our decision-making and any actions required to support the growth of our SME supplier population.

### Human rights

Babcock is an international company and we are committed to conducting our dealings with the utmost integrity. We are committed to the protection of human rights and we comply with all national laws in the jurisdictions in which we operate. 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 promotion of, human rights is embedded throughout our business and can be demonstrated by our commitment to ethical conduct in everything we do.

We recognise the United Nations Universal Declaration of Human Rights and the standards established by the International Labour Organization. Our suppliers and their extended supply chain are expected to share this commitment and to meet the following:

#### Treat workers equally

- Respect the human rights of all employees and the rights of the communities in which they operate
- Ensure work is performed on a voluntary basis
- Ensure that all employees can make a free choice about their employment – there should be no illegal, forced, bonded, involuntary or exploited labour
- Ensure there is no involvement in human trafficking or involuntary movement of people

#### Reasonable working hours

- Ensure employees do not work hours in excess of the limitations set by relevant local and national laws and regulations
- Ensure all overtime work is voluntary
- Other than for extraordinary situations, all workers are entitled to at least one day off in every seven-day period

#### Workers are of an appropriate age

- Ensure that no underage workers are employed, either directly or indirectly
- Babcock's suppliers are encouraged to participate in appropriate apprenticeship programmes that comply with applicable laws and regulations

#### Workers are paid fair wages

- Pay wages which at least meet national legal standards. Pay industry benchmark standards wherever possible
- Ensure overtime work is used responsibly and compensated fairly
- Ensure that everyone is working in a recognised employment relationship as defined by law, and explain clearly to employees the terms and conditions of their employment and the expected work output to which their wages relate

### Workers' health and safety in the workplace is protected

- Provide a safe and sanitary workplace, taking all necessary actions to educate employees to prevent accidents and injury to health

### Ensure access to fair procedures and remedies

- Allow access to full and confidential remedy/grievance processes
- Freedom of association and collective bargaining
- Allow free association and the opportunity to communicate directly with management without fear of intimidation or reprisal

Core processes to ensure compliance with our expectations include supplier onboarding, audits and assessments, issue management and performance management. The requirements are also incorporated into our Supplier Code of Conduct, Supplier Sustainability policy and Supplier Sustainability Guideline which are subject to routine periodic review.

The human rights risk assessment process is embedded into a number of our due diligence and management processes, where a targeted approach is taken within our questionnaires to understand the maturity levels of controls within our supply chain. Our supplier lifecycle management controls also trigger scheduled reviews within our supplier onboarding solution.

The supplier audit programme is currently being reviewed to ensure human rights issues are being embedded into the standard audit content. The supplier quality and development audit programme is being extended during FY23 to cover a wider section of our supply chain and the audit checklists are being standardised across each of the business units to consistently verify adequate human rights controls are demonstrable by the supplier throughout the audit process. Formal actions are taken when risks are identified during the audit process.

Our strategy for supply chain risk management has also led to the introduction of an AI solution for live monitoring of human rights risk within our extended supply chain. Babcock can now assess our suppliers' policy and performance strength regarding human rights, including information on child or compulsory labour, treatment of people throughout the supply chain and treatment of local populations. This approach serves as an early warning system. Should events or changes occur in our supply, live alerts are communicated to the procurement and supply chain team.

### Modern slavery

In the UK, we expect our suppliers and extended supply base to adhere to the Modern Slavery Act 2015, as we do ourselves. We expect all our overseas suppliers to understand and comply with the intent of the Act.

Modern slavery considerations are included as part of our risk management and supplier selection processes and we will continue to review our approach to training our employees and ascertaining risks in regards to the prevention of modern slavery.

If it is discovered that there has been a breach of the above, or any other relevant, declarations and legislation, we will take all necessary steps to mitigate any impact.

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

### 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 many of 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.

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 either 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. 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, onboard 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

We understand the importance of predictable payments when running a business and will ensure good practice across the Group.

17 legal entities submit returns to Companies House according to the Payment Practices and Performance Regulations. 11 of our legal entities are signed up to the Prompt Payment Code and are compliant as of 31 March 2022.

Procurement methodology to calculate average payment days across the group has changed this year from an average to weighted average approach. The average payment over the past six months to March is 24.6 days, versus 23.5 days last year. For reference, using last year's methodology, the equivalent figures would be 30.5 days over the past six months versus 29.6 days last year.

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

### Commercial integrity

We are committed to conducting business honestly, transparently and with integrity. It is the right and proper way to behave, ensuring we uphold high ethical standards across the Group. It also supports our long-term success.

We understand our reputation and good name are amongst our greatest assets and could easily be lost by actual or suspected unprincipled behaviour. To support good governance and ethical behaviour across our Group, our actions and those of our employees, suppliers and partners are guided by a series of Group policies. These are reviewed periodically to ensure that they continue to 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.

### Code of Business Conduct and Ethics policy

To protect the Company and reduce risks, we have established a policy on how we should conduct business which is summarised 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 policy is kept under review by the Group Company Secretary and General Counsel and on an annual basis the Board undertakes an annual ethics review, seeking assurance that the Group's Ethics policy is complied with.

Our Ethics policy comprises a detailed manual, available to employees on the Group's intranet and also available on our website, which contains guidelines, authorisation mechanisms and other procedures aimed at identifying and reducing ethical risks. It supports extensive policies around anti-bribery and competition law that clearly show our zero tolerance for any form of bribery or anti-competitive behaviour.

These controls form an integral part of our risk management arrangements, which also include training our employees and undertaking regular risk assessments throughout the business. We implement 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 (see also page 71) mean for them in practice. This training includes mandatory completion of courses on an annual basis in all our geographies, translated where applicable, such as anti-bribery and corruption, security and data protection. Completion of these courses is monitored.

We treat breaches of our Codes or associated guidance seriously. Employees can raise any concerns that our Code or its associated guidance is not being followed without fear of unfavourable consequences for themselves.

To ensure that anyone with a concern is able to access advice and support, our independent whistleblowing hotline, EthicsPoint, (operated by NAVEX Global) allows for confidential and anonymous reporting and is available 24 hours a day, seven days a week, in all territories where we are based. Employees are encouraged to use it if they feel unable to raise concerns with their local management team and details are available for use by external stakeholders and members of the public.

All reports to the whistleblowing line are sent directly to the Company Secretary who decides the appropriate course of investigation. During the year 83 whistleblowing reports were received (FY21: 83).

More details of our risk management procedures can be found on page 76 whilst our Ethics policy, Code of Business Conduct and Suppliers' Code of Conduct can be found 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 Committee 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 UK Ministry of Defence and industry Defence Cyber Protection Partnership (DCPP) 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 DCPP executive committee, as well as other defence security forums.

Babcock applies all required international and government security standards for installation and secure operation of Information systems.

Babcock's core IT services are certified to ISO27001 (Information Security), ISO22301 (Business Continuity) and Cyber Essentials Plus, which is mandatory for all suppliers of UK Government contracts that involve handling personal information and providing certain products and services.

Babcock continues to invest in cyber resilience and in raising awareness across the workforce.