

Corporate and Social Responsibility Review

Introduction

As a socially responsible employer Babcock recognises that effective management of business risks, service quality, health, safety and environmental impact is integral to its success and the short-term and long-term value of the group, and is of great importance to its stakeholders.

Overview

The Board takes regular account of these matters in a variety of ways.

Particular projects requiring Board approval: in evaluating these projects the Board considers, at a strategic level, the implications for the group generally, and this will include the above matters where they appear to be relevant.

The risk management process: this is described in more detail in our corporate governance report on page 23 which should be read together with this review statement. The group risk standard and risk registers address a wide range of risks – short-term, ongoing and long-term – that have implications either for particular businesses or for the group as a whole. Those risks directly or indirectly address social, environmental and ethical matters. This process is increasingly embedded within group management practices, with named individuals taking responsibility for identified risks. Principal risks, and the process itself, are regularly reviewed by the Board through the Audit Committee in the presence of both internal and external auditors who are invited to comment on the risk management process.

Policies: there are group-wide divisional policies covering employment issues, health, safety and environmental matters and ethical conduct, supplemented by division-specific policies or procedures.

Our bonus schemes are used to set objectives for key executives and relevant staff to focus attention on matters that may, if not addressed, present risks to the group's interests or on dealing with any identified weaknesses in our risk management processes; they can and do include requirements for acceptable health and safety performance.

We seek to have real and effective engagement with stakeholders: most of our businesses have a customer base that consists of a limited number of large customers with whom they maintain a continuous dialogue in which concerns about social, environmental and ethical matters can be and are raised; dialogue is maintained with our employees in a variety of ways; new whistle-blowing arrangements are in place; and our businesses seek to cultivate open and constructive relationships with relevant regulatory bodies or authorities, including the Health and Safety Executive and environmental protection agencies.

In our Corporate Governance Statement we identify out-turn on contracts and the success rate in bidding for contracts as the principal risks to the long-term value of the group. This in turn is a function not only of our ability to identify remunerative contracting opportunities and to put together successful bids (which requires close management and evaluation of the bids and appropriate training), but also of the many other factors that go to make us an attractive business partner or service provider: our reputation, our contractual performance generally, our health, safety and environmental performance and our ethical conduct. We must also keep abreast of and sensitive to our customers needs and resources and the factors influencing their decision-making processes. We must ensure that our voice is heard and an appropriate group profile maintained in discussions that could have far-reaching effects for our industries as a whole (such as the review of possibilities for the restructuring of the naval surface ship and submarine building, maintenance and refit industry that is underway in the UK – a review in which we are playing a significant part through our divisional and central business development teams).

Health and Safety

The successful management of Health and Safety is a key management objective. Our intent is to achieve the highest standards in the management of Health and Safety in all areas of our operations, not only for our own employees, but also for the benefit of contractors, customers, agents, visitors and the general public. We strive to provide safe and healthy working conditions, equipment and systems of work. Where relevant, accreditation to appropriate standards is sought for each operation.

The group is fully aware of its obligations under the Health and Safety at Work etc Act 1974 and related legislation, and is fully committed to meeting those obligations. In all cases, compliance with legislative requirements is considered the minimum threshold of acceptability, with higher standards being introduced where possible and reasonably practicable.

The Board has delegated to a Corporate Safety Steering Group ('the CSSG') responsibility for the strategic overview of Health and Safety matters. The Committee also considers environmental matters. The CSSG is intended to create a mechanism for cross-business discussion of group Health and Safety Policy execution, and is charged with: creating the conditions necessary to enable the aims of the group Health and Safety Policy Statement to be achieved; keeping workplace arrangements relating to Health and Safety under review; considering new legislation and its impact on the group; reviewing serious incidents and their implications and reviewing the implementation of overall and specific Health and Safety policies. The CSSG meets three or four times a year, is staffed with senior Health and Safety representatives from the divisions and is chaired or attended by the Group Chief Executive. Divisional Managing Directors will be invited to attend certain meetings.

At the operational level, each operation is required to develop and keep up-to-date detailed Health and Safety procedures appropriate to its operations, local environment and customer base and to provide appropriate training for personnel and for non-employees where appropriate. Each division has its own specialist Health and Safety teams and advisers, and Divisional Managing Directors have overall responsibility at a divisional level for ensuring that Health and Safety management arrangements are properly carried out and resourced.

Babcock's commitment to Health and Safety can be seen in the many awards won and other recognition gained by our operations around the world, for example:

- Our BES operations at Rosyth were awarded the prestigious 'British Safety Council Sword of Honour' in 2003 and again in 2004. They have also received the British Safety Council Health and Safety Management 5 star rating as well as several British and Scottish safety awards.
- Our BIS operations have been awarded the Royal Society for the Prevention of Accidents ('RoSPA') President's Award for Health and Safety for four years running: this award is itself only given following 10 years of winning the RoSPA Golden Medal for Health and Safety.
- First Engineering won two highly commended awards at the National Rail Awards 2004, related to engineering innovation and safety management. The innovation award related to the development and design of a non-intrusive crossing system (NICS) that will deliver efficiency and safety benefits to the industry. In addition, the business was recognised for its Annual Safety Roadshow that is presented by the operational Directors of the business to every employee within the business. Also during the year, First Engineering renewed its Contractors Assurance Case with Network Rail and expanded the scope of its Railway Safety Case with Her Majesty's Railway Inspectorate (H.M.R.I.) to include High Output Track Renewals replacement activity.
- Outside the UK, our Africa operations have received awards from the National Occupational Safety Association, gaining a Gold Award in 2003 and have also received safety awards, including best SHE achievement and first place in 'excellence in safety' awards, from ESKOM, its major customer for power station services.

The environment

Babcock recognises its responsibility to be mindful of the environment and to endeavour to minimise adverse impacts of its operations through positive environmental controls. We aim to achieve the highest standards in the management of environmental matters and seek accreditation to appropriate standards where appropriate.

Operational managers are required to devise and implement policies and practices appropriate to their businesses in respect of matters over which they have operational control. As a support services provider, many of our operations are carried out on customer sites with customers retaining responsibility for environmental matters, either generally or for historical environmental conditions. At these sites we work to the environmental service levels required by customers. In other cases, customers may require us to manage operations in, or bring them into, compliance with the customer's own bespoke environmental management policies on timescales chosen by the customer.

On those sites that we do effectively own and control, such as Rosyth, we have made significant advances in environmental management. For example, since taking over management of the Rosyth Dockyard (and, later, ownership) we have spearheaded an energy efficiency campaign resulting in a 40% reduction in electricity costs at the site, a reduction year-on-year of gas consumption costs of nearly 20% despite significant price rises and a reduction in water consumption of some 35%. In South Africa we are taking steps to be in a position to obtain OHSAS18000 (Occupational Health & Safety specification) together with ISO90001 (Quality) and ISO14001 (Environmental) certificates, by the end of 2005.

Ethical conduct and whistle-blowing

We insist on the highest standards of honesty and integrity in all aspects of the group's business. This includes compliance with the laws and standards of conduct required in the countries in which the group operates and does business. A strict ethical policy, and guidance on business dealings, which we believe complies with international standards, is issued to relevant group employees. Employees are required to avoid conflicts of interest regarding group business, to act lawfully and ethically and to communicate non-compliance issues of which they become aware.

During the year we carried out a review of our whistle-blowing arrangements both to ensure ongoing compliance with the Public Interest Disclosure Act 1988 in the UK, and also as part of a review of our internal control procedures. As a result we have implemented new group-wide arrangements for employees to be able to communicate concerns in confidence about possible improprieties in matters of financial reporting and other matters. An external provider has been retained to provide a confidential telephone hotline service. All employees are provided with the number of this service at which they can leave recorded messages, which may be anonymous. The message is relayed as soon as possible to senior group management in head office who will follow up the matter. Where appropriate, a reply can be provided to the employee via the service with the employee calling in to receive the recorded response in a way that will maintain the employee's anonymity.

Employees

In common with all businesses, ensuring that we have high quality, suitably trained management is a key risk management objective. Historically, management training and development programmes were organised at business level, but following a major review of management development needs for our senior and middle managers we will this year be fully implementing externally-provided, but group administered, management development programmes to ensure that we have a consistent and focused approach to meeting the future needs of our businesses. Our divisional businesses will continue to supplement this training and organise business-specific training through their own programmes.

We continue to use and develop a variety of means to improve communications with our employees. As well as using traditional cascade briefings and divisional newsletters, we issue group-wide publications giving an overview of the progress of and significant issues affecting our individual businesses. In the UK, we have also established a group-wide Employee Forum for Consultation and Information that will be up and running during this financial year. The Forum will be a means for keeping employees informed of major developments and issues affecting the group and for hearing their views, with elected representatives attending from our UK operations.

As a group we have non-discriminatory employment policies. Full consideration is given to disabled applicants for employment, having regard to their particular aptitudes and abilities, and they share in the opportunities for training, career development and promotion. If an employee becomes disabled, our objective is, wherever possible, the continued provision of suitable employment either in the same or an alternative position, with appropriate training being given if necessary.

In the year ended 31 March 2005 Babcock International Group PLC employed an average of 9,088 staff worldwide, of whom approximately 89.7% were located in the United Kingdom.

Babcock in the community

Our business divisions and group headquarters support a range of charitable and community projects in their local areas.

For example, in South Africa our business is involved in a training programme for previously disadvantaged children leading to qualification as equipment mechanics, with the trainees being employed in the business throughout their training and having the opportunity upon qualification to remain with the company. Babcock Africa is also reviewing the possibility of establishing a social responsibility fund to focus on health and education for the disadvantaged. In Scotland, our Babcock Naval Services business has established a Community Investment Group with a view to supporting the local community in education, regeneration and environmental areas. It is also on the Steering Committee of the Dunbartonshire 'Enterprise in Education through Business Links' programme and supports Young Enterprise Programmes in local schools.

P L Rogers Group Chief Executive

25 May 2005