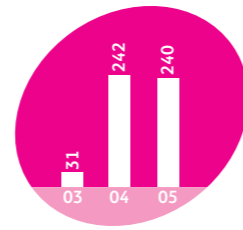


Suppliers



let's make a
better
world

Suppliers



Ethical Trading – number of risk assessment questionnaires completed all with 100% follow-up

We buy products and services - such as IT equipment, cables, software, design and disposal services - from thousands of suppliers worldwide. In the 2005 financial year, we spent over 4 billion on procurement.

At every stage of our dealings with suppliers - from selection and consultation, to recognition and payment - we are committed to behave according to the principles of fair and ethical trading.

In April 2004, we provided our suppliers with the opportunity to give their views on how well BT lives up to these commitments and principles through a confidential and on-line supplier stakeholder survey.

A total of 213 suppliers responded, with 94 per cent stating that they had a good working relationship with BT. We reviewed supplier responses to the other questions in the questionnaire. We felt suppliers did not have sufficient awareness of some of our business principles. A copy of the booklet, *The Way We Work*, was sent to them.

Here we discuss key aspects of our relationship with suppliers:

- **Selection** - how we choose our suppliers
- **Development** - how we work in partnership with our suppliers
- **Payment** - our commitment to pay our suppliers promptly and as agreed
- **Corporate social responsibility** - our commitment to be socially responsible and minimise our impact on the environment throughout our supply chain
- **Human rights in the supply chain** - how we apply our Sourcing with Human Dignity standards in our supply chain

- **Diversity** - how we promote diversity in our supply chain
- **Procurement and the environment** - how we promote environmental good practice in all our purchasing activities.

Selection

BT operates a fair procurement process - administering our tendering and contracting procedures in good faith.

Our supplier selection process seeks to ensure that high safety, environmental and social standards are met. We value the diversity of our suppliers. They do not have to be existing customers of BT.

Our **Purchasing Principles** provide a framework to ensure that we act in an ethically and commercially responsible way in our dealings. Adhering to these principles is an integral part of our procurement process.

Authority to form a contract is restricted to our authorised procurement professionals, trained to world-class standards and who apply BT's Purchasing Principles.

Development

We use a range of tools to assess our suppliers and to encourage continuous improvement. These range from basic desktop evaluations to sophisticated supplier capability assessments and partnership evaluation processes (PEM).

A PEM evaluation is only undertaken where both parties agree that it will be mutually beneficial. The evaluation increases the supplier's understanding of how to work in partnership with BT. This benefits us and helps the supplier when they compete for non-BT work.

We share learning and expertise in quality, the environment, diversity and ethical trading.

Payment

BT's policy is to use its purchasing power fairly and to pay promptly and as agreed. BT has a variety of payment terms with its suppliers.

The terms for payments for purchases under major contracts are settled when agreeing the other terms negotiated with the individual suppliers.

BT's standard payment terms to suppliers are 42 calendar days from date of invoice and this applies to all orders provided that the relevant invoice is presented on time and is complete.

BT's payment terms are printed on the company's standard purchase order forms or, where appropriate, specified in individual contracts agreed with the supplier.

The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the 2005 financial year and the amounts owed to its trade creditors at the end of the year was 36 days.

Corporate social responsibility

We are committed to be socially responsible and to minimise our impact on the environment.

We promote our principles and values when working with others. Our corporate social responsibility (CSR) programmes seek to apply human rights and environmental good practice within our supply chain.

During the 2005 financial year, we adopted a single CSR approach that consolidates the separate components of CSR in procurement. We have developed a single system to request supplier questionnaires, rather than the three used previously.

Scope

Our CSR supply-chain programmes are used by all purchasing operations in the BT Group.

Governance & resource

BT's chief procurement officer, who reports to a BT Board member, has ultimate responsibility for these CSR supply-chain programmes.

Our buyers - supported by a procurement CSR manager, product stewardship experts, waste experts and product managers - implement the programmes.

Since April 2004, CSR has been incorporated as a key measure in BT's procurement's 'scorecard' and buyers' objectives. This acts as an incentive for the procurement community to fulfil their CSR obligations.

GeSI Supply Chain CSR Working Group

BT is a member of the **Global eSustainability Initiative (GeSI)**, supported by the United Nations Environment Programme (UNEP) and the International Telecommunication Union (ITU). GeSI promotes the use

of technology to foster sustainable development.

In the 2004 financial year, GeSI established a CSR Supply Chain Working Group.

The group aims to develop or improve tools, management practices, processes and systems to help member companies deal with CSR issues in the supply chain. It seeks to promote efficient CSR supply-chain management by helping to eliminate duplication within the information and communications technology (ICT) industry.

The Group commissioned a study to identify what was considered best practice in CSR supply-chain management for an ICT company. This was used as a benchmark. The findings have helped decide priorities in the group's future work plans, which now include the development of a self-assessment questionnaire to help suppliers assess their own environment and labour standard risks, while raising their awareness of the issues. The group has consulted key non-governmental organisations (NGOs), trade unions and suppliers on the development of the questionnaire.

Human rights in the supply chain Working conditions

We want to ensure the working conditions under which the products and services we purchase are produced meet the standards of the Universal Declaration of **Human Rights (UNDHR)** and the **International Labour Organisation (ILO)** Conventions.

Through our supply-chain initiative Sourcing with Human Dignity (SWHD), we seek to ensure that the working conditions in our supply chain meet internationally accepted standards.

We need the collaboration and support of all our suppliers. Since the launch of the initiative in 2001, we have worked with an increasing number of buyers and suppliers to pursue this.

Our supply chain policy

Our SWHD initiative specifies the minimum standards we ask our suppliers to achieve in the following areas:

- Child labour
- Cruel, harsh and inhuman treatment
- Forced labour
- Discrimination
- Freedom of association & collective bargaining
- Health & safety
- Wages
- Working hours
- Regular employment entitlements.

Find out more on [Sourcing With Human Dignity](#).

Methodology

For all new BT contracts, suppliers are asked to sign a clause committing them to complete a risk-assessment questionnaire (**GS18**) on request. The clause also permits us to carry out on-site audits and commits the supplier to work with us to achieve our SWHD standards.

The questionnaire establishes the level of risk associated with the supplier. If the contract is identified as high or medium risk, we follow up to find out more information and determine what further action is needed.

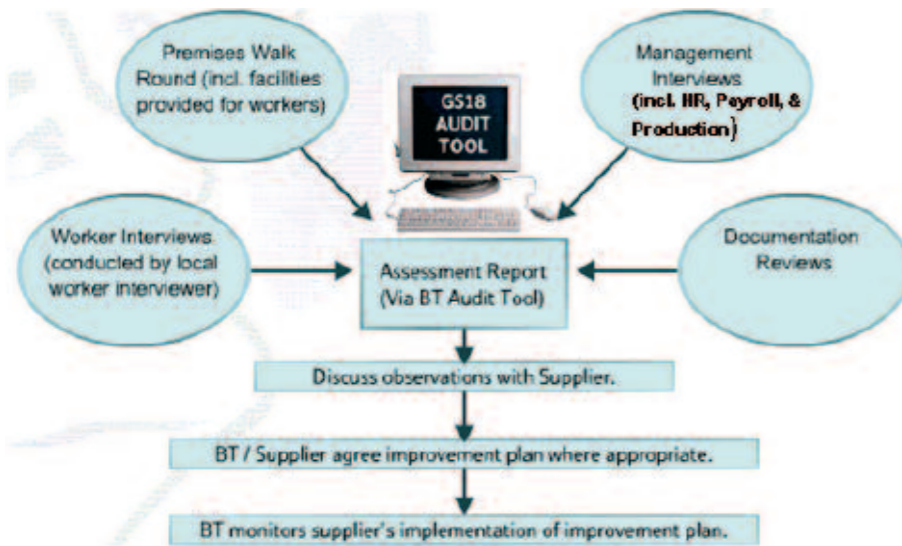


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Suppliers continued



In some cases, an on-site assessment will be agreed with the supplier. This may involve an audit of the supplier's own facilities or that of a subcontractor.

The assessments include interviews of the workers. Where possible, BT will ask appropriate NGOs, independent assessors or academics to carry out the interviews. Interviewers always speak the language of the workers and, where possible, will be of the same gender. The safety of the workers is of utmost importance and we protect their anonymity when feeding back findings to the management.

Where shortfalls against the GS18 standard are identified, an action plan is agreed with the supplier. A re-assessment will then be scheduled for completion within the following 12 months.

Training Buyers' awareness training

It is critical that our buyers have the awareness, knowledge and the skills required for the successful implementation of SWHD standard.

Our computerised training package enables all BT buyers to undergo

SWHD training. The training is mandatory for all those who have not taken the half-day course and includes the completion of an on-line assessment. The package introduces our buyers to the rationale behind the SWHD initiative, its key features and their role in ensuring its successful implementation.

Suppliers

The GeSI Supply Chain Working Group is developing a self-assessment/awareness-raising tool to help guide our suppliers in the implementation of labour standards codes.

We seek to raise suppliers' awareness during on-site assessments. We start these with a pre-meeting designed to help suppliers understand why SWHD standards are important to us. We explain what we will be looking for during the assessment. We often bring the suppliers' health and safety officer with us on the premises tour, so that they understand any health and safety issues the assessment discovers.

When we assess a supplier's subcontractor, we take someone

from the supplier with us. This helps suppliers understand the risks and how these can be managed in their supply chain.

Monitoring and improvements

The table right provides key data concerning BT's monitoring of Sourcing with Human Dignity and improvements achieved.

Implementation of GS18 Sourcing with Human Dignity Labour standard

	2003 FY	2004 FY	2005 FY
Number of new BT Contracts	879	1,199	1,175
GS18 requirement included in new BT contracts	879	1,199	1,175
GS18 risk-assessment questionnaires requested by BT to be completed by supplier*	37	391	243
GS18 risk-assessment questionnaire completed	31	242	240
Number of questionnaire responses where further action was required	15	67	55
Number of questionnaire responses where further action was being conducted	/	74	106
Number where required further action was completed	/	20	8
Number of initial GS18 on-site assessments conducted on high risk contracts	7	9	8
Number of supplier identified as falling short of GS18 standard following assessment	7	9	8
Number of GS18 on-site re-assessments conducted	7	4	3
Number of suppliers who, following re-assessment, have reached the GS18 standards	0	0	0
Contracts cancelled due to serious shortfalls persisting against GS18 standard	1	0	0

* One supplier questionnaire response may cover multiple contracts if for the same procurement requirement

/ =Data not entered onto the central database that year

2005 assessments

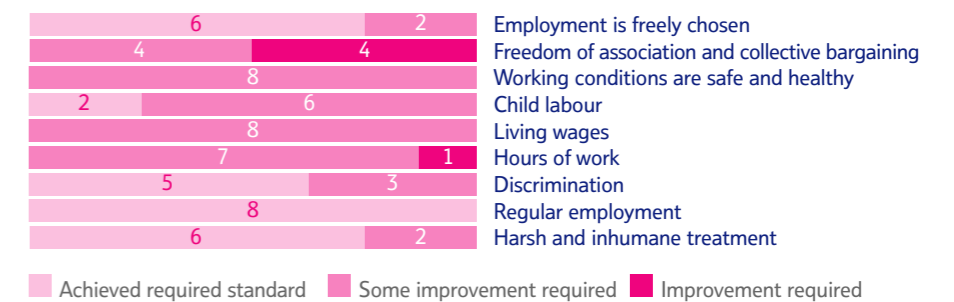
In the 2005 financial year, we completed 11 on-site assessments to find out how well our suppliers met our SWHD standard.

Eight of the assessments took place in China and Thailand and were of facilities not previously assessed. The assessments were done in those areas where there was a high risk of suppliers falling short of our standard - they should not be taken as a representative sample of our supply chain.

Our assessments use the following scoring system:

- Improvement required - progress is needed on at least 51 per cent of the aspects in that category
- Some improvement required - progress is needed on at least one aspect in that category.

GS18 Sourcing with Human Dignity Assessment Finding April 2004/2005 (Conducted on suppliers operating in identified risk areas)



The graph above shows the findings.

We sent the assessment reports to the suppliers and discussed our observations with them. We have either agreed improvement plans (and are monitoring progress), or are still to agree plans following the most recent assessments.

Not all the shortfalls represent major labour rights abuses. For example, some improvement required in the living wages category does not necessarily mean that the supplier is paying below the minimum or living wage. It may simply be that insufficient information about wages is provided in the employment contract.

In the 2005 financial year, a further three re-assessments were made to facilities where improvement plans had already been put in place. The visits assessed the level of improvement in the way suppliers meet our standards.

To date, only one subcontractor has been found, upon re-assessment, to persistently allow serious shortfalls of the SWHD standard, including excessive and forced overtime and intimidation of workers. The contractor falsified records to try to hide this from the assessors. As a result, we stopped placing orders with that company.



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Suppliers continued

This is the first and only case where we have stopped trading with a supplier because of non-compliance with our SWHD standard. All other suppliers have been collaborative and open and continuously try to improve their performance.

See [Future plans/Targets in corporate social responsibility](#).

Case study

Our supplier evaluations in China have delivered real and tangible benefits to the workers there. A GS18 risk evaluation of a subcontractor to one of the leading ICT manufacturers in China identified several areas where the supplier did not meet the standard required by our Sourcing with Human Dignity standards. Non-compliances included unsanitary and unsafe sleeping conditions, enforced overtime with wages below minimum standards and poor health screening.

As a result of the evaluation, the company has invested in improvements that have transformed working and living conditions. Several key Chinese suppliers are now including labour standards such as SA8000 in their contracts as a result of our leadership. This will potentially improve the working lives of huge numbers of Chinese workers.

Diversity

The business case

Because our customers are so diverse, the issue of diversity is commercially important to us and built into our business objectives. We must understand and align ourselves with our customers if we are to provide a truly world-class service.

Supplier diversity

During the 2005 financial year, we participated in the European Supplier Diversity Programme. This looks at how diversity can be encouraged in supply chains. We held a workshop to understand the issues that diverse suppliers may encounter when competing for business with big companies.

We sent The Way We Work booklet to current suppliers to reinforce how we value diversity in the workforce and how we expect our suppliers to reflect this when working with BT.

Future plans

In the future, we plan to review our buyers' training to ensure it reflects our single approach to CSR, and to ensure it is up to date and relevant.

We plan to carry out joint assessments with a direct supplier to share best practice.

We are developing an industry-wide supplier questionnaire as part of the Global eSustainability Initiative (GeSI) Supply Chain Working Group.

Procurement and the environment

In the 2005 financial year, BT spent over £4 billion on products and services. Our purchases range from telephone exchange equipment and vehicles to accommodation, fuel and energy, stationery, office machinery and postal services.

In the UK, this makes us one of the largest purchasers, with an environmental influence that extends well beyond that of our own people and workplaces. In recognition of this, and to comply with the ISO14001 standard, we identified procurement as one of eight company activities that affect the environment.

Environmental objective

Our environmental objective in procurement is to seek to influence the environmental performance of our suppliers and contractors through our purchasing policy.

We have set specific objectives to ensure appropriate supplier environmental data is collected. After evaluating our suppliers' environmental impacts, we encourage poor performers to improve.

We have adopted a risk-based approach focusing attention on improvements in the areas where the greatest impact can be made.

Methodology

The implementation of our procurement environment objective has three main strands:

1. **Assess suppliers' general environmental policies and procedures.** We do this with our [environmental impact online questionnaire](#) (GS13). The supplier must complete this after agreeing a mandatory pre-contract award commitment to work towards continuous improvement, if required. In this way we can identify and drive continuous improvement with those suppliers who do not have the procedures needed to manage the environmental risks of the product or service we buy.

Implementation of GS13 Environmental Impact Process

	2003 FY	2004 FY	2005 FY
Number of new BT Contracts	879	1,199	1,175
GS13 requirement included in new BT contracts	879	1,199	1,175
GS13 risk assessment questionnaires requested by BT to be completed by supplier*	70	568	289
GS13 risk assessment questionnaire completed	43	410	305
Number of questionnaires where continuous improvement was required	18	129	85
Number of questionnaires where continuous improvement was being driven	7	131	175
Number of contracts where continuous improvement completed	0	33	18

* One supplier questionnaire response may cover multiple contracts if for the same environment risk category

2. **Manage the environmental impacts of electrical or electronic equipment (EEE).** We have a pre-contract [product stewardship online questionnaire](#) (GS19), which is mandatory for all potential EEE suppliers. This provides information on materials used and compliance with forthcoming environmental legislation. The information is assessed and sent to our buyers and product managers so that they can make informed decisions.

3. **Auditing waste management suppliers.** All our waste contractors must provide a statement on their waste disposal procedures. We assess this for legal and environmental compliance. Contractors are audited by us (using an external specialist) every year. Audit reports are sent to the relevant BT buyer and progress on any required improvements monitored by the auditor.

Training Buyers

In the 2005 financial year, we held two seminars for our buyers to help them understand how to help their suppliers improve. The seminars were attended by 23 buyers who manage suppliers that were recognised to be in need of improvement as a result of their risk assessment questionnaire. This is in addition to 77 buyers trained in 2004 and 182 buyers trained in 2003.

During the 2005 financial year, we produced a guide for buyers on how to encourage continuous improvement with suppliers.

Suppliers

A training programme, started in 2004, helped BT suppliers implement environmental management systems compatible with the ISO14001 management systems standard. Seven BT suppliers took part in the four-day course, partly funded by the European Union. Participants committed to spend 120 hours on project implementation in their companies. All suppliers completed the course.

Monitoring and driving improvements - Performance at a glance

The table above provides key data concerning BT's monitoring and driving environmental improvements with suppliers

In the 2005 financial year, we have also assessed 250 product stewardship questionnaires (GS19) and audited 55 waste contractors.

Case study

Paper and stationery

We are one of the first companies to introduce a new type of sustainable office paper in the UK. This will have a significant effect on our environmental performance - we consume nearly 3,000 sheets per employee a year. The paper contains a minimum of 70 per cent reclaimed fibre from south-east England. The balance is from sustainably managed forests. This cuts delivery mileage, further reducing the paper's environmental impact.

See [Future Plans/Targets in Corporate social responsibility](#).



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