



# **Babcock Supplier Assurance Handbook**



### **be curious**

We believe in positively challenging the status quo and asking, 'how might we?'



### **think:outcomes**

We believe in measuring success by the results we deliver and the positive impact we make.



### **be kind**

We believe in being kind to ourselves, kind to each other and kind to the planet.



### **collaborate**

We believe that Babcock is greater than the sum of its parts.



### **be courageous**

We believe in being brave, ambitious and determined.



### **own & deliver**

We believe everybody has a part to play in Babcock's and our customers' success.

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# Introduction

Welcome to the Babcock Supplier Assurance Handbook. As an international defence company, Babcock operates primarily in the UK, Australasia, Canada, France and South Africa, with additional exports to global markets.

Our mission has never been clearer: in times of geopolitical instability and disruption, we play a crucial role. More than ever, what we do matters.

We provide through-life technical and engineering support for our customers' assets, delivering improvements in performance, availability and programme cost. We deliver these critical services to defence and civil customers, including engineering support to naval, land, air and nuclear operations, frontline support, specialist training and asset management.

Our commitment to excellence is backed by a robust Business Management System that ensures lean operations and a customer-focused approach.

Key components include establishing a comprehensive global supplier network, maintaining consistency and quality in components and materials, monitoring and assuring operating performance, implementing a market-leading management program and safeguarding against inferior products and services.

Our suppliers are integral partners. We build relationships based on total quality practices, aiming for optimal performance, product excellence, reliable delivery, exceptional service and cost-effectiveness. Babcock invests significantly in supplier development to achieve the highest product standards. We expect active partnership and adherence to global performance standards from all our suppliers.

Thank you for being part of the Babcock family as we strive to **create a safe and secure world, together.**

# Purpose

The Babcock Supply Chain Assurance System ensures the provision of goods and services globally. While this document serves as a guide, it does not override live contracts, agreements, or specific “requirements” documents.

Our supplier assurance framework operates within a cooperative context, fostering collaboration between Babcock and our suppliers. The key components of this framework include:

**Information management:** Efficiently managing data and communication channels.

**Risk and sustainability:** Addressing risks and promoting sustainable practices.

**Relationship governance:** Nurturing strong relationships throughout the supply chain.

**Quality assurance:** Ensuring product and service excellence.

**Performance:** Monitoring and enhancing delivery performance.

**Collaboration:** Actively engaging with suppliers for mutual benefit.

**Improvement:** Continuously refining processes and outcomes.

Our goal is to maintain high-quality and safety standards, robust relationships and reliable delivery performance. We achieve this by empowering suppliers to develop and maintain processes and controls aligned with contractual requirements. Quality costs are appropriately managed for both parties.

Babcock expects direct suppliers to have a quality management system meeting ISO 9001 requirements. While third-party certification is not mandatory, suppliers must demonstrate conformance through business processes and successful delivery.

Depending on specific contracts, our supplier assessment process may extend to other relevant standards, such as ISO 14001 (Environmental Management System) or ISO 45001 (Health and Safety). We remain committed to safety, environmental responsibility and technical excellence.

# Framework

Babcock’s Supplier Assurance framework ensures global provision of goods and services, emphasising collaboration, quality, performance and adherence to standards.



Figure 1: Babcock’s Supplier Assurance framework

# Supplier due diligence

The supplier due diligence section of our handbook outlines our Supplier Code of Conduct and sets clear expectations for our suppliers. We expect them to operate in a fair and ethical manner while safeguarding both themselves and Babcock from risks. Additionally, we carefully consider supplier selection and onboarding, aligning our supply chain with our business needs.

Given that a significant portion of Babcock's turnover relies on outsourced spending, our suppliers play a crucial role in meeting our customers' needs and expectations, as well as gaining a competitive advantage in winning contracts.

We maintain the highest standards of ethical and professional behavior for our suppliers. Our supplier code of conduct defines these standards, covering

aspects such as integrity, compliance and responsible business practices. Furthermore, our supplier onboarding process ensures that new suppliers undergo thorough vetting before commencing work with us. This process includes evaluating their financial stability, legal compliance and alignment with our code of conduct.

These robust processes are essential for fostering trustworthy relationships with our suppliers and driving overall performance excellence across our supply chains. By adhering to our code of conduct and successfully completing our vetting process, our suppliers demonstrate their commitment to ethical conduct, contributing to the high quality of our products and services.



# Section 1: Supplier code of conduct

## 1.1: Introduction

Our supplier code of conduct is a responsible sourcing policy that outlines the principles and expectations we hold for our suppliers, reflecting our commitment to ethical, responsible and sustainable business practices. Aligned with global best practices, this details our shared responsibility in creating a transparent, inclusive and resilient supply chain.

Our suppliers are fundamental to our success and their commitment is instrumental in upholding the integrity of our operations and values. Our supplier code of conduct covers a range of vital topics, from ethical conduct and environmental responsibility to data security and human rights. By adhering to these guidelines, suppliers directly contribute to a positive impact on our shared ecosystem.

We believe that by embracing this supplier code of conduct, we can collaborate with our suppliers in ways that not only enhance our individual businesses but also contribute to a global landscape that is sustainable, fair and ethical. Our supplier's dedication to these principles is pivotal in achieving our collective aspirations. To ensure these standards are cascaded throughout Babcock's supply chain, suppliers are expected to hold their suppliers and subcontractors to the standards and practices covered in the code.

Suppliers are an integral part of our journey towards a brighter, more sustainable future with ethical excellence and responsible business practices. Together, we can build a future that leaves a positive legacy for generations to come.

## 1.2: Accessing the supplier code of conduct

The code is available to everyone to access directly from our web pages at: [www.babcockinternational.com/who-we-are/suppliers/supply-chain-responsibility/supplier-code-of-conduct/](http://www.babcockinternational.com/who-we-are/suppliers/supply-chain-responsibility/supplier-code-of-conduct/)

## 1.3: Framework

Our Supplier Code of Conduct outlines the expectations and standards that suppliers must adhere to when conducting business with our organisation. Our code is divided into five main sections, which are:

**Conducting business:** This section outlines the expectations for ethical business practices, including compliance with laws and regulations, anti-bribery and corruption and fair competition.

**Human rights and labour practice:** This section outlines the expectations for suppliers to respect human rights and labour practices, including freedom of association, non-discrimination and fair wages.

**Environmental:** This section outlines the expectations for suppliers to minimise their environmental impact, including reducing greenhouse gas emissions, conserving natural resources and minimising waste.

**Risk management and security:** This section outlines the expectations for suppliers to manage risks and ensure security, including protecting confidential information, ensuring data privacy and managing supply chain risks.

**Ensuring accountability:** This section outlines the expectations for suppliers to be accountable for their actions, including maintaining accurate records, cooperating with audits and reporting any violations of the code.

# Section 1: Supplier code of conduct continued

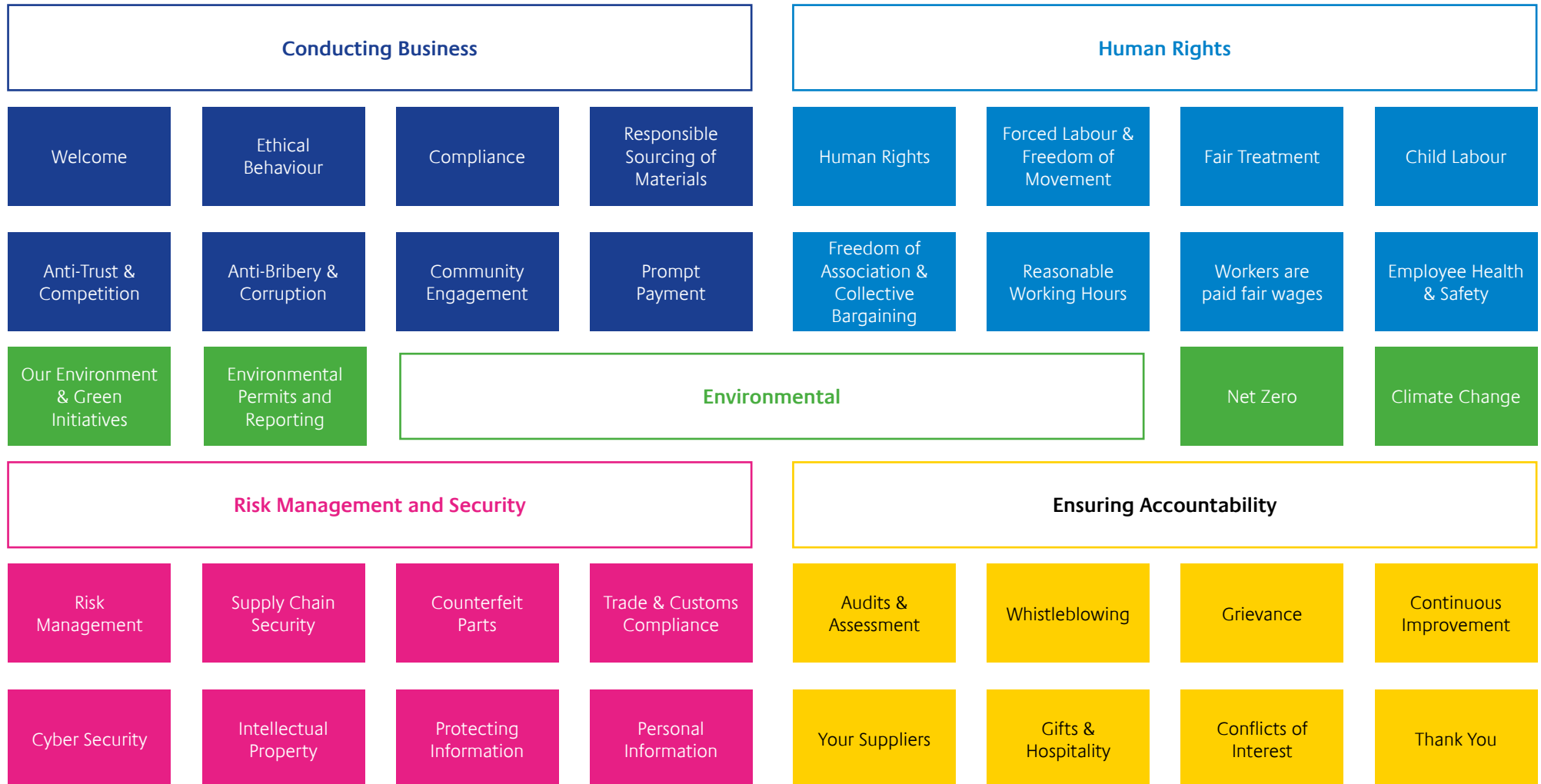


Figure 2: Supplier Code of Conduct framework

# Section 2: Supplier selection and evaluation

## 2.1: Introduction

Babcock sets a high standard of quality conformance; with the expectation this is adopted throughout its supply chain. Babcock require the provision of quality products and services within the agreed timescale whilst maintaining competitive prices, resulting in the lowest total cost of ownership.

Suppliers are selected on their ability to meet specified requirements and the capability to serve as a supply chain improvement partner.

Suppliers will be subject to re-approval and surveillance activities based upon their impact on Babcock outcomes, this includes performance, strategic relationship and risk.

## 2.2: New supplier selection and evaluation

A Request for Information is typically the first formal point of contact between Babcock and a potential supplier. These suppliers will be requested to complete questionnaires related to quality, environment, safety, finance and ethics.

The questionnaires are digital, with remote access provided to the supplier. This enables the efficient completion and submission of the completed questionnaires for consideration.

Supplier evaluation collects general data about the company, its products and capabilities. Specific topics included are:

**Quality systems:** Certificated to ISO 9001 or equivalent Quality Management System.

**Quality performance:** Past performance in quality, capability, reliability and delivery. Performance targets will be established based on past performance and industry best practices.

**Environment, health and safety:** Certificated to ISO-14001 / ISO45001 or equivalent Management System.

**Reliability:** Practices in place for verification and validation testing that ensures products meet the minimum useful life expectations.

## 2.3: Supplier selection criteria

The primary criteria for the supplier the selection process is based upon quality, cost, delivery, service, innovation and Environmental, Social and Governance factors. Babcock prefer suppliers who hold certification to the latest version of ISO 9001, ISO 14001 and ISO 45001 or equivalent management systems. Other selection criteria are based on the following:

<b>CONTINUOUS IMPROVEMENT ACTIVITIES</b>	Continuous improvement activities revolve around seeking to eliminate non-value adding activities, whilst driving process and product improvement, which can be applied to all aspects of the business. We recognise supplier continuous improvement activities, as the basic rewards are sustained profitability and business growth that both the supplier and we can benefit from. Some supplier continuous improvement activities may include Lean or Kaizen activities, in which our representative will be available to assist.
<b>SHEP CAPABILITY / PERFORMANCE</b>	Evidence that the supplier has a robust system to mitigate safety, health and environmental protection risk in relation to both activities and product supplied.
<b>FINANCIAL VIABILITY</b>	Financial assessment is the screening process, which needs to be passed by any supplier. Understanding a supplier's total cost structure helps a buyer determine how efficiently a supplier can produce an item.
<b>IT MANAGEMENT CAP ABILITIES</b>	Evidence that the supplier is using such systems provides reasonable assurance that the supplier is staying current with new e-commerce technologies thus optimising communication.

## Section 2: Supplier selection and evaluation

<b>PRODUCTION MANAGEMENT CAPABILITIES</b>	Evaluating production scheduling and control system of suppliers enables us to assess on time delivery capability.
<b>RESOURCE CAPABILITIES</b>	Resource capability is a capacity for a set of resources to integrative produce product or component to our requirements.
<b>TOTAL QUALITY PERFORMANCE, SYSTEMS AND PHILOSOPHY</b>	Supplier quality management process, systems and quality philosophy is also considered a major part of the evaluation process.
<b>TECHNOLOGY</b>	Supplier's ability to make and / or modify, their knowledge of tools, machinery, techniques, systems and methods of organisation, in order to solve a problem, improve a pre-existing solution to a problem, achieve a goal, handle an applied input/output relation or perform a specific function.
<b>OTHER</b>	This may include factors such as technological capability, innovation, etc., as specified by us.

### 2.4 Supplier segmentation

We strategically segment our suppliers. Strategic suppliers closely align with Babcock's business objectives, engaging in resource-intensive collaboration to support mutual growth. These long-term relationships focus on continuous improvement in delivery (quality, logistics, design and costs) to strengthen the collective market position. Preferred suppliers, on the other hand, are selected for scale trading relationships on preferential terms. Collaboration with them delivers added value and enhanced performance, as they significantly influence the quality, timely delivery and cost of Babcock outcomes. The relationship with preferred suppliers is structured for continuous improvement. For all other suppliers, Babcock monitors and manages the relationship proportionally based on the mutual impact.

### 2.5: Our onboarding process

The Supplier Information Management onboarding process involves several stages. Firstly, the buyer identifies potential suppliers and conducts due diligence in accordance with sector-specific processes. Following this, the buyer decides whether to proceed with onboarding the supplier. The next step is to conduct a risk assessment of the supplier during the onboarding process, which involves collecting and storing key information such as insurance and ISO certification, policy documentation and compliance information. This information will be stored in our Supplier Information Management platform unless it has already been collected through our third party compliance tool.

## Section 2: Supplier selection and evaluation

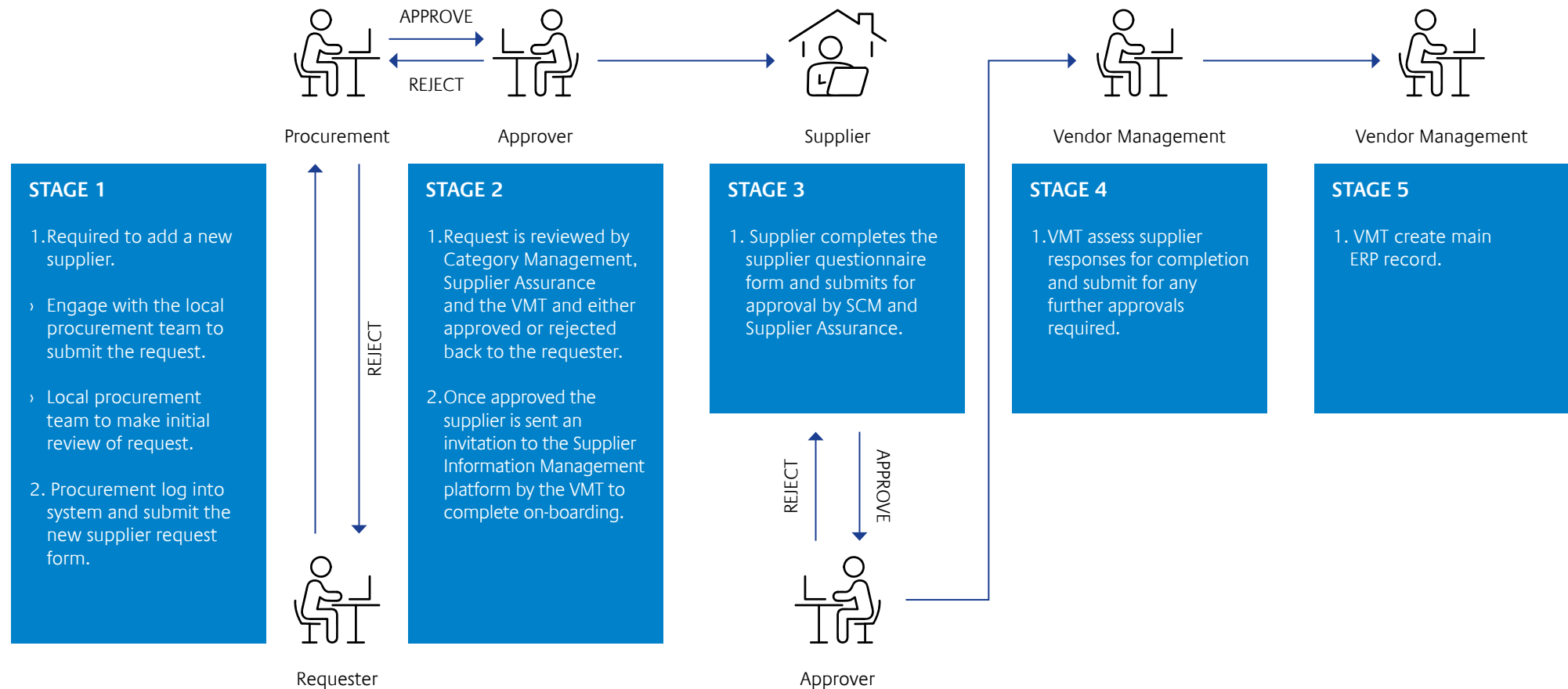


Figure 3: Onboarding process flow

## Section 2: Supplier selection and evaluation

### 2.6: Key requirements

In the course of onboarding, we will collect key data from suppliers to transact. This will include company details, key contacts and all relevant remittance details required to conduct business. Additionally, suppliers will be requested to sign up to the Supplier Code of Conduct and perform a risk assessment which includes Health and Safety, ESG, Quality, Cyber and Financial questions as well as the collection of all relevant ISO accreditations and Insurance certifications. Finally, suppliers will be required to provide a set of declarations stating that they will act legally and appropriately in all dealings with Babcock and have the appropriate authority to act on behalf of their company.

### 2.7: Expedited onboarding

Suppliers who sign up to Babcock's nominated third party compliance tool for the aerospace, defence and security industry can benefit from a more expedient process. This tool acts as a single repository for pre-qualification and compliance information, allowing suppliers to provide information once for multiple customers. Babcock recognises this benefit and endeavours to avoid duplication with our onboarding process.

### 2.8: Collaboration

The onboarding of a supplier necessitates the successful collaboration of multiple participants, encompassing various stages from initial requirements to establishing a seamless transactional relationship. With tasks ranging from business identification and procurement due diligence to supplier risk appraisals, approvals and master data management. This process aims to safeguard our company from any potential exposure.

### 2.9: Information management

Keeping information up to date in our supplier portal is crucial for ensuring smooth communication and collaboration with our suppliers. It can lead to quicker issue resolution, automated workflows and improved compliance. Our Supplier Information Tool acts as a central platform for collecting, storing and managing supplier data, enabling greater confidence in supplier approvals which will help reduce the risk to brand and ensure supplier compliance.

It is essential that all ISO accreditations and insurance certifications are maintained and updated to ensure no expiry, which could lead to exposure to Babcock or risk in operations due to lapsed certification.



## Section 2: Supplier selection and evaluation

### 2.10: Benefits of supplier onboarding and risk assessment

Our standardised onboarding process offers the following benefits to Babcock and our suppliers:

**Increase efficiency:** By automating the process of collecting and validating supplier information

**Centralised data management and analysis:** providing a more accurate and consistent view of data across multiple departments or business units

**Unify processes and systems:** Providing consistent and standardised services across multiple locations

**Improve risk management:** By identifying potential risks associated with suppliers, such as financial instability, regulatory non-compliance, or supply chain disruptions

**Standardisation:** Suppliers are onboarded using the same processes, resulting in a more consistent and efficient onboarding experience

**Strengthen Compliance:** Ensure that suppliers meet regulatory and compliance requirements, such as anti-corruption laws, data privacy regulations, or environmental standards

**Diversity:** Provide greater flexibility and scalability in responding to the changing needs of a global organisation

**Clarity:** Clear understanding of the information required by the organisation

**Legislation awareness:** Reduce the risk of legal and reputational harm associated with non-compliance



# Risk and sustainability

Risk management and sustainability are two critical topics that are essential for the success of our organisation. Risk management is the process of identifying, assessing and mitigating risks that could negatively impact our organisation's objectives. Sustainability, on the other hand, is the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs.

By identifying and mitigating risks, we can protect Babcock's reputation, reduce costs and improve their overall performance. Sustainable practices ensure that our operations are environmentally and socially responsible.

Focusing on risk management and sustainability will ensure the long-term success of our organisation. By adopting sustainable practices, we can all reduce our environmental impact, improve social responsibility and enhance our reputation while also mitigating potential risks that could negatively impact their operations. For example, climate change is a significant risk that could negatively impact our supply chain. By adopting sustainable practices, organisations can reduce their environmental impact and mitigate the risks associated with climate change.



# Section 3: Supply chain risk

## 3.1: Introduction

In line with our Babcock International Group Risk Management Policy and Risk Management Requirements Manual we have a risk management framework and business control environment to manage the supply chain risks that may impact our ability to achieve our objectives or more generally our business model. We have taken the necessary steps to improve our risk management processes across the group to provide clear visibility around the nature and extent of our principal risks related to our supply chain. Processes will be subject to ongoing continuous improvement.

As part of the Group's long-term plan, we have reviewed and improved the risk management framework to align with our business operating model. The framework, which we describe in this section, is standardised across the Group. Clear risk ownership is required to assist the Procurement and Supply Chain leadership team with its understanding of prioritised risks.

## 3.2: Identification of our risks

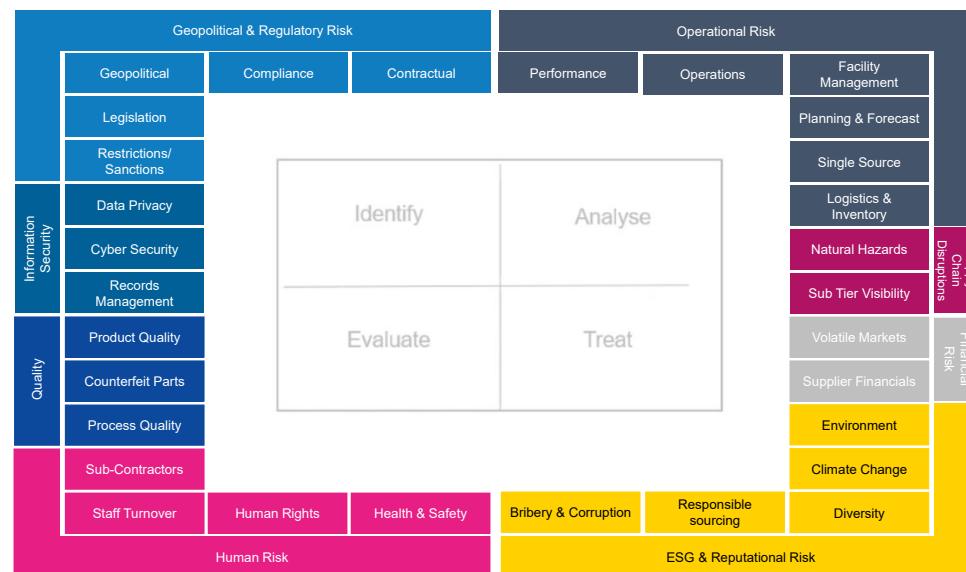
Babcock procures a wide range of goods and services from over 12,000 suppliers globally. These range from large multinational Original Equipment Manufacturers to small and mid-size enterprises. Babcock applies various methods and techniques to identify risks across our diverse supply chain.

Babcock's key goal is to identify risk at the earliest possible stage and support the supply chain as far as possible with mitigation activities. It is important to leverage on collective knowledge and experience to identify risks and their impacts as well as likelihood of occurrence.

Once identified through our risk detection methods the risks will be processed through the various stages of our risk management model from proactive supplier resilience to our principal risks.

## 3.3: Supplier resilience

Our supply chain is subject to continual global inflationary pressures. Furthermore, the global supply of raw materials and parts has not fully recovered from recent pandemics and global conflicts, leading to supply interruptions. Like with inflation, this could be exacerbated by global political events. As a result, we recognise there is a risk that our suppliers may suffer financial stress which may impact their ability to fulfil their contracted supply agreements with us. This has the potential to add additional cost and time to our programmes. To mitigate the risk, we actively monitor our supply chain's financial health and operational performance to allow us to identify potential issues and collaborate accordingly if any concerns arise. Babcock have adopted a holistic risk perspective to quantify all potential threats to our business strategy and objectives. We have adopted the necessary tools and solutions to detect and manage emerging risks.



\*Adapted from Gartner's Illustrative Supplier Risk Dashboard

Figure 4: Babcock P&SC Risk Resilience Frame

## Section 3: Supply chain risk

The Babcock P&SC Risk Resilience Frame is a visualisation of the risks to Babcock's continued supply chain operations. We implement various methods and controls to manage the risks accordingly. Our end-to-end risk management process contains clear processes for making our organisation more robust and flexible. It helps Babcock cope and recover from various types of risks or subsequent risk events. Enhancing our capacity to anticipate, adapt and recover – whilst striving to achieve sustainable and resilient outcomes.

### 3.4 Babcock risk detection methods

Babcock employs seven key methods within our supply chain risk detection processes. These methods encompass a range of tools and processes, including due diligence, self-assessments, performance monitoring, audits and inspections, staff reporting, industry analysis and real-time monitoring. By implementing these strategies, we ensure effective risk management throughout its supply chain.

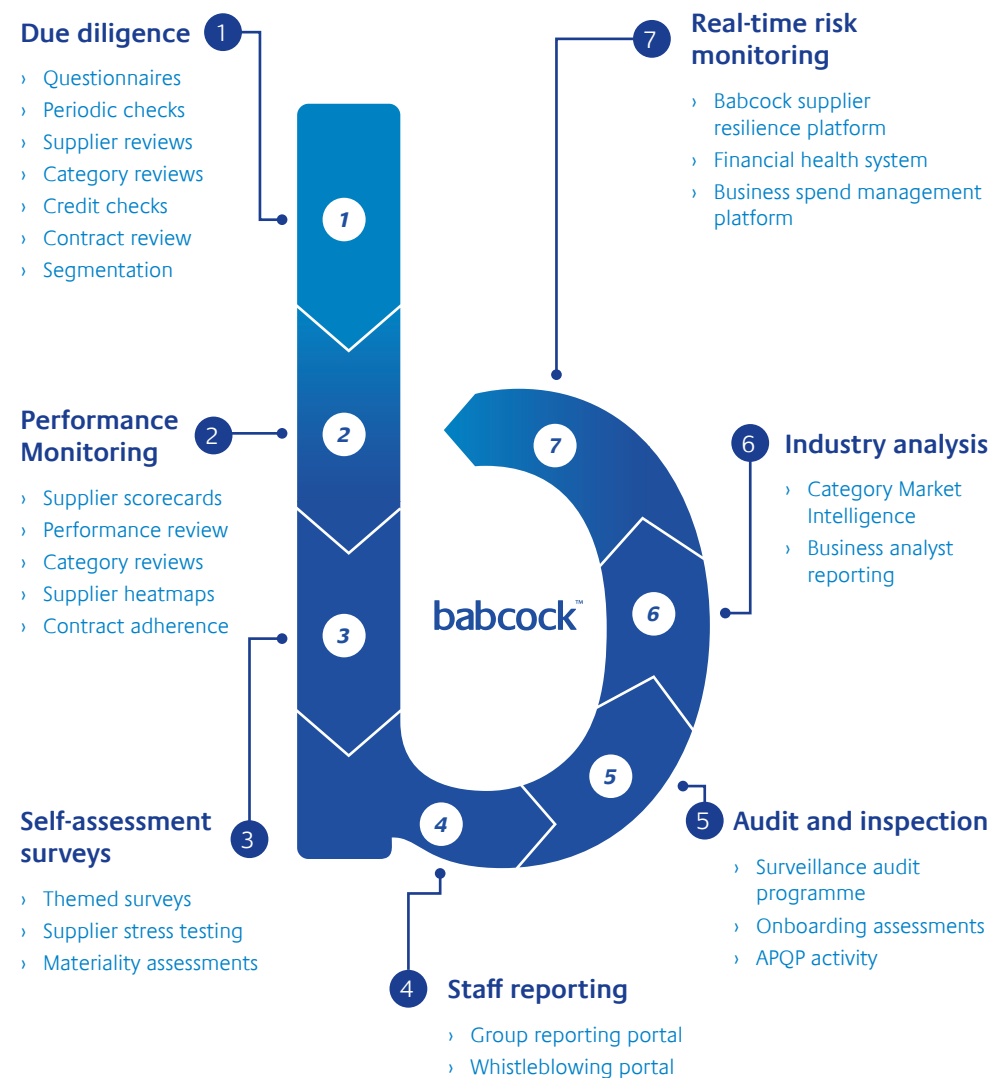


Figure 5: Babcock's seven risk detection methods

## Section 3: Supply chain risk

### 3.5: Risk Governance

The Babcock P&SC Risk Governance approach contains industry standard principles that support value creation and protection of our business objectives. These principles ensure that managing risk is 'Efficient, Effective and Consistent'. Managing risk is a key activity associated with Babcock P&SC and includes multiple interaction points with stakeholders. It considers all contexts of the business, including human behaviour and cultural factors. Recognising that the elements within these activities may need to be adapted or improved to remain dynamic. How we govern our risks is set out through our risk governance model, a sequence of reviews, actions and workflow conducted along a specific path from initiation to completion.

**Define:** Scope, context, criteria, ownership, pre assessment impacts

**Monitor and Council:** Monitoring implemented strategies, Local/project reviews, tracking cost & ROI

**Record and report:** Global ONE Risk Register, Risk Councils, escalation of 'Priority 1' risks

**Communicate and Consult:** SLT Review of 'Priority 1' risks, communicated to wider business

### 3.6: Risk Governance model

The purpose of our Risk Governance model is about building supply chain resilience and ensuring that there are fail safe mechanisms in place to protect us against internal and external threats. The process consists of assessment steps that are followed within our systematic workflow tool which has an embedded Risk Register.



Figure 6: Babcock's P&SC Risk Governance model

### 3.7: Collaboration

Managing risk is a key activity and includes multiple interaction points with stakeholders. It considers all contexts of the business, including human behaviour and cultural factors. Recognising that the elements within these activities may need to be adapted or improved for the P&SC function to remain dynamic. Collaboration is vital as it enables us to manage our risks more effectively.

## Section 3: Supply chain risk

### 3.8: Assessing risk

Following the international standard framework of ISO31000 and our risk governance model, the way that we assess our risks is done through four key process steps.

**Identify:** ID of risk threat, capture context/causes, Assign owner, impact of incidents

**Analyse:** Est risk likelihood & impact, banding by priority, assess tolerances

**Evaluate:** Evaluate exposure, options and response strategy, assign ownership of actions

**Treat:** Implement actions, costs to complete, target dates, effects of actions, close risk

### 3.9: Identify

Assessing supply chain risks is a crucial step in ensuring the smooth functioning of our organisation. Using our various risk detection methods and risk resilience frame, we go through the activities that identify and document the risk incidents that could impact Babcock's objectives and ability to do business.

We then identify and allocate ownership of these risk incidents along with other key data points, such as start dates and end dates of incidents and risk categorisation. We assess each risk by estimating its likelihood of occurrence and the nature and scale of their impacts.

This is conducted via two steps pre-treatment as follows:

**PRE-Mitigation RA:** An assessment of its Current state (as it stands today with no further response actions being completed).

**POST-Mitigation RA:** An assessment of its Target state (assuming all planned response actions are completed successfully).

Once the risk has been classified and an owner assigned the next step within the workflow is triggered to analyse the risk.

### 3.10: Analyse

This stage involves analysing the identified risks to determine their likelihood and potential impact. Following an assessment of the identified risks, a risk score is generated based on probable impact. This provides us with a clear determination of the risk's overall priority via a 1-4 banding.

Priority 1	Priority 2	Priority 3	Priority 4
Urgent attention required to reduce exposure or risk owner to clearly justify otherwise	Proactive management required to reduce exposure	Requires monitoring and management	Ongoing management to maintain the effectiveness of control & conduct monitoring / periodic reviews

Figure 7: Risk priority banding

These prioritisations of risk into the four bands allow the assessor to analyse whether a threat is out of tolerance and requires further response actions to reduce its score to an acceptable level.

Similarly, the bands provide a means for identifying the opportunities which warrant the greatest attention and response effort.

We apply this to the 5 'Likelihood' x 5 'Impact' risk threat matrix to identify the overall risk score for the incident at hand. Priority 1 banded risks are escalated and reviewed within our risk governance process with our P&SC Senior Leadership Team and communicated to the wider business.

## Section 3: Supply chain risk

Likelihood	Risk Threat Matrix					
	Very Likely	8	15	20	23	25
	Likely	6	10	16	21	24
	Possible	4	9	13	17	22
	Unlikely	2	5	11	14	19
	Very Unlikely	1	3	7	12	18
		Insignificant	Minor	Moderate	Major	Severe
		Impact				

Figure 8: Risk Threat Matrix

### 3.11: Evaluate

Once the risk has been categorised and a priority band assigned, a final evaluation of the risk is required before proceeding onto to risk treatment stage. This evaluation consists of validation, noise filtering and considering the overall risk event for the following:

- › Has the review of prioritisation for likelihood and impact consistent?
- › Assign response strategy with appropriate actions
- › Assign ownership to the treatment actions
- › Has the risk been effectively triaged?

Making sure informed decisions are conducted swiftly aligned with managing the risk for the best outcomes against the timescale. These considerations will either validate or change the priority banding.

### 3.12 Treat

Risk Treatment is 'Implementation stage' of our risk governance model. Treatments of risks only occur once the assessor has evaluated the risk priority. This part of the process includes final selection and implementation of the measures identified in the evaluation stage to modify/ validate the risk. Our risk treatment measures include 'Avoidance, Reduction, Transferal/Optimisation and acceptance to tolerate the risk.

At this stage of the process the risk owner will prepare a response plan for each risk, reviewing all considerations and assessing the target state of the risk - incorporating response actions and scope. A response plan is developed for all risks and specific response actions to implement are agreed. These actions include:

- › The specific action that will be undertaken.
- › An individual Response Action Owner.
- › Target completion dates for the action.
- › The costs agreed to complete the action.
- › Evaluate effect of actions/ activities - feedback to risk assessment.
- › Risk Closure

A systemic management workflow has been developed to track progress, assign stage and task ownership and summarise as a central risk register. This register forms a key part of our risk reporting within the business and is a vital part of our risk governance model.

## Section 3: Supply chain risk

### 3.13 Accountability

An individual owner will be accountable for the appropriate treatment of risk, but the reduction or full mitigation of risk is a collaborative approach and will require the full cooperation of all relevant stakeholders. This may be other functions Internal to Babcock, Customers or Suppliers of goods and services. It is expected that we will all work together to deliver the optimal results in the management of risk.

### 3.14: Escalation

We will proactively escalate risks in alignment with prioritisation, engaging the Procurement and Supply Chain (P&SC) senior leadership team in a Priority One review monthly. This process will consider both our highest-rated risks and any additional risks flagged for review. The outcome of these reviews will define our top risks for P&SC and ensure that our leadership team dedicates the necessary focus to reduce or mitigate risk as reasonably as possible.

*“Our continued investment in monitoring, managing and mitigating our principal risks will foster a consistent risk control approach, aiming for predictability and optimisation of our performance.”*

**David Lockwood**  
Chief Executive Officer

### 3.15: Our principal and emerging risks

Our risk management is a dynamic, evolving process. We continually strive to identify new emerging risks and deepen our understanding of existing ones.

As detailed in previous sections, our process pinpoints the risks of utmost significance to the Group, labelled as Priority 1. These risks could materially impact the Group's business, strategy execution, or financial results if they materialise.

Annually, we conduct a comprehensive review of all current risks, those with the highest impacts from the previous year and known macro risks affecting the risk management ecosystem. This review is carried out in alignment with the Babcock P&SC Risk Resilience Frame. The outcome of this review is the assignment of our strategic risk themes, which are recognised as our Procurement and Supply Chain's principal risks.

These strategic risks are subsequently reported in our Annual Report under the section of Supply Chain Management's Principal Risks.

### 3.16: Benefits of risk management

Our risk management framework offers the following benefits to Procurement and Supply chain, our internal stakeholders, our customers and our suppliers of goods and services:

- › **Operations:** Maintaining business production and delivery
- › **Customer satisfaction:** Boost and maintain. Provide competitive advantage
- › **Global standardisation:** Unity with our processes and systems providing a consistent approach across Babcock, across multiple locations.
- › **Better data management and analysis:** Real-time alerts for supply chain vulnerability. Clarity of information to confidently make decisions.
- › **Continuous monitoring:** Across Babcock supply chain for cyber, operational, geographic, financial, sustainability & governance related risks.
- › **Early detections of risks:** Provision on early warning alerts for key risk categories across the supply chain.
- › **Visibility of multi-tiers supply chain:** Reducing disruption and unplanned events, geographic risk mapping of supply chain.
- › **Reduce the risk of legal and reputational damage:** Mitigate revenue impacts and consequences.
- › **Improved safety:** Providing a safe working environment for everyone, ensuring compliance with industry standards.
- › **Risk action management:** Workflows that define standard tasks, ownership and timescales.
- › **Risk mitigation:** Full audit trail of actions evidencing risk mitigation, better asset management.
- › **Opportunities:** To enact our principles and promote collaborations and communication. Increase appetite and engagement. Foster right culture. Embedded risk management framework will improve risk maturity.



## Section 4: ESG and carbon reduction

### 4.1: Babcock – sustainable business

Sustainability is a critical issue that affects us all and is a key consideration for our customers and stakeholders. It is essential that we all take responsibility for our social and environmental impact to foster a culture of respect and mitigate future risks by being prepared for potential social and environmental challenges.

Supplier assurance is a critical component of sustainable procurement. By ensuring that our suppliers meet certain sustainability standards, we can reduce our environmental impact. Sustainable procurement can also help to reduce costs by minimising waste and energy consumption in our supply chain. By implementing sustainable procurement practices, Babcock can create a more sustainable future.

### 4.2: Sustainable supply chain

In line with our Corporate Sustainability charter, we aim to maintain strong and sustainable supply chains and 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 the communities in which we operate in parallel with meeting our business goals.

Our Supplier Code of Conduct sets out our expectations for environmental, social and governance practices in our supply chain. We believe that sustainable procurement is essential to minimise the impact of our operations on the environment, mitigate climate change and ensure the safety of our people.

Our Sustainable Procurement Policy and Supplier Guide align with the United Nations Sustainable Development Goals, providing a framework for working collaboratively to make a positive impact on the communities in which we operate. At Babcock, we are committed to contributing to the achievement of the Sustainable Development Goals through a wide range of corporate activities, including collaborations and co-creation with our stakeholders. Our 12 focus categories aim to help us all flourish and create a more sustainable future for everyone.

### 4.3: Sustainable Procurement Policy



Our sustainable procurement policy sets out how we work with our customers, suppliers and communities collaboratively to minimise the impact of our operations on the environment and support our focus of creating a safe and secure world, together.

## Section 4: ESG and carbon reduction

### 4.4: ESG lifecycle

The ESG lifecycle diagram below illustrates the key processes where sustainability requirements have been incorporated to ensure default considerations are present in our daily activities. The diagram highlights the importance of sustainability in the entire lifecycle of a Babcock supplier, from onboarding to phase out. It emphasises the need to integrate sustainability into every aspect of our daily activities, including sourcing, due diligence, tendering, audits, assessments, development and performance management.



Figure 9: ESG lifecycle diagram

### 4.5: Carbon footprint

Babcock's commitment to reducing its carbon footprint is a critical aspect of our sustainability strategy, which includes setting science-based targets to achieve net-zero emissions by 2050. This is not just a "nice-to-have", but a business imperative. Moreover, regulatory policies such as the UK's Procurement Policy Note 06/21 require suppliers to commit to Net Zero by 2050 and provide a Carbon Reduction Plan, making sustainable procurement a regulatory requirement for companies like Babcock that work with the public sector.

### 4.6: Sustainable procurement

Sustainable procurement minimises environmental, social and economic impacts and has become a critical focus for Babcock as we strive to lessen our planetary footprint and meet stakeholder expectations. This approach not only promotes efficiency and cost savings but also aligns with regulatory compliance, thereby avoiding potential penalties.

By selecting suppliers who employ sustainable production methods, we can decrease energy and water usage, reduce our carbon footprint and minimise waste. This strategy is expected to result in long-term cost savings and enhance our supply chain efficiency.

The growing concern among consumers, investors and the public regarding the ESG impact of their purchases makes sustainable procurement a strategic move. It bolsters Babcock's reputation and strengthens relationships with key stakeholders, including customers, employees, suppliers and investors.

Sustainable procurement aligns with the United Nations Sustainable Development Goals (SDGs), addressing global issues such as poverty, inequality and climate change. By adopting these practices, we contribute to goals like Responsible Consumption and Production (Goal 12) and Climate Action (Goal 13), fostering a sustainable future for all.

Supplier engagement is a vital aspect of sustainable procurement. Collaborating with our suppliers ensures our collective commitment to sustainability and alignment with our objectives.

## Section 4: ESG and carbon reduction

### 4.7: Integration with procurement and supply chain activities

At Babcock, we require evidence that our suppliers have robust business processes to manage all aspects of environmental, social and governance (ESG) practices. We have developed due diligence processes throughout the relationship and realisation lifecycles to verify that adequate business processes are in place within our supply chain. We maintain a global environmental, health and safety management system that defines operating practices, objectives, data collection, reporting, audits, performance indicators and goals. By ensuring that our suppliers meet certain sustainability standards, we can reduce our environmental impact and improve our reputation. Sustainable procurement can also help to reduce costs by minimising waste and energy consumption in the supply chain.

### 4.8: Carbon reduction planning

Efforts to reduce our carbon footprint and implement sustainable procurement practices are driven by strategic, business, regulatory, stakeholder and environmental considerations. Procurement plays a significant role in all three scopes of emissions outlined by the Greenhouse Gas Protocol (GHG Protocol), a framework for to measure and report emissions in support our corporate goals. In Scope 1, procurement can influence emissions reduction by selecting low-emission suppliers or transitioning to low-emission vehicles. In Scope 2, procurement can source renewable energy or choose suppliers with low-carbon electricity. In Scope 3, procurement can work with suppliers to reduce emissions in their supply chains, promote sustainable practices and select suppliers based on their sustainability performance.

A Carbon Reduction Plan (CRP) are the actions to be undertaken that outlines a company's strategy for reducing its carbon footprint and achieving net-zero emissions by 2050. The UK government has published a procurement policy note, PPN 0621, which outlines how to take account of Carbon Reduction Plans in the procurement of major central government contracts. The policy requires suppliers bidding for major government contracts to commit to achieving Net Zero by 2050 and publish a Carbon Reduction Plan.

To support our own sustainability credentials and decarbonisation of our supply chain, we will require all our suppliers to provide Carbon Reduction Plans

(CRPs) through our chosen technology partners in a staged rollout through to 2027. CRPs are essential to reducing carbon emissions and achieving net-zero by 2050. By working with our suppliers to reduce their carbon emissions, we can reduce the overall carbon footprint of our supply chain and minimise our impact on the environment.



\*To account for the specific barriers that Small & Medium Enterprises encounter, a two-year grace period on the requirements leading up to the 2030 deadline, by which point we expect all suppliers to have matched or exceeded our ambition for net zero.

Figure 10: ESG roadmap

### 4.9: ESG rating system

At Babcock, we are committed to creating a sustainable future. To help our supply base become more environmentally and socially conscious, we will rate our supply chain for ESG criteria using our software partner to generate ESG scores for peer comparison and individual scoring. Our evidence-based rating system covers Environment, Labour Standards & Human Rights, Ethics and Sustainable Procurement. This activity will help identify areas for improvement and enable our suppliers to improve their ESG credentials. We are proud to be part of the global effort to create a more sustainable future for all.

An illustration of factors that will be considered in ESG scoring are:

## Section 4: ESG and carbon reduction

Environment	Social	Governance
Energy Use & Waste	Health & Safety	CSR
Climate Change	Communities	Senior Mgmt. Diversity
Pollution	Diversity	Disclosures
Biodiversity	Human Rights	Corporate Governance
Water Resources	Ethics	Business Conduct
Policy	Modern Slavery	Stakeholder Relationships

Figure 11: ESG rating system illustration

### 4.10: ESG risk management

To ensure that our suppliers are aligned with our values, we will be incorporating ESG criteria into our risk management processes. This will help us identify any risks associated with our Environment, Social, or Governance processes with our suppliers. By using an evidence-based rating system, we will be able to rate our supply chain for ESG criteria and generate ESG scores for peer comparison and individual scoring. This activity will help identify areas for improvement and enable our suppliers to improve their ESG credentials. We are proud to be part of the global effort to create a more sustainable future for all.



# Relationship governance

The Relationship governance section covers Contract and Commercial Management and Stakeholder and Supplier Engagement.

Contract Management is the process of systematically and efficiently assuring the administration of and adherence to agreed terms and conditions with our suppliers. The priority is to ensure our contracts and contracting mechanisms are appropriate to the requirement / relationship and deliver assured commercial outcomes, value and managed risk for all parties.

Babcock are also responsible for ensuring the flow down of our contractual requirement from our customers to all tiers of our supply network.

Our approach to stakeholder and supplier engagement recognises the complexity of our business, partnerships and supplier relationships and the importance of an aligned and coherent approach to coordinating supplier management and assurance activities.

The governance of supplier relationship management (SRM) and assurance is core to our approach to delivering sustained business success and mutual growth.

# Section 5 – Relationship management

## 5.1 Supplier relationship management

Supplier Relationship Management (SRM) processes are the structured activities and processes Babcock will follow to effectively manage their relationships with suppliers. These processes help establish and maintain strategic partnerships whilst driving value and optimising performance in Babcock's supply chain.

Babcock is committed to continuous improvement and are striving for increased strategic alignment between our organisation and our suppliers for sustained business success and mutual growth.

We recognise that it has never been more important to establish and maintain beneficial, partnerships with our suppliers and improve the way we collaborate with our supply chain.

## 5.2 Babcock collaborative working

Babcock's approach to SRM is aligned to our group approach to collaborative working under the ISO 44001 standard. This provides Babcock with the strategic framework to develop collaborative relationships. Enabling greater opportunities for joint objectives, innovation, sustainability, creation of value and trust. The Babcock International Group PLC collaborative working policy supports our guiding principle "collaborate" and the application of the "three Es" approach and twelve principles for collaboration below:

Enact	Engage	Enable
<ol style="list-style-type: none"><li>1. Collaborative culture, desired ideas, customs &amp; behaviours.</li><li>2. The right leadership style.</li><li>3. Mission, Values &amp; Vision.</li><li>4. Context &amp; parameters.</li></ol>	<ol style="list-style-type: none"><li>5. Arrangements &amp; interactions through structured approach.</li><li>6. Clearly defined strategic objectives.</li><li>7. Organisational capacity &amp; collaborative ability.</li><li>8. Personal behaviours that built trust.</li></ol>	<ol style="list-style-type: none"><li>9. Communication.</li><li>10. Working environment, setting features and conditions.</li><li>11. Supporting tools &amp; assets, including people.</li><li>12. Accommodating individuals' styles &amp; preferences in teams.</li></ol>
Core Principles	Relationship building principles	Supporting principles

Figure 12: Collaborative approach

## 5.3 Relationship Management Plan

A Relationship Management Plan (RMP) helps structure, document and manage the relationships with our most important suppliers. The RMP should be owned and managed at the highest point of delivery within Babcock e.g. at Category Management level or Sector level.

The RMP is a tool for use by our P&SC teams to help in:

- › Understanding the supplier and the market they operate in
- › Understanding the supplier's perception of Babcock as a customer
- › Documenting and communicating the nature and importance of the relationship, its specific governance regime and its objectives to all stakeholders.

The RMP is a live document that is maintained by the relationship owner periodically and in the occurrence of any changes to the relationship.

The workbook is structured such that certain sections are applicable in different situations. As a minimum we must have a good understanding of all suppliers that we have deemed to be important to our business. Only by understanding the relationship can we make an informed assessment of the potential benefits to be derived from investing our resource in developing the relationship further.

Where opportunities are identified, additional sections of the workbook will help in the process of developing the relationship and releasing value. A playbook guide has been created to give a page-by-page set of guidance on the context and purpose of each page, how to populate it and how to use it – see examples below:

## 5.4 The Collaboration Charter

The Supplier Collaboration Charter is established to enhance the collaboration between Babcock and our Suppliers and is a testament to our commitment to a strong and sustainable partnership. Our shared objective is to foster collaboration, drive innovation and ensure mutual success.

## Section 5 – Relationship management

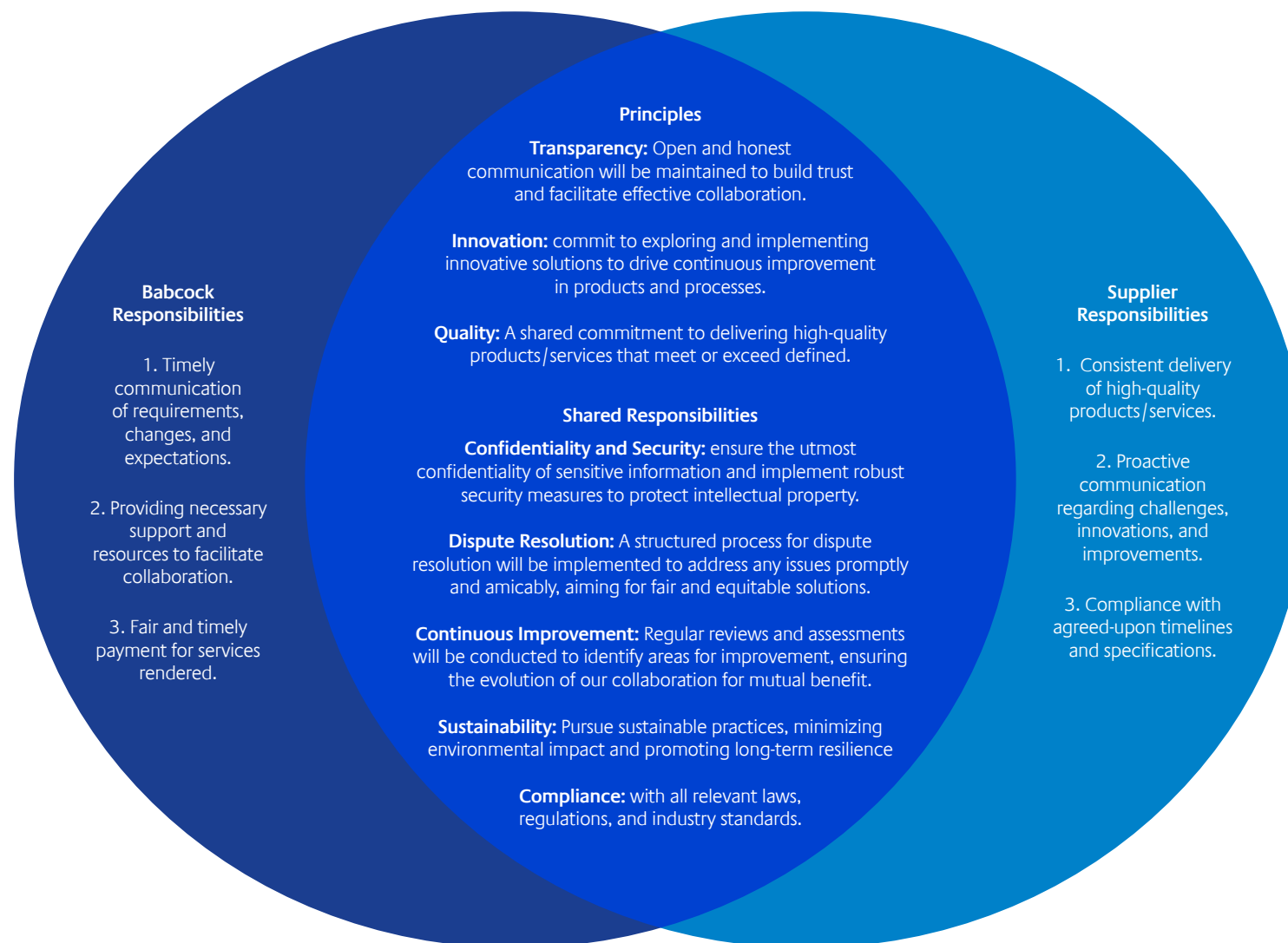


Figure 13: Babcock Collaborative Charter

# Section 5 – Relationship management

## 5.5 Supplier relationship governance

Our approach to governance is designed to provide structure and control whilst recognising that strong and enduring relationships have a need for flexibility and adaptability. Governance is critical to ensuring that the chosen Supply Management Strategies remain appropriate and effective as our business and the market context that we operate in evolves. It will also ensure that our shared resource is deployed optimally in order to achieve maximum value.

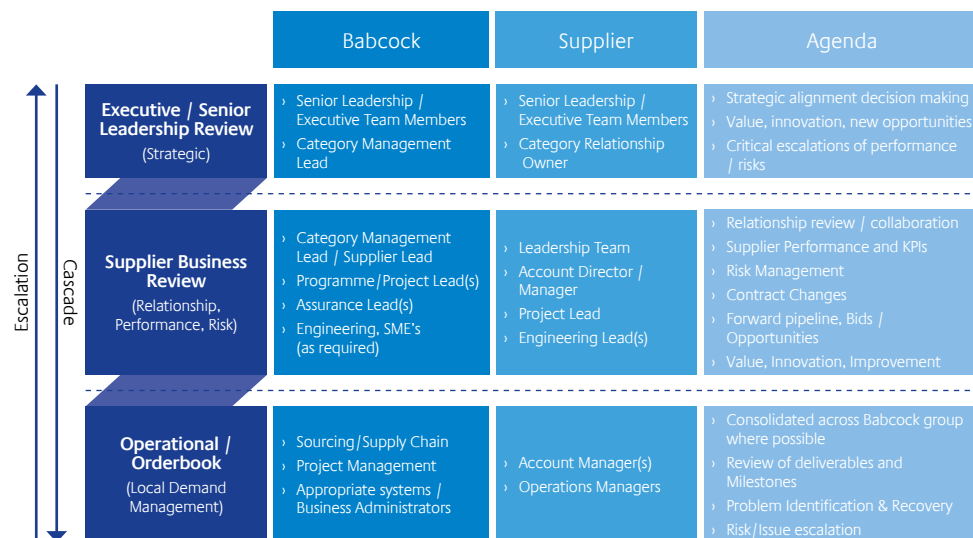


Figure 14: Relationship governance

### 5.5.1 Executive / Senior Leadership review

The Executive or Senior leadership review is an engagement level focused primarily on our Strategic suppliers, the purpose of the review is to drive strategic alignment and collaboration through senior level engagement and sponsorship.

### 5.5.2 Supplier Business Review

The Supplier Business Review (SBR) is regular meeting held primarily with our Strategic and Preferred Suppliers to manage key aspects of the overall relationship with Babcock holistically.

### 5.5.3 Operational / orderbook reviews

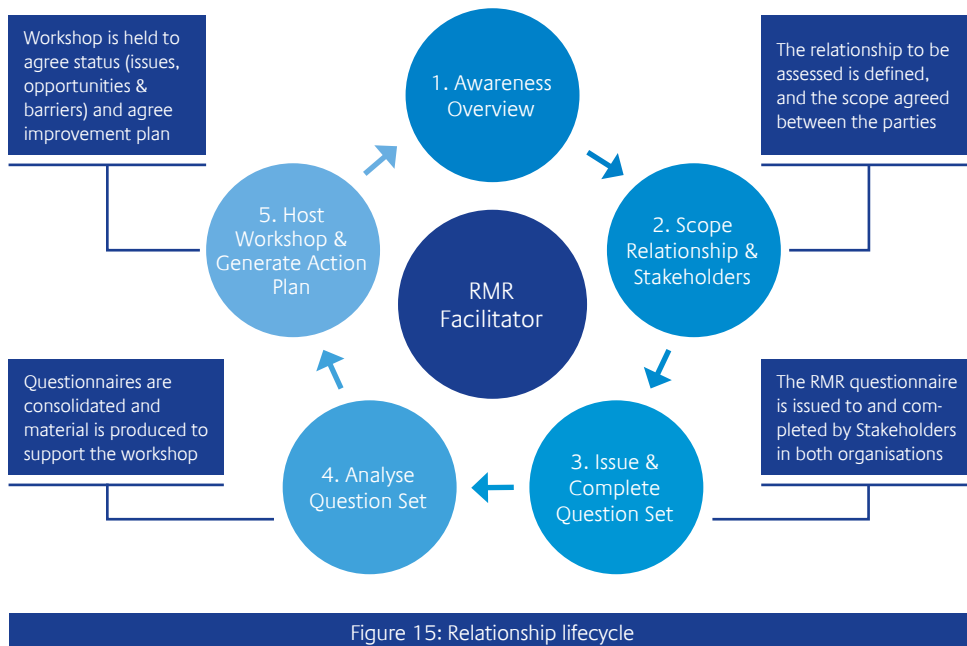
Operational and orderbook level meetings will be required periodically depending on the level of demand across various areas of Babcock. The Supplier Lead will endeavour to hold a consolidated Orderbook review where possible.

## 5.6 Relationship Management Review (RMR)

The Relationship Management Review (RMR) is a supplier development tool used to assess the condition of a relationship between Babcock and its supplier at a point in time. Babcock has embedded this tool into our SRM process to help drive improvement with our most valued relationships.

The Relationship Management Review is a systematic approach for managing, improving and maintaining key relationships. It focuses on joint growth and value creation, is based on trust, open communication, empathy and a win-win orientation. The tool is aligned to SC21 Relationship Excellence Framework, based on ISO44001 Collaborative Working.

# Section 5 – Relationship management



## 5.7 Relationship Management Review objectives

- › Improve understanding of the requirements and expectations of the relationship
- › Provide a baseline
- › Encourages open communication, trust, transparency and co-operation
- › Highlight joint improvement opportunities and define the improvement paths
- › Support joint issue resolution
- › Provides a forum to identify and air relationship problems (anonymously) between partners in semiformal environment

# Section 6 - Third party assurance

## 6.1: Introduction

Babcock, as the principal entity, undertakes various activities and engages contractors to support its operations daily across our group. In practical terms, distinguishing between the work carried out by Babcock and that performed by its contractors is often challenging.

Often, the boundaries are not distinctly delineated, thereby making it challenging for each entity to autonomously satisfy its compliance responsibilities related to Safety, Health and Environment (SHE). Legally, Babcock bears responsibility for managing SHE within its scope of work. It is increasingly common for criminal proceedings to target employers like Babcock when incidents or accidents involve their contractors.

Nonetheless, this does not imply that Babcock is inherently liable for every action or omission of its contractors. Rather, individuals responsible for the selection, appointment and supervision of contractors are required to have adequate information, directives and training to evaluate and address Babcock's potential liability on a case-by-case basis. This section offers direction for overseeing these elements.

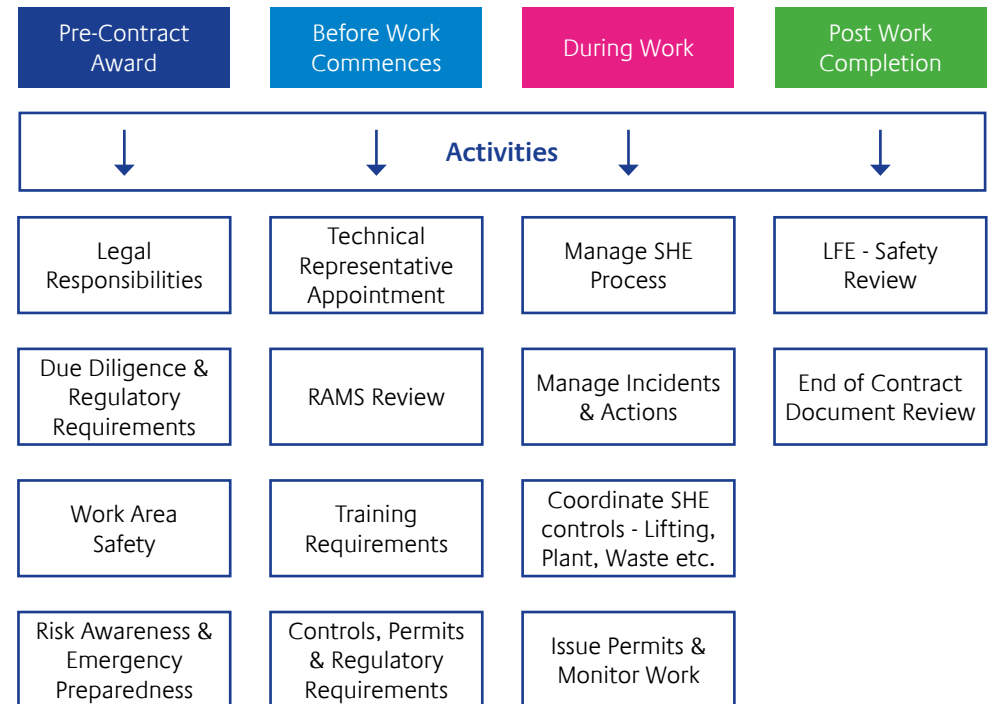


Figure 16: Contractor controls framework

# Section 6 - Third party assurance

## 6.2: Legal responsibilities

### **Babcock is required to:**

- › Exercise due diligence in selecting contractors who have the necessary competence and resources to meet their legal obligations for safety, health and environment during execution of the work.
- › Take reasonable measures to ensure that any place of work provided for use by the contractor is safe and without risk to safety, health or the environment.
- › Advise the contractor of any risks created by its own activities, work equipment or facilities that could impact on the work of the contractor.
- › Seek information about any risks that the contractor may create and ensure that the necessary precautions are taken for the health and safety of its own employees.
- › Seek and provide information relating to any potential environmental risks within the task, including required environmental permits and licences.
- › Advise the contractor about any emergency arrangements, including spill response, that are in place that the contractor may need to comply with or take part in.
- › Ensure an adequate level of competent resource is available to carry out the above requirements.

### **The contractor is required to:**

- › Deploy personnel with the necessary competence and resources to undertake the work in compliance with their legal obligations for SHE.
- › Make a suitable and sufficient assessment of the risks from their work, ensuring that all sub-contracted work is subject to at least the same assessment standard and such assessment is acknowledged by the contractor.
- › Advise Babcock of risks that their activities may pose to others and any controls that have been applied to reduce these risks.
- › Comply with in Babcock emergency arrangements in accordance with the information and instructions provided.
- › Advise Babcock where the emergency arrangements identified for their own activities require input from Babcock.
- › Adhere to any permit or licence requirements that have been stipulated by a regulator or acting regulator.

# Section 6 - Third party assurance

## 6.3: Technical representative

A Technical Representative (TR) will be appointed which is a key role in ensuring that contractors comply with all the SHE, Quality and Technical requirements of the contract. They are responsible for advising the Contractor, reviewing submitted documentation, overseeing the works and liaison with the Babcock SHE team and Technical personnel to resolve emergent issues. The TR will be:

- › Competent with suitable experience and in-date relevant/required training.
- › Given the resources and time to correctly manage the Contractor.

## 6.4: Management control

The degree of management control that it is appropriate for Babcock to exert over its contractors will vary according to the circumstances of the contract. Typically, there are three distinct levels of control:

- › **Level 1:** Where the contractor is brought on to the site as direct labour. In this instance the contractor is a Babcock employee and the responsibility for their SHE controls are owned by Babcock.
- › **Level 2:** A contractor is given a package of work for which they manage SHE of their own subcontractors. The interactions, de-conflicting, programming and permitting of the work are managed by Babcock. The majority of contracts placed by Babcock fall within this definition.
- › **Level 3:** Where the contractor is given a package of work and the site is formally handed over to their exclusive control and there is little or no interaction with Babcock activity.

The level of control Babcock needs to exert will vary depending on factors such as:

- › The level of risk the proposed activity presents to the business, Company employees, environment and others who might be affected.

- › The competence of the contractor to meet their contractual and SHE responsibilities unassisted.
- › The degree of control required over the interactions between the proposed activity and Babcock operations.
- › The specialist technical knowledge the contractor brings against their capability for managing SHE aspects.

## 6.5: Health, Safety and Environment Questionnaire

The leading factor in selecting contractors is their ability to deliver what is required to the standard Babcock has specified in a safe and compliant manner.

The competence and resources of a potential contractor to fulfil the contract whilst at the same time complying with all relevant, SHE legislation is an important part of our evaluation. Contractors are required to complete the standard SHE Questionnaire and submit for review prior to contract award. The information contained provides us with key information that informs our decision on the contract award.

## 6.6: Risk Assessments and Method Statements (RAMS)

Between contract award and contract start up the contractor and their sub-contractors are required to liaise with the TR to generate job-specific method statements and risk assessments. All subcontracted work should also be subject to the same assessment standard and such assessments acknowledged by the contractor.

# Section 6 - Third party assurance

## 6.7: Training and competence

Contractors are responsible for the qualification and training of their personnel and must be able to provide evidence of competency. The personnel are also to have adequate experience and be familiar with the operation of any necessary equipment. Evidence of training and competence will be requested and collected throughout each of the contract phases including evidence of relevant training as required by H&S legislation or approved code of practice e.g. asbestos awareness training.

Attendance at the Babcock Safety Induction Training Course is mandatory for all contractor employees who are on site for a sufficient period and is a prerequisite to obtaining a security pass. The TR is responsible for arranging a local safety induction for all contractor employees, regardless of the length of time they will be on site. This should cover the local arrangements for the assurance of safety (prohibited areas and actions, mandatory safety equipment, local safety rules, etc.) and emergencies (fire, nuclear and medical).



This section provides a summary of the primary arrangements and controls Babcock adopts when working with contractors, however these details are limited and not exhaustive. Full arrangements are communicated throughout the contracting phases.

# Quality assurance

Quality Assurance is integral to Babcock's commitment to excellence and supports our purpose of Creating a safe and secure world, together with the support of our suppliers. The intent of the supplier quality management process is to be a cooperative effort between us and our suppliers, to ensure and maintain good quality and deliveries throughout the supply chain. This is achieved by

helping the supplier develop and maintain internally controlled processes that address our requirements and ensure minimal quality costs for both us and our suppliers. This is supported through the application of the Group Quality Framework shown below:



# Section 7: Product assurance

## 7.1 Introduction

Product assurance is a critical aspect of Supplier Quality Assurance within Babcock. This includes changes to existing products and services alongside the introduction of new products/services. Babcock utilise Advanced Quality Planning techniques to ensure product is developed, manufactured and delivered in accordance with the defined requirements. Our product quality planning deliverables are embedded in the Babcock Project Lifecycle & Governance Process. The process is applied flexibly and proportionally according to the complexity and risk of the product or system being supplied. We extend our project arrangements and deliverables to our suppliers and highly encourage them to be a key part of the process. The benefits of this approach include the early detection of errors, clarity of communication, incorporation of customer feedback and delivery of right first-time high-quality products.

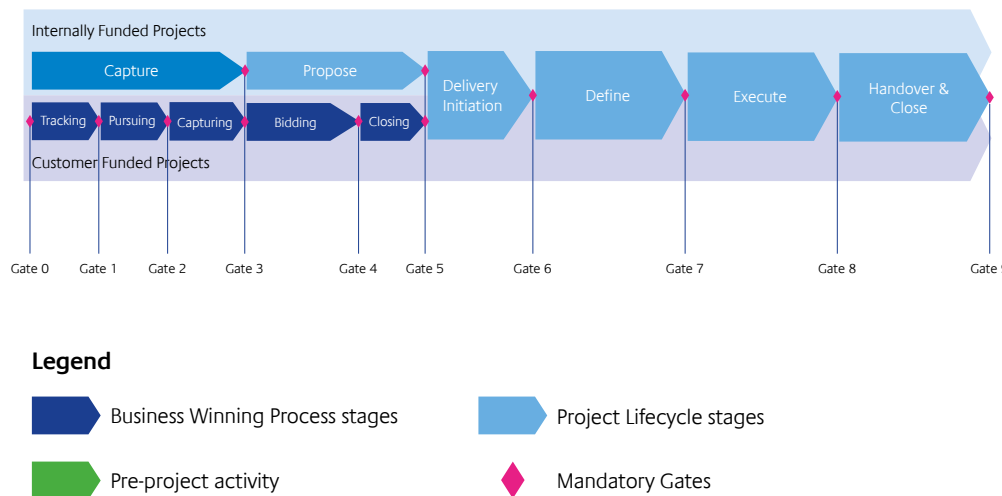


Figure 17: Project lifecycle example

## 7.2 Product approval

All systems or equipment purchased from our suppliers are important to customer satisfaction and the safe, reliable, operation of the final product. However, some systems and equipment require additional attention.

Systems and equipment are allocated a quality indicator which determines the level of criticality or complexity. The level and extent of control is applied proportionally based on the quality indicator designation of the system or equipment being purchased.

Purchase orders detail specific requirements driven from the quality indicator which may include the requirement for suppliers to provide certificates of conformity, technical documentation, material certificates, test plans, APQP documents, inspection results, test results, approval authorities etc. The purpose of this is to assist with the provision of objective evidence that the item is of suitable standard and therefore that the required level of quality has been achieved and the technical requirements have been met.

## 7.3 Quality Assurance

### Context

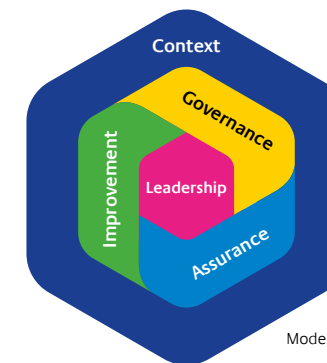
We will use industry or specific knowledge to ensure effective implementation of governance, assurance and improvement

### Improvement

We will facilitate evaluation, learning and improvement to drive more effective efficient and agile ways of working in support of operational excellence

### Assurance

We will support a culture of assurance to ensure that policies, processes and regulations are effectively implemented and that all outputs (internal and deliverable) are consistent with requirements



Model with thanks to the Chartered Quality Institute

### Governance

We will ensure that all requirements are reflected in the Business Management System and that they meet all stakeholder requirements

### Leadership

We will use positive leadership behaviours to maximise influence and develop a culture of collaborative working

Figure 18: Quality assurance framework

# Section 8: Supplier audit

## 8.1: The Babcock surveillance audit

Periodically our supplier quality team will conduct an in-depth audit of our suppliers' business processes that could have a direct impact on the quality, safety or compliance of supplied items or systems. The audit process is designed to be collaborative with a view to creating a trusting and open environment to support continual improvement. Suppliers are supported to ensure robust improvement activities are planned and completed to close the gaps identified during the audit process.

Babcock routinely conducts process and system audits as a prevention activity as well as tool to support continual improvement activity. Audits may be performed under any of the following circumstances:

- › During new product implementation
- › During production ramp up
- › New supplier evaluation
- › Supplier re-qualification
- › Introduction of a new process
- › Move production to a new location
- › Poor performance
- › After a major incident

We reserve the right to perform supplier audits whenever it is deemed necessary.

Suppliers will be given reasonable advance notice of a pending audit. An agenda will be communicated by the Babcock supplier quality team detailing the audit focus areas and guidance is available to ensure the audit process is of mutual benefit to both parties.



# Performance

Supplier Performance plays a pivotal role in Babcock's organisational success. Recognising that supplier performance directly impacts their own performance, Babcock has implemented a robust system for measurement and evaluation. This system involves continuous monitoring of performance metrics, allowing for early detection of negative impacts and risks. But it goes beyond mere metrics: Babcock evaluates suppliers based on their cooperation in problem resolution and implementation of improvements. Efficient and effective responses matter.

For suppliers critical to Babcock's goals, data related to quality, delivery and service is meticulously collected and monitored. The procurement department

generates monthly performance reports, which serve as a lens to identify poor-performing suppliers. Babcock actively shares this performance information with suppliers and conducts reviews. Top management involvement is expected to address performance issues promptly.

Moreover, when monitored measurement parameters indicate a negative performance trend or significant abnormality, the supplier is considered for elevation into the Supplier Performance Improvement Process. This process ensures that corrective actions are taken to enhance supplier performance and mitigate risks.



# Section 9: Defects and corrective action

## 9.1: Managing nonconformity introduction

Babcock values the performance of its supply base, not only due to its direct impact on organisational performance, but also its ability to secure a healthy supply chain to withstand unforeseen global events. Babcock has developed a system for the collaborative measurement and evaluation of supplier performance, using objective performance data to inform a risk-based approach to supplier engagement.

Even under ideal conditions and careful preparation, problems may occur. In addition to performance, Babcock measures a supplier based on their cooperation in the resolution of problems and implementation of improvements. Suppliers are evaluated on the efficiency and effectiveness of their response and actions taken to resolve the risk. Suppliers are encouraged to collaboratively partner with Babcock in the resolution of problems.

## 9.2: Defect reports

Once a non-conformance has been identified, Babcock shall establish liability. Where supplier liability is confirmed, a defect shall be raised and issued to the supplier.

Babcock will notify the supplier of an issue via their defects management process, with clear instructions as to the nature of the defect and the required to investigate and prevent recurrence.

Suppliers shall take all necessary actions to respond in a timely manner to nonconforming products or services that impact the organisation.

In the event of a defective product being identified at a Babcock site, the supplier shall arrange for the item to be collected, rectified and returned at their cost. These costs may include any secondary costs incurred by Babcock resulting from a non-conforming product or service.

Suppliers are expected to respond immediately to any defect to ensure all receiving facilities are protected within 24 hours. Suppliers are required to notify Babcock immediately if it is suspected that non-conforming / counterfeit material has been shipped to one of its facilities.

Depending on the type / severity of defect and material status, supplier parts may be sorted, reworked or adjusted at the Babcock premises. Supplier approval is required before any rework or adjustment will be performed. Suppliers should be prepared to take any or all of the following actions after a defect is identified:

- › Replace / rework the defective item(s).
- › Provide resources to perform required sorting or rework.
- › Provide third party sorting resources.
- › Authorise Babcock to begin third party activities on the supplier's behalf.
- › Provide instructions and acceptance criteria required to support inspection, sorting and / or rework.

Babcock will not scrap defective items until directed to do so by the supplier. A supplier may choose to collect the defective item(s) for rectification / repair. This can be arranged with Babcock.

Should a component be suspected counterfeit, Babcock will not release the items back into the supply chain until such time as they are proven not to be counterfeit

## 9.3: Corrective action response

It is of vital importance that the supplier starts the problem-solving process upon notification. It is critical that appropriate actions occur immediately to contain the problem and avoid any further disturbances to production and potential product safety issues.

## Section 9: Defects and corrective action

### 9.4: 8D problem solving

Where a defect is identified that poses a high risk, an 8D shall be implemented. The supplier is notified and requested to undertake a targeted 8D investigation, providing Babcock with the evidence and outcome. Where a risk is deemed critical, or the supplier is incapable of completing the 8D, Babcock shall initiate an 8D that is performed by their own resource.

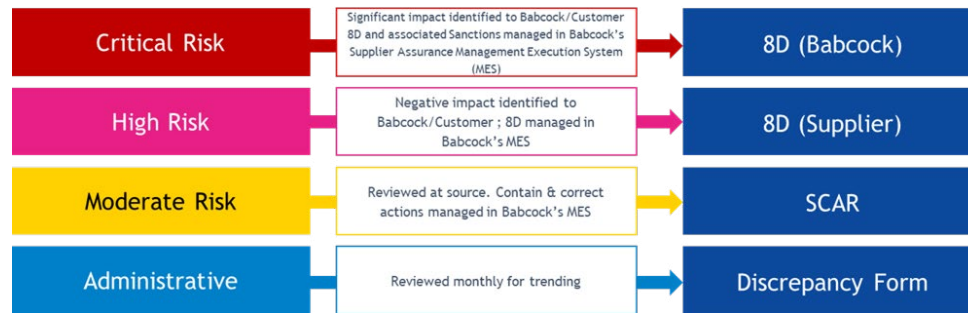


Figure 19: Levels of detection intervention

### 9.5: Timescales for corrective action response

When notified of a non-conformance, suppliers are requested to react in accordance with the following timeline. Should a supplier not be able to achieve an aspect of the timeline, they must contact Babcock as early as possible. Failure to do so in adequate time may result in further quality intervention:

In addition to correction of the documented problem, suppliers shall apply the lessons learned to all comparable products or processes. Permanent countermeasures for all defect categories should be implemented for all parts and processes.

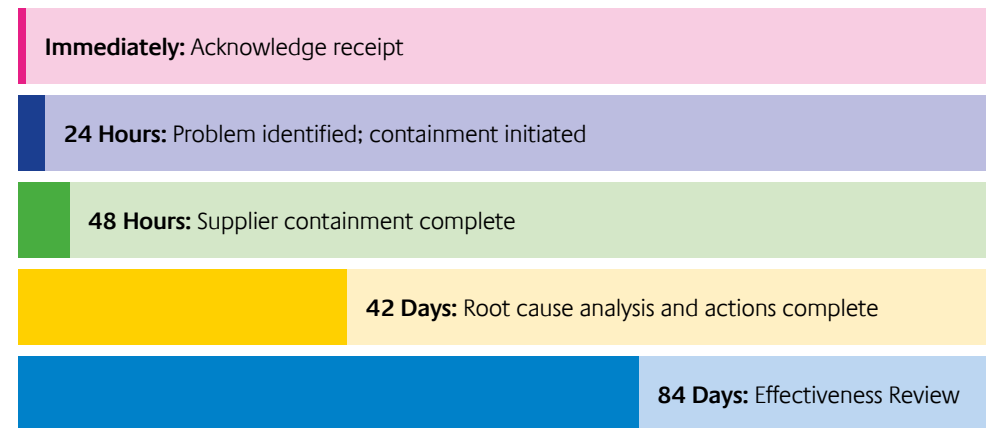


Figure 20: Corrective action deadlines

# Section 10: Performance management

## 10.1: Supplier performance monitoring

Performance data related to quality, delivery and service is continually collected and monitored for suppliers identified as key to the success of Babcock and its goals. On a monthly basis, the Babcock procurement department produce and review performance reports based on this data to identify poor performing suppliers. Babcock share this information with its suppliers and co-ordinate performance reviews to discuss issues and concerns. Babcock expect top management involvement to support the resolution of performance issues.

Where monitored measurement parameters indicate a negative performance trend or significant abnormality, the supplier will be considered for elevation into the Supplier Performance Improvement Process.

## 10.2: Supplier Performance Measurement (SPM)

The supplier performance measurement process has been developed as an indicator of a supplier's overall performance based on multiple performance categories.

The Babcock SPM scorecard has three main performance categories, as indicated to the right. Each category has been weighted based upon the strategic aims of Babcock.

**40%**  
Delivery

- › Early, Ontime, In Full (EOTIF) – 10%
- › Overdue Order lines – 10%
- › Confirmed Purchase Order Lines – 10%
- › Requests For Quotation Outstanding – 10%

**40%**  
Quality

- › Discrepancies – 20%
- › Defects Outstanding – 10%
- › Overdue Audits – 10%

**20%**  
Commercial & Relationship

- › Right First Time Invoice Match – 10%
- › Finance & Cost Reductions – 5%
- › Health, Safety & Environment Insights – 5%

# Section 10: Performance management

## 10.3: Supplier performance improvement

Babcock continually monitor supplier performance for indicators of poor performance or potential growth opportunities. Where an improvement opportunity is identified, a formal supplier improvement project will be initiated. The supplier is required to own all improvement activities during this process, ensuring sufficient resource is made available to support the investigation and the implementation of improvements.

This improvement process is a collaborative initiative, which is facilitated by Babcock and owned by the supplier. The goal of the process is to improve the quality provision of goods and services to the customer, both current state and future capability. Improvement projects shall be conducted using recognised improvement methodologies, such as DMAIC.

The implementation of improvements shall be managed using project management tools and techniques, which will include Gate Reviews to ensure the improvement project is mature and ready to progress to the next phase of the plan. Gate reviews will be undertaken by Babcock, using the evidence provided by the collaborative team. Should an improvement fail to provide sufficient evidence to demonstrate the completion of a phase, progression to the next phase will be placed on hold until demonstration of completion of remaining activities has been achieved.

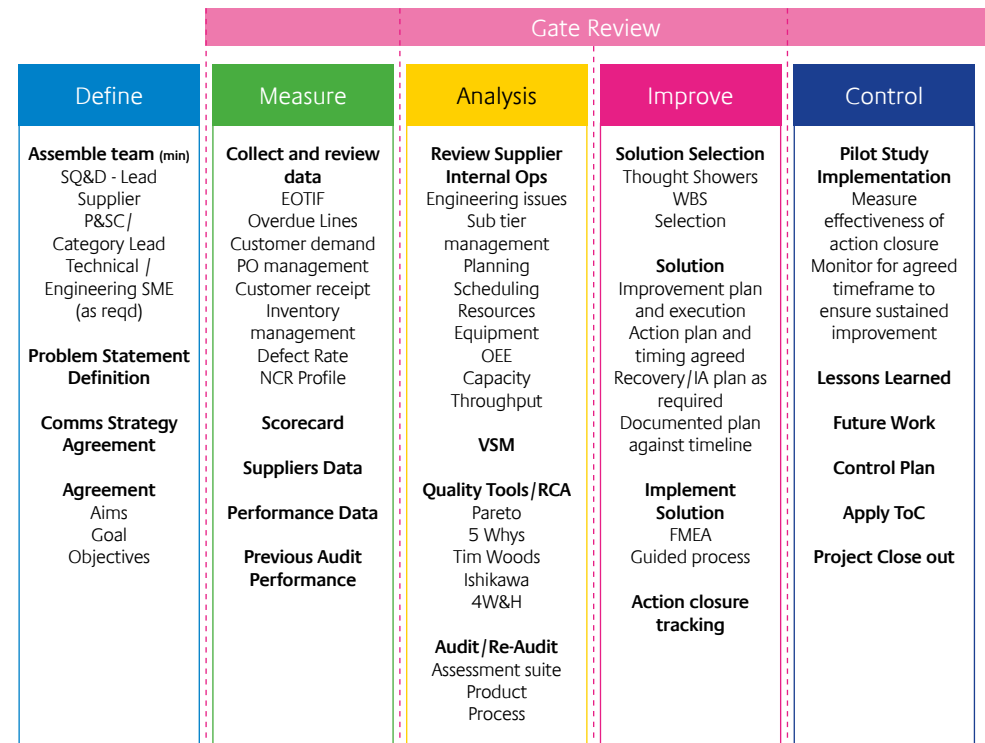


Figure 21: Example of DMAIC workflow

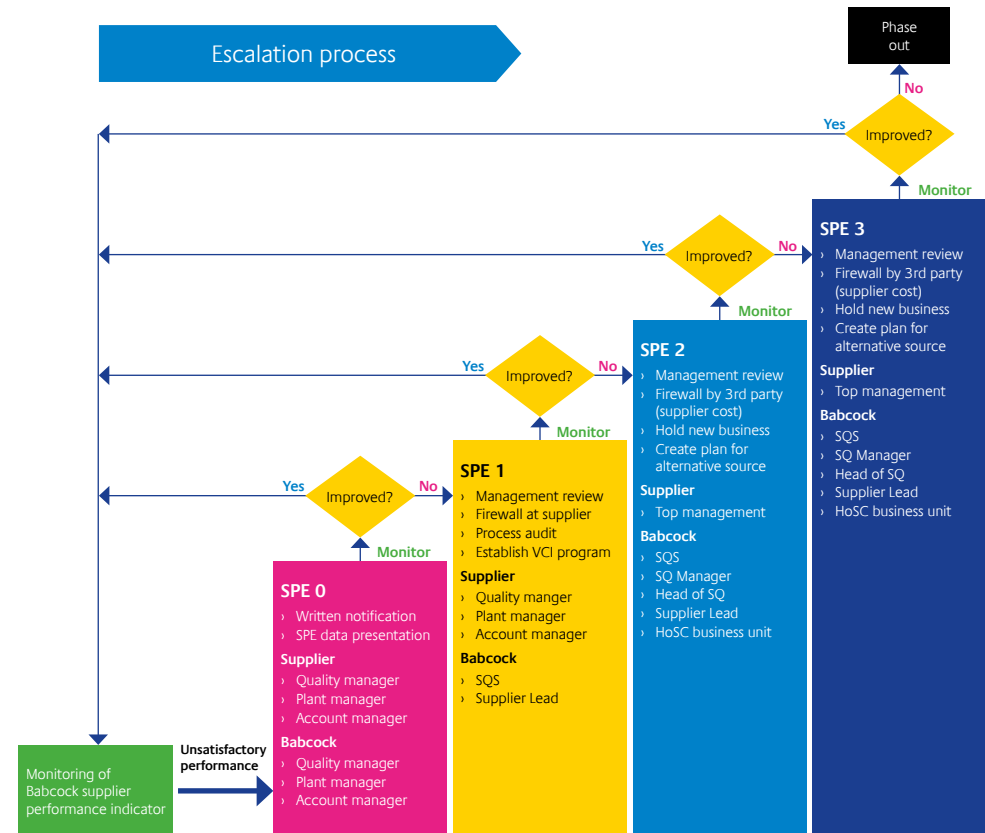
# Section 10: Performance management

## 10.4: Supplier performance escalation process

We monitor supplier performance on an ongoing basis. When any of the monitored measurement parameters indicate negative performance trend or significant abnormality, the supplier is considered for elevation into the Supplier Performance Escalation Process (SPE). Suppliers will be notified of the potential inclusion in the SPE process in writing sent to the supplier's quality department. The letter will include the reason or reasons a supplier is being considered for entry into the SPE process.

The SPE procedure provides a clearly defined guide to the analysis, actions and monitoring that will take place while a supplier is engaged in this process. Supplier improvement activities are initiated and monitored through a three-stage elevation process. Each stage has defined criteria for entry and exit and identified actions to be completed during the stage. Exit criteria are based on improved performance results and implementation of process improvements. Suppliers that do not meet the criteria for a stage by the target completion date are elevated to the next SPE stage level.

Each time the supplier is elevated to a higher stage, the actions required will be those of all previous stages, plus the additional actions required by the new stage. At any time that the exit criteria are met for a specific stage the supplier is moved to the "Monitoring" status. A supplier can be placed in the SPE based on performance for an individual part number, multiple part number bases or organisational performance.



# Collaboration and Improvement

The Collaboration and Improvement section covers innovation and value and the Babcock Supplier Excellence Programme “Collaborate for Excellence”.

Babcock endeavors to work with our suppliers to drive innovation in products, services, processes and methods of working in order to unlock the full value potential of our shared offering.

The Babcock Collaborate for Excellence Programme is aligned to industry standards and best practice and embodies our commitment to supporting our suppliers in meeting and exceeding our business expectations and those of our customers.



# Section 1 1: Innovation and value

## 11.1: Introduction

Babcock is an innovative engineering organisation, we strive to embrace new technologies and methodologies in all aspect of what we do, the products and services we develop and the way we deliver these to our customers. Babcock recognises and relies on the skills and subject matter expertise within the supply chain and actively encourages and embraces their input and ideas.

## 11.2: Strategic alignment

Babcock aligns their innovation goals and objectives with our supplier capabilities. We select suppliers for major projects and programmes who share the same vision and are open to collaboration. Suppliers are invited to be part of our cross-functional teams that work together to identify opportunities, brainstorm ideas and execute projects.

We encourage suppliers to propose innovative solutions to specific problems to achieve the following:

- › Gain exposure to new ideas and technology
- › Enhance knowledge base and industry insights, leading to innovative solutions
- › Enhance product offerings and differentiate ourselves in the market
- › Improved cost efficiencies and margins
- › Improved resilience and agility by adapting to changing market demands swiftly

Supplier innovation is not just beneficial for Babcock; it empowers suppliers to grow, innovate and create value within the supply chain ecosystem.



# Section 12: Supplier Development

## 12.1: Introduction

Babcock recognises that our suppliers are vital extension of our business and as such aim to collaborate with and support our supply base extensively. The primary objective of supplier development is to drive holistic business improvement and long-term sustainable change. This is done through a combination of Assessment, Teaching, Mentoring, Consultation and Best Practice Sharing.

## 12.2 Triggers for supplier development

Babcock strategic priority: Supplier development is primarily a strategic activity driven by the long-term priorities of the business; suppliers are typically selected due to their importance to Babcock.

Reactive / tactical: Some supplier development activity may be focused on a specific need or issue highlighted by a request for support from business stakeholders, systems or data.

Triggers include:

- › Segmentation
- › Risk Management
- › SRM & Category Management
- › Performance Management
- › Supply Chain Strategy
- › Capability requirement / Business Growth
- › Output / findings from Quality Audit
- › Stakeholder feedback

## 12.3 Supplier development goals

The goals of supplier development will include one or more of the following:

- › Improved lead-times and/or delivery reliability
- › Quality improvement that both reduces reject costs and/or increases reliability of goods, services or manufacturing processes
- › Cost reduction that helps to maintain or improve the supplier's profit margin
- › Improvements in collaborative working and Babcock's relationship with the supplier
- › Improvement in capability, service provision and support from suppliers that meets the needs of Babcock and is subject to continuous improvement
- › Increased strategic alignment between Babcock and our suppliers
- › Improvements in environmental performance and sustainability within supply chain
- › Reduced level of supply chain risk

## 12.4 Supplier development - levels of support

We have established three levels of support for supplier development activities, based on the priority and nature of the identified need or opportunity. While we strive to collaborate with and support our suppliers to the fullest extent possible, we also recognise that the appropriate level of support will vary on a case-by-case basis. Typical activities in each support level are described below:

# Section 12: Supplier Development

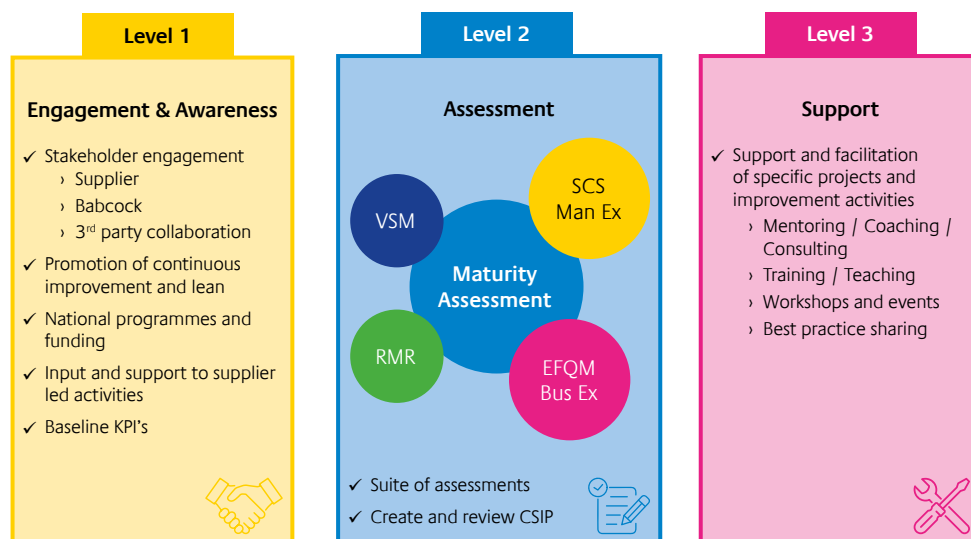


Figure 22: Babcock's supplier development - levels of support

## Supplier-led activities:

We empower our suppliers by actively seeking their input. Their firsthand knowledge informs our decisions and drives mutual growth.

## Baseline key performance indicators:

Establishing key performance indicators provides a benchmark for progress. We track metrics related to quality, delivery, cost and innovation.

## 12.4.2 Level 2 - Supplier development assessments

Assessments are core to the supplier development process; they are used to explore a wide range of themes within an organisation against what is considered best practice. They are designed to lead organisations down a path to excellence by highlighting opportunities for improvement.

Our suite of assessments are centred around the Babcock Maturity Assessment, with a range of other assessment tools available to deep dive into specific topics as appropriate, the assessment tools are aligned to industry standards. Typical assessment topics are:

- › Organisation and leadership
- › Sustainability
- › Quality
- › Planning
- › Engineering
- › Innovation
- › Supply chain
- › Commercial
- › Lean operations
- › Digitisation

## 12.4.1 Level 1 – Engagement and awareness

### Stakeholder engagement:

Supporting our suppliers to actively collaborate with stakeholders across the supply chain. Their insights and perspectives help shape our strategies and foster stronger relationships.

### Continuous improvement and Lean Practices:

Supporting our suppliers to enhance efficiency and effectiveness by embracing lean principles, streamlining processes, elimination of waste and optimisation of resource utilisation.

### National programmes and funding:

Participation in national initiatives allows us to tap into broader resources to invest strategically in supplier development.

# Section 12: Supplier Development

## 12.4.3 Level 3 - Support

### Support and facilitation of specific projects and improvement activities:

We actively engage with suppliers to identify and execute targeted projects. These initiatives address specific challenges, enhance processes and drive continuous improvement.

### Mentoring, coaching and consulting:

Provision of personalised guidance to suppliers. Whether it is mentoring emerging talent, coaching on best practices, or offering strategic advice, we aim to foster growth.

### Training and teaching:

We believe in knowledge transfer. Through workshops, webinars and training sessions, we equip suppliers with the skills needed to excel in their roles.

### Workshops and events:

Collaborative workshops and industry events create a platform for idea exchange. Suppliers gain insights, network and explore innovative solutions.

### Best practice sharing:

We encourage an ecosystem of learning. By sharing successful practices, we elevate the entire supply chain.

Our commitment extends beyond transactional interactions, we are invested in long-term partnerships.

## 12.5: Supplier excellence awards

Babcock will periodically recognise suppliers for significant achievement against the objectives of the Collaborate for Excellence programme.

This recognition is based on set thresholds against key criteria of Delivery Performance, Quality Performance and the demonstration of increased business maturity against the Maturity Assessment model.

We will also formally recognise other significant achievements including:

- › Innovation Award
- › Sustainability Award
- › Simplification Award
- › Lean Award

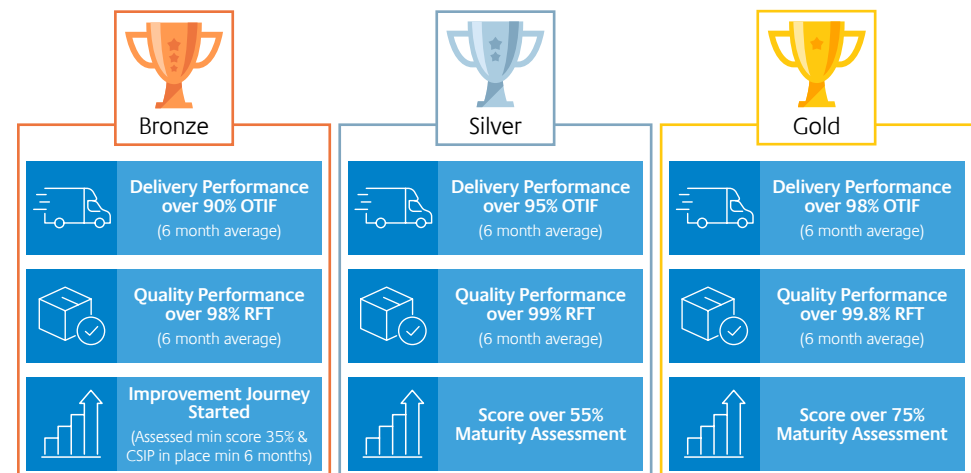


Figure 23: Supplier excellence rankings

“Together, we are committed to embracing a best-in-class approach for supplier assurance, ensuring the delivery of world-class performance.”

**Martin Dolan**

Babcock

Global Director of Supply Chain Assurance



### **be curious**

We believe in positively challenging the status quo and asking, 'how might we?'



### **think:outcomes**

We believe in measuring success by the results we deliver and the positive impact we make.



### **be kind**

We believe in being kind to ourselves, kind to each other and kind to the planet.



### **collaborate**

We believe that Babcock is greater than the sum of its parts.



### **be courageous**

We believe in being brave, ambitious and determined.



### **own & deliver**

We believe everybody has a part to play in Babcock's and our customers' success.



**Creating a safe  
and secure world,  
together**