

# DEFENCE COMPANIES ANTI-CORRUPTION INDEX (DCI) 2019

## METHODOLOGY

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## 1. SUMMARY

The Defence Companies Anti-Corruption Index (DCI) 2019 seeks to assess the levels of transparency and anti-corruption efforts within 139 defence companies worldwide.

Run by Transparency International's Defence and Security team, the DCI 2019 marks the third edition of an Index first published in 2012 and then again in 2015. The 2019 edition contains significant changes in the focus, methodology and question set. The purpose of the DCI is to use publicly available information to assess the transparency and quality of anti-bribery and corruption efforts in the areas that present the highest corruption risks to defence companies. The results of this project will be presented as a banding to reflect the overall level of evidence, and also as a set of scores relating to each key risk area that structures the questionnaire.

This document outlines the key methodological features of the DCI 2019, to illustrate and explain the many revisions that have taken place since the previous editions. Many of these changes incorporate feedback received as part of a comprehensive consultation period, which addressed the question set and the methodology. The DCI 2019 represents TI's firm belief that promoting greater openness and transparency in the defence sector will help reduce corruption and its negative impacts, build public trust, reassure investors, and build constructive relationships with customers and governments.

## 2. INTRODUCTION

The Defence Companies Anti-Corruption Index (DCI) 2019 sets the standards for transparency, accountability and anti-corruption efforts in the defence sector worldwide. Run by Transparency International's Defence and Security team, the DCI marks the third edition of an Index first published in 2012 and then again in 2015.

The DCI will assess 139 of the world's leading defence companies across 39 countries using a typology of the most severe corruption risks facing the sector. The DCI is used worldwide by governments, investors, civil society, academics and companies themselves, in order to gain a better understanding of anti-corruption efforts and standards within the defence sector.

The DCI seeks to drive reform in the sector, reducing corruption and its impact by setting standards, promoting best practice and encouraging greater openness and transparency in the way in which defence companies operate.

In order to achieve this, the Index seeks to:

1. Assess the transparency and quality of anti-bribery and corruption efforts in 139 of the world's major defence companies;
2. Categorise evidence within one clear banding scheme relating to publicly available information;
3. Enable company and stakeholder engagement with the research, from consultation on the methodology, opportunity to review draft assessments to provision of a final company assessment report to be published on the DCI website;
4. Provide a tool for governments, defence companies, investors and civil society to raise standards, promote an understanding of defence corruption issues, and reduce the risk of corruption.

Greater openness and transparency will not only help reduce corruption in the sector, it will build public trust, reassure investors, build constructive relationships with customers and improve the reputation of companies and the industry as a whole. Ultimately, the most responsible companies in the sector will benefit from adopting this approach and the clean business practices it promotes.

## 3. THE QUESTIONNAIRE AND MODEL ANSWERS (QMA) 2019

Based on in-depth discussions with anti-corruption and defence experts, Transparency International have identified 10 key areas where stronger controls and greater transparency within defence companies can reduce corruption risk. These are:

|                                        |                             |
|----------------------------------------|-----------------------------|
| 1. LEADERSHIP & ORGANISATIONAL CULTURE | 6. SUPPLY CHAIN MANAGEMENT  |
| 2. INTERNAL CONTROLS                   | 7. AGENTS & INTERMEDIARIES  |
| 3. SUPPORT TO EMPLOYEES                | 8. OFFSETS                  |
| 4. CONFLICT OF INTEREST                | 9. HIGH RISK MARKETS        |
| 5. CUSTOMER ENGAGEMENT                 | 10. STATE-OWNED ENTERPRISES |

The 2019 QMA contains 57 questions, each with detailed guidance and scoring criteria. Previous editions of the DCI saw the questions divided according to a company’s internal procedures, whereas this updated categorisation demonstrates our commitment to greater transparency by addressing the core corruption risks facing defence companies and their employees on a daily basis.

Weighting of the 10 key areas is achieved through each area containing a different number of questions, to ensure it reflects the level of corruption risk associated with that topic. No additional weighting is applied.

A high-level summary of the 2019 question set is available in Annex I of this document. The full QMA is available online at [www.ti-defence.org/dci](http://www.ti-defence.org/dci).

**GUIDANCE**

In a change from previous editions, the 2019 QMA contains expanded guidance for each question. The guidance exists to provide insight and clarification into the questions and topics they cover. It describes best practice measures, addresses the way in which companies may present this data, and provides detail on the type of evidence that may be relevant. Where appropriate, the guidance also clarifies the corruption risk that the question is trying to address and provides examples of how this may look or function within a company in practice.

Further information about the rationale for the key corruption risk areas identified and addressed in the DCI 2019 can be found in our report, ‘Out of the Shadows: Promoting Openness and Accountability in the Global Defence Industry’. This report is available online at: <http://ti-defence.org/publications/out-of-the-shadows/>.

**SCORING CRITERIA**

For each question, a company may receive a score of 2, 1 or 0 depending on the extent to which the company’s publicly available information meets best practice standards of transparency.

The general principles underlying the scoring criteria are:

|          |                                                                                                                                                                                  |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2</b> | Full marks; i.e. the company fully meets the expectation of the question and there is evidence to substantiate this expectation.                                                 |
| <b>1</b> | Half marks; i.e. the company meets some of the required standards, but falls short of the best practice expectation set in Score 2 in some regard.                               |
| <b>0</b> | No marks; i.e. the company does not demonstrate that it meets the required standards or the evidence is so weak that it cannot reasonably be said to be functioning effectively. |

The purpose of the scoring criteria is to outline the standards of best practice and to indicate the extent to which a given company may meet these standards through its public disclosures. Companies are not expected to use the exact wording of the scoring criteria in order to score full points on any question. Companies can still score full marks using equivalent language that conveys the underlying commitment or intent of the question.

The 2019 QMA contains 57 questions; although not all questions are applicable to all companies. The maximum overall score available to companies for all questions is 114.

There may be cases where certain questions do not apply to a company. In that case, the assessor will mark the question as N/A and the question will be removed from the company's overall score. Receiving N/A on a question will therefore not have a negative effect on a company's performance in the DCI. There is no limit to the number of times that an assessor can mark a question as N/A; this classification will be used wherever appropriate for each company.

For example:

- In section 5, a company that publishes a clear statement that it does not make political contributions would receive a score of 2 for question 5.1.1, and so would then be exempted from scoring on question 5.1.2 which calls for the disclosure of this information. As a result, question 5.1.2 would be removed from the company's overall score and the company would receive a relative score out of 113.
- In section 7, a company that publishes a clear statement that it does not use agents would receive a score of 2 for question 7.1.1, and so would then be exempted from answering the six following questions about the use of agents and intermediaries. As a result, questions 7.1.2 to 7.1.7 would be removed from the company's overall score and the company would be scored out of 108.
- In section 10, any company that is not a state-owned enterprise – meaning any publicly listed, traded or private company – would be exempted from all five questions under this section. These companies would therefore receive a relative score out of 109 (maximum).

## EVIDENCE

The assessment of a company's anti-bribery and corruption standards is based entirely on publicly available information. Greater transparency in this area is essential, as it ensures the programmes and company activities are open to public scrutiny and enables companies to share and understand best practice.

Assessors will review primary sources: the company's website, available reports, codes of conduct, as well as any functioning hyperlinks to other relevant online materials and data. Only official company information and documents will count as evidence; any references to the company or its processes on third party websites – such as industry association pages or news reports, for example – will not be taken into account. Typical documents will include annual reports, social responsibility reports, ethics and compliance sections of the website, and individual policy documents where available, and published data sets. In each instance, companies will be assessed on the latest available information at the time of the assessment.

## DEFINITIONS

Any specific definitions that might be relevant to the scoring of a particular question are outlined in the QMA either at the start of the section or as part of the guidance. A full list of definitions is available in [Annex III](#). However, there are a few overarching definitions that have implications throughout the DCI:

### **Corruption**

Transparency International's definition of corruption is: "Corruption is the abuse of entrusted power for private gain". We identify particular corruption risks in the defence and security sector through the use of a typology of corruption risks, which is presented in relation to defence companies in the form of the contents of the Questionnaire and Model Answer document.

### **Corruption risk**

Corruption risk refers to the probability that defence and security corruption might occur along with a reflection of the potential cost associated with that corruption. It thus reflects the potential that such loss, whether

monetary, social or political can arise; and reflects the severity of such cost when it occurs. Increased risk means higher potential for corruption or higher risk associated cost, or both. Companies have the ability to influence levels of corruption risk as 'supply side' actors, while the 'demand side' actors are assessed in TI's sister index: the Government Defence Anti-Corruption Index.

#### ***Anti-bribery and corruption programmes***

Defence companies use a variety of terms to describe their corporate systems for promoting integrity and reducing corruption risk. Terminology that covers those efforts may include 'business ethics', 'business conduct', 'ethics programmes or policies', or 'compliance programmes'. Additionally, each company may house their efforts to promote values and tackle corruption in separate documents. For example, some companies may organise their values and integrity building efforts under a Business Ethics or Human Resource Department. These same companies may organise their anti-corruption and other compliance efforts under a Legal or Audit Department. Given the wide variety of terms and organisational structures that cover integrity building and anti-corruption efforts, TI uses the phrase 'anti-bribery and corruption programmes' to describe a company's approach to promoting its integrity at all levels of its operations and to reducing corruption risk. Companies that organise their efforts under a different name will not be disadvantaged in the scoring, so long as it is clear to the assessor that the company addresses each corruption risk in a clear and transparent way.

## **4. THE RESEARCH PROCESS**

### **PUBLICLY AVAILABLE INFORMATION**

TI will retrieve publicly available information published by defence companies through desk research. Since the assessments focus on official company evidence available in the public domain, the primary source for assessors will be company websites and any relevant links or documents accessible through them. Typical documents reviewed will include annual reports, social responsibility reports and corporate governance sections of the website. Data for each question will be recorded and the sources documented as per the date of viewing.

Where a company's website and/or published reports are not available in English, a language professional will be assigned to support the assessment. Any evidence used as part of the assessment will be recorded in the original language, with an English translation alongside to allow for scrutiny by peer reviewers. Companies will have the opportunity to address any potential translation errors or misinterpretations in the company review process.

All desk research on companies is planned to be conducted over a five-month period, between May and October 2019. The research will be conducted independently of any evidence used in the 2015 or 2012 assessments, and any internal information submitted as part of those editions will not be considered. In each instance, the research will be based on the latest available documentation at the time of the assessment; any changes occurring outside of this timeframe may not be reflected in the report. Given the number of companies assessed, the reporting periods covered in these documents may differ by several months.

The evidence and scores for each company will be reviewed by a second assessor within TI to ensure that the initial researcher has not missed any relevant information. Once all companies have been scored, consistency checks will be carried out on a question-by-question basis to ensure that all companies are scored according to the same criteria.

### **COMPANY REVIEW**

A draft version of the assessment will be sent to each company, to allow for the opportunity to respond. Companies may provide feedback on the assessments if they feel that any materials have been misinterpreted or guide TI towards any additional public information that may have been missed or which may have been recently added.

All companies will be given a period of four weeks to review their draft assessment and submit any feedback or suggest amendments. Companies may decide to make alterations or additions to their published information, in which case they should alert the assessor in their feedback and every effort will be made to take it into

account. Any changes outside of that timeframe may not be reflected in the report. Companies that provide feedback on their initial assessment will be provided with a revised draft following a review of their feedback.

TI made a concerted effort to contact all companies at the initial launch of the project in October 2018 in order to identify a point of contact (POC) for each company. Letters were sent to individual CEOs in good time before the end of the consultation period (November 2018), and emails were also sent to any POCs identified through desk research. Company representatives were also invited to submit their contact details through an online form so that, once verified by the TI team, they could be added to the mailing list. TI will ensure that these contact details are updated where necessary throughout the duration of the project.

## EXTERNAL PEER REVIEW

Once the company assessments have been completed, a peer review will be undertaken by reviewers with expertise in the defence industry and/or corporate ethics and compliance programmes. Peer reviewers will be required to review in detail and comment on both the responses provided by the companies and the scores assigned by TI. Peer reviewers will be required to recuse themselves from reviewing any company with whom they had worked in any direct or potentially conflicted capacity.

## 5. COMPANY SELECTION

Defence companies have been selected for assessment on the DCI 2019 on the basis that:

- The company features in the 2016 edition of SIPRI's Top 100 Arms-Producing and Military Services companies<sup>1</sup>; and/or
- The company features in the 2017 edition of Defence Industry Weekly's Top 100<sup>2</sup> defence companies; and/or
- The company is the largest national defence company (by revenue and exports) headquartered in a country that would otherwise be unrepresented on the DCI 2019 but that has arms exports in excess of at least £10 million, as identified by SIPRI.

The DCI 2019 will assess 139 of the world's largest defence companies. These companies differ widely in their characteristics, products and/or services, ownership structures and countries of operation, but all receive a substantial proportion of their revenue from sales to various militaries or ministries of defence across the world. As a general rule, company subsidiaries have been excluded from the analysis.

The 139 companies derived from the above calculations were correct at the launch of the project in October 2018. Minor adjustments to the list may be required over the course of the project to account for any mergers, acquisitions or dissolutions. These situations will be determined by the company's online presence, whether as one company or as two. For example, it was reported in November 2018 that Israeli defence company Elbit Systems has obtained the required permissions to acquire IMI Systems.<sup>3</sup> However, at the time of writing, the two companies continue to operate separate websites with different published resources, and would therefore be assessed as two distinct entities. The full list of companies selected for assessment in 2019 is available in [Annex II](#).

<sup>1</sup> Due to reporting cycles, the 2016 SIPRI list was the most current list available when the company selection exercise was carried out in May 2018. The list can be accessed at <https://www.sipri.org/publications/2017/sipri-fact-sheets/sipri-top-100-arms-producing-and-military-services-companies-2016>.

<sup>2</sup> The Defence News 2017 list was the most current list available when the company selection exercise was carried out in May 2018. This list can be accessed at <https://people.defensenews.com/top-100/>. In August 2018, Defence News published its top 100 for 2018, containing four new companies: Russian Helicopters, Toshiba Infrastructure Systems, Hyundai Rotem Company, STM Savunma Teknolojileri Muhendislik ve Ticaret A.S., Oki Electric Industry. These companies were added to the assessment list; no companies were removed.

<sup>3</sup> 'Elbit completes purchase of Israel's IMI after government approval', *Thomas Reuters News*, 25 November 2018, <https://uk.reuters.com/article/us-elbit-systems-imi/elbit-completes-purchase-of-israels-imi-after-government-approval-idUKKCN1NU0HK>

## 6. INDEX OUTPUTS

### THE RESULTS

Each company will receive a percentage score based on the marks awarded in the assessment. This percentage score will correspond to an overall band, which is mapped out using the below classifications:

| BAND | LOWER % | UPPER % | EVIDENCE LEVEL        |
|------|---------|---------|-----------------------|
| A    | 83.3    | 100     | Extensive evidence    |
| B    | 66.7    | 83.2    | Good evidence         |
| C    | 50.0    | 66.6    | Moderate evidence     |
| D    | 33.3    | 49.9    | Limited evidence      |
| E    | 16.7    | 33.2    | Very limited evidence |
| F    | 0       | 16.6    | Almost no evidence    |

Each company will also receive a percentage score for each of the 10 key risk areas in the DCI QMA: leadership and organisational culture; internal controls; support to employees; conflict of interest; customer engagement; supply chain management; agents, intermediaries and joint ventures; offsets; high risk markets; and state-owned enterprises (if applicable).

TI will also publish the final assessment for each company in its entirety, including the score provided, the evidence and sources used, and the justifications underlying each score.

Data from the assessments will also be used to provide high-level qualitative results, for example divided by risk area, country and/or geographical region. Presentation of the core results, after extensive analysis, will be presented in hard copy and webtext. Ultimate ownership and responsibility for the outputs rests with TI.

### COMPARABILITY

The question set for the DCI 2019 is fundamentally different from that of the previous editions. Therefore, as part of the 2019 assessment, companies will not be directly compared with their overall score from 2015 or 2012. Some parallels may be drawn between scores on specific questions that have not changed since the 2015 edition, but this will not be reflected in the overall results.

## 7. POTENTIAL SOURCES OF ERROR

Although we have done our best to assess companies in the most fair and objective way, there may be a margin of error for each company. We have considered, and sought to address, the following potential sources of error:

### 1) Accuracy

- a) **Due to an incomplete set of publicly available resources**, meaning that TI were unable to review all information on a company's ethics and anti-corruption programme. Prior to the start of the assessment process, TI will endeavour to contact at least one person within each company so that they can make any changes to their publicly available information in line with the new QMA. All assessments will be reviewed by a TI team who will check the evidence used on a question-by-question, company-by-company basis. Additionally, all companies will be given the opportunity to comment on the draft analysis and guide TI towards additional publicly available information, should it exist. TI will review and discuss bilaterally the impact of any additional documents on any given company's score.

- b) **Due to TI misinterpreting a publicly available resource.** All companies will be given at least one opportunity to comment on TI's draft assessment and to clarify any misinterpretation. Internal consistency checks and external peer review will also reduce the risk of misinterpretation of evidence and information.
- c) **Due to what was or what was not in the public domain.** The DCI 2019 will assess companies based on their publicly available information only. This decision reflects our commitment to greater transparency, which we believe will help to reduce corruption in the sector, build public trust, reassure investors, build constructive relationships with customers and improve the reputation of companies and the industry as a whole. As such, TI will not be accepting any internal documents and any internal information provided will not be taken into consideration when formulating the assessments.
- d) **Due to an unwillingness to publish information due to concerns about confidentiality, commercial sensitivity.** In developing the revised DCI question set, TI consulted a range of legal experts who provided advice on competition law, anti-trust law and commercial sensitivity issues. TI also considered the impact of the European Union's General Data Protection Regulations (GDPR, 2018) on the question set. No significant legal barriers to publishing this information were encountered during these discussions.

## 2) Imprecision

In designing the 2019 DCI, the team consulted a broad range of organisations including defence companies and associations, defence ethics organisations, academics, research experts and civil society. This ensures that questions are based on technical measures and processes that are relevant to the industry. The questionnaire was thoroughly tested and discussed with industry ethics and compliance practitioners. The results of the Index are presented in bands, rather than as a numerical ranking, so as to minimise the issue of error ranges in individual scores.

## 3) Consistency

Research for the 2019 DCI will be conducted independently of evidence provided in previous iterations of the project in 2015 and 2012. Consistency checks are built into each stage of the research process: all initial assessments will be reviewed by the team at TI, the company will have the opportunity to review its draft assessment and, once all companies have been scored, consistency checks will be carried out on a question-by-question basis. Following external expert peer review of a selection of company assessments, an additional detailed internal review will be conducted on each assessment to ensure consistency and fairness.

## 4) Bias

The DCI was developed in collaboration with a broad range of industry stakeholders, defence ethics organisations, academics and experts. The company selection criteria have been clearly defined and the assessment questionnaire is based on technical measures and processes, rather than perceptions. We have developed a comprehensive QMA and a technical codebook for assessors to reduce the risk of variability. Internal and external peer review will feature at multiple stages throughout the research process to further mitigate this risk, while also reducing the risk of chronology bias.

## 5) Possible conflicts of interest.

The assessments will be completed by TI staff, assistants and advisors. We are thus alert to possible conflicts of interests, as well as the same risk in our external peer reviewers. Each has recused themselves when there is a possible conflict of interest with a company. More generally, Transparency International receives support from some of the companies in this Index. Although the majority of this support is provided to different chapters in the TI movement, we have disclosed all possible conflicts of interest.

***Transparency International UK works with Meggitt plc as part of its Business Integrity Forum. Kongsberg Gruppen is a corporate member of TI Norway. RUAG is a corporate member of TI Switzerland. Other companies covered in this assessment may also provide support to Transparency International Chapters worldwide. TI staff and external peer reviewers have recused themselves from reviewing companies to which they have a connection.***



**ANNEX I: QUESTIONNAIRE AND MODEL ANSWERS (QMA) 2019**

| <b>1. Leadership &amp; Organisational Culture</b> |                                                                                                                                                                                                                                                                                                      |
|---------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1                                               | Does the company have a publicly stated anti-bribery and corruption commitment, which is authorised by its leadership?                                                                                                                                                                               |
| 1.2                                               | Does the company have a comprehensive anti-bribery and corruption policy that explicitly applies to both of the following categories:<br>a) All employees, including staff and leadership of subsidiaries and other controlled entities;<br>b) All board members, including non-executive directors. |
| 1.3                                               | Does the board or a dedicated board committee provide oversight of the company's anti-bribery and corruption programme?                                                                                                                                                                              |
| 1.4                                               | Is responsibility for implementing and managing the company's anti-bribery and corruption programme ultimately assigned to a senior executive, and does he or she have a direct reporting line to the board or board committee providing oversight of the company's programme?                       |
| <b>2. Internal Controls</b>                       |                                                                                                                                                                                                                                                                                                      |
| 2.1                                               | Is the design and implementation of the anti-bribery and corruption programme tailored to the company based on an assessment of the corruption and bribery risks it faces?                                                                                                                           |
| 2.2                                               | Does the company review its anti-bribery and corruption risk assessment and update it when gaps and issues are identified?                                                                                                                                                                           |
| 2.3                                               | Is the company's anti-bribery and corruption programme subject to regular internal or external audit, and are policies and procedures updated according to audit recommendations?                                                                                                                    |
| 2.4                                               | Does the company have a system for tracking, investigating and responding to bribery and corruption allegations or incidents, including those reported through whistleblowing channels?                                                                                                              |
| 2.5                                               | Does the company have appropriate arrangements in place to ensure the quality of investigations?                                                                                                                                                                                                     |
| 2.6                                               | Does the company's investigative procedure include a commitment to report material findings of bribery and corruption to the board and any criminal conduct to the relevant authorities?                                                                                                             |
| 2.7                                               | Does the company publish high-level results from incident investigations and disciplinary actions against its employees?                                                                                                                                                                             |
| <b>3. Support to Employees</b>                    |                                                                                                                                                                                                                                                                                                      |
| 3.1                                               | Does the company provide training on its anti-bribery and corruption programme to all employees across all divisions and geographies, and in all appropriate languages?                                                                                                                              |
| 3.2                                               | Does the company provide tailored training on its anti-bribery and corruption programme for at least the following categories of employees:<br>a) Employees in high risk positions,<br>b) Middle management,<br>c) Board members.                                                                    |
| 3.3                                               | Does the company measure and review the effectiveness of its anti-bribery and corruption communications and training programme?                                                                                                                                                                      |
| 3.4                                               | Does the company ensure that its employee incentive schemes are designed in such a way that they promote ethical behaviour and discourage corrupt practices?                                                                                                                                         |
| 3.5                                               | Does the company commit to and assure itself that it will support and protect employees who refuse to act unethically, even when it might result in a loss of business?                                                                                                                              |
| 3.6                                               | Does the company have a clear policy of non-retaliation against whistleblowers and employees who report bribery and corruption incidents?                                                                                                                                                            |
| 3.7                                               | Does the company provide multiple whistleblowing and advice channels for use by all (e.g. employees and external parties), and do they allow for confidential and, wherever possible, anonymous reporting?                                                                                           |
| <b>4. Conflict of Interest</b>                    |                                                                                                                                                                                                                                                                                                      |
| 4.1                                               | Does the company have a policy defining conflicts of interest – actual, potential and perceived – that applies to all employees and board members?                                                                                                                                                   |
| 4.2                                               | Are there procedures in place to identify, declare and manage conflicts of interest, which are overseen by a body or individual ultimately accountable for the appropriate management and handling of conflict of interest cases?                                                                    |
| 4.3                                               | Does the company have a policy and procedure regulating the appointment of directors, employees or consultants from the public sector?                                                                                                                                                               |
| 4.4                                               | Does the company report details of the contracted services of serving politicians to the company?                                                                                                                                                                                                    |
| <b>5. Customer Engagement</b>                     |                                                                                                                                                                                                                                                                                                      |
| 5.1.1                                             | Does the company have a clearly defined policy and/or procedure covering political contributions?                                                                                                                                                                                                    |
| 5.1.2                                             | Does the company publish details of all political contributions made by the company and its subsidiaries, or a statement that it has made no such contribution?                                                                                                                                      |
| 5.1.3                                             | Does the company have a clearly defined policy and/or procedure covering charitable donations and sponsorships, whether made directly or indirectly, and does it publish details of all such donations made by the company and its subsidiaries?                                                     |

|                                     |                                                                                                                                                                                                                                               |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5.2.1                               | Does the company have a policy and/or procedure covering responsible lobbying?                                                                                                                                                                |
| 5.2.2                               | Does the company publish details of the aims and topics of its public policy development and lobbying activities it carries out?                                                                                                              |
| 5.2.3                               | Does the company publish full details of its global lobbying expenditure?                                                                                                                                                                     |
| 5.3.1                               | Does the company have a policy and/or procedure on gifts and hospitality to ensure they are bona fide to prevent undue influence or other corruption?                                                                                         |
| <b>6. Supply Chain Management</b>   |                                                                                                                                                                                                                                               |
| 6.1                                 | Does the company require the involvement of its procurement department in the establishment of new supplier relationships and in the oversight of its supplier base?                                                                          |
| 6.2                                 | Does the company conduct risk-based anti-bribery and corruption due diligence when engaging or re-engaging with its suppliers?                                                                                                                |
| 6.3                                 | Does the company require all of its suppliers to have adequate standards of anti-bribery and corruption policies and procedures in place?                                                                                                     |
| 6.4                                 | Does the company ensure that its suppliers require all their sub-contractors to have anti-corruption programmes in place that at a minimum adhere to the standards established by the main contractor?                                        |
| 6.5                                 | Does the company publish high-level results from ethical incident investigations and disciplinary actions against suppliers?                                                                                                                  |
| <b>7. Agents and Intermediaries</b> |                                                                                                                                                                                                                                               |
| 7.1.1                               | Does the company have a clear policy on the use of agents?                                                                                                                                                                                    |
| 7.1.2                               | Does the company conduct risk-based anti-bribery and corruption due diligence when engaging or re-engaging its agents and intermediaries?                                                                                                     |
| 7.1.3                               | Does the company aim to establish the ultimate beneficial ownership of its agents and intermediaries?                                                                                                                                         |
| 7.1.4                               | Does the company's anti-bribery and corruption policy apply to all agents and intermediaries acting for or on behalf of the company, and does it require anti-bribery and corruption clauses in its contracts with these entities?            |
| 7.1.5                               | Does the company ensure that its incentive schemes for agents are designed in such a way that they promote ethical behaviour and discourage corrupt practices?                                                                                |
| 7.1.6                               | Does the company publish details of all agents currently contracted to act with and on behalf of the company?                                                                                                                                 |
| 7.1.7                               | Does the company publish high-level results from incident investigations and sanctions applied against agents?                                                                                                                                |
| 7.2.1                               | Does the company conduct risk-based anti-bribery and corruption due diligence when entering into and operating as part of joint ventures?                                                                                                     |
| 7.2.2                               | Does the company commit to incorporating anti-bribery and corruption policies and procedures in all of its joint venture relationships, and does it require anti-bribery and corruption clauses in its contracts with joint venture partners? |
| 7.2.3                               | Does the company commit to take an active role in preventing bribery and corruption in all of its joint ventures?                                                                                                                             |
| <b>8. Offsets</b>                   |                                                                                                                                                                                                                                               |
| 8.1                                 | Does the company explicitly address the corruption risks associated with offset contracting, and is a dedicated body, department or team responsible for oversight of the company's offset activities?                                        |
| 8.2                                 | Does the company conduct risk-based anti-bribery and corruption due diligence on all aspects of its offset obligations, which includes an assessment of the legitimate business rationale for the investment?                                 |
| 8.3                                 | Does the company publish details of all offset agents and brokers currently contracted to act with and/or on behalf of the company?                                                                                                           |
| 8.4                                 | Does the company publish details about the beneficiaries of its indirect offset projects?                                                                                                                                                     |
| <b>9. High Risk Markets</b>         |                                                                                                                                                                                                                                               |
| 9.1                                 | Does the company have enhanced risk management procedures in place for the supply of goods or services to markets or customers in countries identified as at a high risk of corruption?                                                       |
| 9.2                                 | Does the company disclose details of all of its fully consolidated subsidiaries and non-fully consolidated holdings (associates, joint ventures and other related entities)?                                                                  |
| 9.3                                 | Does the company disclose its beneficial ownership and control structure?                                                                                                                                                                     |
| 9.4                                 | Does the company publish a percentage breakdown of its defence sales by customer?                                                                                                                                                             |
| <b>10. State-Owned Enterprises</b>  |                                                                                                                                                                                                                                               |
| 10.1                                | Does the SOE publish a breakdown of its shareholder voting rights?                                                                                                                                                                            |
| 10.2                                | Are the SOE's commercial and public policy objectives publicly available?                                                                                                                                                                     |
| 10.3                                | Is the SOE open and transparent about the composition of its board and its nomination and appointment process?                                                                                                                                |
| 10.4                                | Is the company's audit committee composed of a majority of independent directors?                                                                                                                                                             |
| 10.5                                | Does the SOE have a system in place to assure itself that asset transactions follow a transparent process to ensure they accord to market value?                                                                                              |

The full Questionnaire and Model Answer document is available online at: [www.ti-defence.org/dci](http://www.ti-defence.org/dci).

**ANNEX II: COMPANIES IN THE 2019 INDEX**

|                                                    |                                                |                                                       |
|----------------------------------------------------|------------------------------------------------|-------------------------------------------------------|
| AAR Corporation                                    | General Electric Aviation                      | Perspecta                                             |
| Abu Dhabi Shipbuilding                             | GKN Aerospace                                  | Polish Defence Holdings                               |
| Accenture PLC                                      | Glock                                          | Poongsan Corporation                                  |
| AECOM                                              | Hanwha Aerospace                               | PT Dirgantara Indonesia (Indonesian Aerospace)        |
| Aerojet Rocketdyne (formerly GenCorp)              | Harris Corporation                             | QinetiQ Group PLC                                     |
| Airbus Group                                       | Hewlett-Packard Enterprise Company             | Rafael Advanced Defense Systems Ltd                   |
| Almaz-Antey                                        | High Precision Systems                         | Raytheon Company                                      |
| Arab Organisation for Industrialisation (AOI)      | Hindustan Aeronautics Limited                  | Rheinmetall A.G.                                      |
| Arsenal JSCo                                       | Honeywell International                        | Rockwell Collins Inc.                                 |
| Aselsan A.S.                                       | Huntington Ingalls Industries Inc.             | Roketsan                                              |
| Austal                                             | Hyundai Rotem Company                          | Rolls Royce PLC                                       |
| Aviation Industry Corporation of China (AVIC)      | IHI Corporation                                | RTI Systems                                           |
| Babcock International Group PLC                    | IMI Systems Ltd*                               | RUAG Holding Ltd.                                     |
| BAE Systems PLC                                    | Indian Ordnance Factories                      | Russian Helicopters JSC                               |
| Ball Aerospace & Technologies Corp                 | Indra Sistemas, S.A.                           | Saab AB                                               |
| Battelle Memorial Institute                        | Israel Aerospace Industries Ltd                | Safran S.A.                                           |
| Bechtel Corporation                                | Japan Marine United Corporation                | Science Applications Int. Corp. (SAIC)                |
| BelTechExport Company JSC                          | Kawasaki Heavy Industries Ltd.                 | Serco Group PLC                                       |
| Bharat Dynamics                                    | KBR Inc.                                       | ST Engineering                                        |
| Bharat Electronics                                 | King Abdullah II Design and Development Bureau | STM Savunma Teknolojileri Muhendislik ve Ticaret A.S. |
| Boeing                                             | Komatsu u Ltd.                                 | Tactical Missiles Corporation, JSC                    |
| Booz Allen Hamilton Inc.                           | Kongsberg Gruppen ASA                          | Turkish Aerospace Industries (TAI)                    |
| CACI International Inc.                            | Korea Aerospace Industries                     | Tashkent Mechanical Plant                             |
| CAE Inc.                                           | Krauss-Maffei Wegmann GmbH & Co.               | Tatra Trucks, A.S.                                    |
| CEA Technologies                                   | L-3 Communications Holdings Inc.               | Telephonics Corporation                               |
| Chemring Group PLC                                 | Leidos Inc.                                    | Terma A.S.                                            |
| China North Industries Group Corporation (NORINCO) | Leonardo S.p.A.                                | Textron                                               |
| China Shipbuilding Industry Corporation            | LGS Innovations                                | Thales Group                                          |
| Cobham PLC                                         | LiG Nex1 Co., Ltd.                             | The Aerospace Corporation                             |
| Concern Radioelectronic Technologies, JSC          | Lockheed Martin Corporation                    | ThyssenKrupp AG                                       |
| Cubic Corporation                                  | ManTech International Corporation              | Toshiba Infrastructure Systems                        |
| Curtiss-Wright Corporation                         | MBDA Missile Systems                           | Triumph Group Inc.                                    |
| Daewoo Shipbuilding & Marine Engineering           | Meggitt PLC                                    | Ukroboronprom                                         |
| Damen Schelde Naval Shipbuilding                   | Massachusetts Institute of Technology (MIT)    | Ultra Electronics Holdings PLC                        |
| Dassault Aviation                                  | MITRE Corporation                              | United Aircraft Corporation                           |
| Day & Zimmerman                                    | Mitsubishi Electric Corporation                | United Engine Corporation                             |
| Denel SOC                                          | Mitsubishi Heavy Industries Ltd.               | United Instrument Manuf. Corp                         |
| Diehl Stiftung & Co. KG                            | Moog Inc.                                      | United Shipbuilding                                   |
| DynCorp International                              | Nammo A.S.                                     | United Technologies Corporation                       |
| Elbit Systems Ltd                                  | Naval Group                                    | Uralvagonzavod                                        |
| Embraer SA                                         | Navantia S.A.                                  | Vectrus                                               |
| Engility                                           | NEC Corporation                                | ViaSat Inc.                                           |
| Excalibur Army                                     | Nexter Group                                   | Zastava Arms                                          |
| Fincantieri S.p.A                                  | Northrop Grumman Corporation                   |                                                       |
| Fluor Corporation                                  | OGMA – Indústria Aeronáutica de Portugal S.A.  |                                                       |
| Fujitsu Ltd                                        | Oki Electric Industry                          |                                                       |
| General Atomics                                    | Oshkosh Corporation                            |                                                       |
| General Dynamics Corporation                       | Patria Oyj                                     |                                                       |

\*Pending acquisition by Elbit Systems Ltd.

## ANNEX III: FULL LIST OF DEFINITIONS

**Accountability** is the concept that individuals, agencies and organisations (public, private and civil society) are held responsible for reporting their activities and for executing their powers properly. It also includes the responsibility for money or other entrusted property.

**Agents** are defined as individuals or entities authorised to act for, or on behalf of, a company to further its business interests, for example in sales or marketing, and in, or with, a foreign country or foreign entity. Agents pose distinct risks compared to other types of intermediaries, because they are authorised to act on the company's behalf, often with a high level of discretion and minimal oversight, and their activities usually involve close interaction with public officials. The terms agent and broker are often used interchangeably.

An **anti-bribery and corruption programme** is defined here as the company's anti-bribery efforts including values, code of conduct, detailed policies and procedures, risk management, internal and external communication, training and guidance, internal controls, oversight, monitoring and assurance.

An **audit** is defined as an internal or external examination of an organisation's accounts, processes, functions and performance to produce an independent and credible assessment of their compliance with applicable laws and regulations.

A **beneficial owner** is the real person who ultimately owns, controls or benefits from a company or trust fund and the income it generates.

The **board of directors** is the corporate body charged with the functions of governing the enterprise. Directors can be executive or non-executive, dependent on whether that person engages in the day-to-day management of the company, and independent or non-independent, dependent on whether that person holds shares or other interests in the company.

**Bona fide** refers to an act made in good faith without an intention to engage in undue action. The term can be included in policies regarding gifts, hospitality or expenses.

**Bribery** is defined as the offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal, unethical or a breach of trust. Inducements can take the form of money, gifts, loans, fees, rewards or other advantages (taxes, services, donations, favours etc.).

A **code of conduct** is a statement of principles and values that establishes a set of expectations and

standards for how an organisation, government body, company, affiliated group or individual will behave, including minimal levels of compliance and disciplinary actions for the organisation, its staff and volunteers.

**Compliance** refers to the procedures, systems or departments within public agencies or companies that ensure all legal, operational and financial activities are in conformity with current laws, rules, norms, regulations, standards and public expectations.

**Conflict of interest** (CoI) is defined here as a situation where an individual or the entity for which they work, whether a government, business, media outlet or civil society organisation, is confronted with choosing between the duties and demands of their position and their own private interests.

A **cooling-off period** is a time-limited restriction on the ability of former politicians or public officials to accept appointments to positions in the private sector.

**Corruption** is defined as the abuse of entrusted power for private gain. Corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs.

**Due diligence** refers to an investigation or audit of a potential business, investment, or individual prior to entering into a business transaction or appointment of individuals.

**Facilitation payments** are defined here as a small bribe, also called a 'facilitating', 'speed' or 'grease' payment; made to secure or expedite the performance of a routine or necessary action to which the payer has legal or other entitlement.

A **gift** is defined as money, goods, services or loans given ostensibly as a mark of friendship or appreciation. A gift is professedly given without expectation of consideration or value in return. A gift may be used to express a common purpose and the hope of future business success and prosperity. It may be given in appreciation of a favour done or a favour to be carried out in the future.

**Hospitality** refers to entertainment given or received to initiate, develop or strengthen relationships, including meals, receptions, tickets to entertainment, social or sports events, and participation in sporting events. The distinction between hospitality and gifts can blur, especially where the giver of the hospitality does not attend and act as a host.

**Incentives** are defined as "payments to employees that are linked to the achievement of set targets designed to motivate people to achieve higher levels of

performance". Typically such targets are quantified and measured in terms of outputs, such as production and sales, and profits. Increasingly, targets also include other factors such as safety and quality.

A **joint venture** is a business entity or project created by two or more companies. Joint ventures can be temporary for the purpose of fulfilling a contract, and certain companies may be involved in multiple joint ventures at any given time.

**Lobbying** is defined as any activity carried out to influence a government or institution's policies and decisions in favour of a specific cause or outcome. Even when allowed by law, these acts can become distortive if disproportionate levels of influence exist – by companies, associations, organisations and individuals.

**Offset contracts** in the defence sector are arrangements in which the purchasing government of the importing country obliges the supplying company of the exporting country to reinvest some proportion of the contract in the importing country. This can be done through both direct offsets, i.e. defence-related projects such as sub-contracting, or through indirect offsets, i.e. defence-unrelated enterprises such as purchases of goods or services. In this index, the term 'offset contracting' refers to both direct and indirect offset agreements, or any other terms to indicate such arrangements (e.g. counter-trade agreements).

**Oversight** is the process of independently monitoring and investigating – internally or externally – the operations and activities of a government agency, company or civil society organisation to ensure accountability and efficient use of resources.

**Political engagement** refers to the ways in which an enterprise contributes to or participates in the political process. This can include but is not limited to activities such as making political contributions, indirect political expenditure, advocacy and lobbying, lobbying through trade associations and other membership bodies, training of public sector officials and political activities related to the workplace.

A **public official** refers to any person holding a legislative, executive, administrative or judicial office, whether appointed or elected; and any person exercising a public function, including for a public agency or public enterprise.

A **risk assessment** is a systematic and continuing process for identifying and analysing inherent risks to enable an assessment of their likelihood and impact on the enterprise's ability to achieve its commitments and

objectives. Within the framework of the risk approach of the enterprise, the results of anti-corruption risk assessments are used to identify and prioritise risks and to design controls for the anti-corruption programme to be implemented to mitigate the risks.

A **state-owned enterprise (SOE)** is defined broadly as an entity that is owned or controlled by the state that carries out activities that are commercial or for public policy objectives, or a combination of these. For the purposes of a TI DS methodology, an SOE will be defined as an enterprise where the state has significant control through full, majority or significant minority ownership (OECD 2015).

A **subsidiary** is a company that is owned or controlled by another company, which is usually referred to as the parent company or holding company. **Fully consolidated subsidiaries** are entities which are fully or majority-owned by the parent company. Their financial statements are fully accounted for in the group consolidated financial statements. **Non-fully consolidated holdings** are entities of which the parent company owns (controls) between 20% and 50% and they are consolidated by the equity method.

A **supplier**, for the purpose of this assessment, refers to any company that has a direct business relationship and/or interaction with the main company (sometimes known as tier one or first generation suppliers). A company's **supply chain** refers more broadly to all contracted suppliers, contractors, sub-contractors and vendors.

A **third party**, for anti-corruption purposes, is a prospective or contracted business associate, including agents, distributors, lobbyists, brokers, consultants and other intermediaries, joint venture and consortia partners, contractors, vendors and suppliers.

**Transparency** means being open in the clear disclosure of information, rules, plans, processes and actions. As a principle, public officials, civil servants, the managers and directors of companies and organisations, and board trustees have a duty to act visibly, predictably and understandably to promote participation and accountability and to allow third parties to easily perceive what actions are being performed.

**Whistleblowing** involves a disclosure in the public interest by an employee, director or external person, in an attempt to reveal neglect or abuses within the activities of an organisation, government body or company (or one of its business partners) that threaten public interest, its integrity and reputation.