Supply chain

In the 2010 financial year (2010) we spent £12 billion with our external supply base. We buy a huge range of products and services including 21st Century Network equipment, IT equipment, cable, customer premises equipment, exchange cooling, marketing design, waste disposal services, advertising, conferencing devices and corporate clothing. Many of our suppliers are multinationals, although we also buy from many smaller and niche suppliers (that provide bespoke products such as software). We have circa 2,000 contracted suppliers.

In all our dealings with suppliers we are committed to treating them fairly and acting in an ethically and commercially responsible way.

Our supply chain is increasingly global as we source skills, products and services from countries worldwide. Our global sourcing activities contribute to economies around the world. However, we recognise, environmental and labour regulations may be poorly enforced in some countries and that those standards may be below acceptable norms.

We monitor these risks regularly through our well-established CR risk management processes, the risks are well managed and are not of material significance to the Group. Our expenditure enables us to influence suppliers' CR management. BT has detailed labour and environmental standards for suppliers and we train our procurement teams to embed these standards in our sourcing process.

We conduct CR assessments, targeted according to risk, and engage with suppliers to raise awareness of our requirements and to improve their performance. BT will not contract with suppliers that are unprepared to take the necessary steps to meet our standards.

We recognise that diverse suppliers bring innovation to BT and our procurement and diversity teams collaborate to expand opportunities for minority suppliers.

Key performance indicators

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<td>85%</td>
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<td>Ethical trading</td>
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<td>To achieve 100% follow-up within three months for all suppliers identified as high or medium risk, through our ethical standard questionnaires</td>
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BT targets

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<tr>
<td>April</td>
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<td>BT will achieve a rating of 80% or more based on the question: ‘How would you describe the quality of your…</td>
<td>We achieved an 86%</td>
<td>Completed</td>
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Fair treatment of suppliers

We aim to operate a fair procurement process and administer our tendering and contracting procedures in good faith. Supplier satisfaction is one of our key performance indicators [see below].

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

Only authorised procurement employees can form a contract with a supplier. They are trained to apply our Purchasing Principles which govern how we interact with suppliers.

Supplier development

We work with our suppliers to develop their knowledge and expertise. We assess our suppliers in a number of ways, including through basic desktop evaluations, detailed supplier capability assessments and partnership evaluation processes (PEM).

A PEM evaluation is undertaken when both BT and the supplier agree that it will be mutually beneficial. The evaluation increases the supplier’s understanding of how to work in partnership with BT, and we gain knowledge of the supplier’s strengths and areas for improvement. In addition we share knowledge and expertise on quality, the environment, diversity and ethical trading.

Supplier payment

Our policy is to use our purchasing power fairly and to pay promptly and as agreed.

In normal circumstances, BT’s minimum standard payment terms for contracted suppliers is to pay each due, valid and undisputed invoice in 60 days from date of receipt of their invoice. This policy may vary in some cases, for example when orders with suppliers are of low value or due to requirements from customers or geographic considerations.

In 2010 the average number of days between the invoice date and the date of payment run for the invoice was 49, the same as for 2009.

In the UK BT provides access to a supplier financing scheme which offers contracted suppliers the opportunity to obtain payments in advance of the agreed terms. Since April 2010, BT has subscribed to the Better Payment Practice Code, an initiative to promote a better payment culture in the UK and to encourage companies to adopt a responsible attitude to paying on time. Read more about the code at www.payontime.co.uk.

Assessing supplier satisfaction

In 2010, we asked 1160 suppliers to complete a questionnaire to help us to understand the overall success of our relationships with suppliers – one of our key performance indicators. Of the suppliers who responded, 86% said they had an excellent or good relationship with BT, meeting our target of 80%. This compares to 85% in 2009. 45% of suppliers said their relationship with BT was improving and 49% described the trend as static. We will conduct our next supplier survey in the last quarter of 2011.

Our standards

This section summarises our standards for the three elements of our CR procurement strategy: environment, human rights and supplier diversity.
We are one of the largest purchasers in the UK, with an environmental influence that extends well beyond that of our own people and workplaces. We seek to influence the environmental performance of our suppliers and contractors through our purchasing policy. Our programme has three strands:

1. Suppliers’ environmental policies and procedures - all major suppliers must complete our environmental impact online questionnaire (GS13) and agree to take action to improve their performance if required.
2. Electrical or electronic equipment (EEE) - we do not manufacture anything and use a network of suppliers to manufacture BT branded products and to source equipment for our networks. Our pre-contract product stewardship online questionnaire (GS19) is mandatory for all potential electronic and electrical equipment suppliers. In 2010 we included questions to aid compliance with environmental legislation including the EU Batteries Directive and REACH legislation.
3. Waste management - all our waste contractors must provide a statement on their waste disposal procedures. A selected number of contractors are audited by us and an external specialist.

We have established procurement principles that support BT’s climate change strategy. These state that:

- We will harness the capability, diversity and innovation of our supply base to add value to our business and encourage suppliers to offer solutions which have a reduced environmental impact.
- The energy consumption and environmental impact of a product or service (from manufacture, through usage, to disposal) is a mandatory criterion in all tender adjudication.
- The energy consumption and environmental impact of any replacement product or service (from manufacture, through usage, to disposal) is less than its predecessor.

In the 2010 financial year, we surveyed a number of suppliers to assess their level of engagement on climate change. Read the results of this survey.

Human rights

We expect our suppliers to provide working conditions which meet the standards of the Universal Declaration of Human Rights and the International Labour Organization conventions.

Our Sourcing with Human Dignity initiative specifies the minimum standards we expect of our suppliers in relation to:

- How the law is applied relating to;
- Child labour
- Cruel, harsh and inhuman treatment
- Forced labour
- Discrimination
- Freedom of association and collective bargaining
- Health and safety
- Wages
- Working hours
- Regular employment entitlements.

Find out more on Sourcing with Human Dignity.

Supplier diversity

We ask the following questions on supplier diversity in our labour standards questionnaire (GS18):

- How many employees are there in your company?
- How is your company owned?
- Do you consider yourself to be a Minority Business Enterprise (MBE)?
- Where is your company headquartered?
- Do you monitor the diversity of your workforce relating to ethnicity?
- Do you monitor the diversity of your workforce relating to disability?
- Do you monitor the diversity of your workforce relating to gender?
- Do you monitor the diversity of your workforce relating to age?
- Do you monitor the diversity of your workforce relating to sexual orientation?
- Do you monitor the diversity of your workforce relating to belief?
- Do you monitor the diversity of your supply chain?

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<td>180 risk assessments with 100% follow up.</td>
<td>Completed</td>
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<td>April 2009</td>
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<td>BT will achieve a rating of 80% or more based on the question: “How would you describe the quality of your company’s relationship with BT?” from our annual supplier survey</td>
<td>We achieved an 86% rating.</td>
<td>Completed</td>
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<td>April 2009</td>
<td>March 2010</td>
<td>By March 2010, we will use a coach approach on labour standards and engage with 4 global suppliers and their supply chains</td>
<td>We are working with 6 global suppliers and their supply chains</td>
<td>Completed</td>
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<td>April 2010</td>
<td>March 2011</td>
<td>By March 2011, BT will survey its suppliers to determine the percentage that agree with the statement ‘BT works with its suppliers to ensure its purchases are made, delivered, used and disposed of in a socially and environmentally responsible manner’.</td>
<td></td>
<td>New</td>
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<td>April 2010</td>
<td>March 2011</td>
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<td>To achieve a rating of over 80% or more based on the question: “How would you describe the quality of your company’s relationship with BT?”</td>
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**Quantitative data**

Number of SWHD on-site assessments
Governance and risk assessments

Our chief procurement officer, Neil Rogers, has overall responsibility for our CR supply chain programmes and reports to a member of the BT Board. Our CR strategy and policy manager for procurement oversees implementation of our strategy and provides advice and direction on CR issues.

Our buyers are responsible for implementing these programmes supported by our procurement CR managers and a group of individuals, representing different procurement areas, who are responsible for CR issues within their teams.

We have procurement teams located across the world.

Risk based approach

We source from thousands of suppliers worldwide. It is not possible to engage in detail with all of these companies, so we adopt a risk-based approach to focus our efforts. A supplier may present a higher risk to BT because of the product or service it provides or its location. In some countries labour and environmental regulations may be poorly enforced and there is a risk that suppliers may operate to standards below acceptable norms.

All new suppliers are required to complete our environmental (GS13) and labour standards (GS18) questionnaires via our online procurement portal (www.selling2bt.bt.com). This helps us to establish whether there is a high, medium or low risk of a particular supplier not meeting our CR standards. These questionnaires also ask for information on companies’ own suppliers which helps us identify risks further down our supply chain.

We follow up with medium or high risk suppliers within three months. This can range from a
simple discussion with the supplier to clarify their responses to our questionnaires, to a full on-site assessment.

The number of suppliers completing labour standards self assessments and that percentage that receive a follow up within three months is one of our key performance indicators.

All suppliers of electrical and electronic equipment are required to fill in our GS19 questionnaire. This gives us vital information about the environmental impacts of products and helps us select environmentally preferable products and suppliers during the tender process.

Activity in 2010

In 2010, 180 suppliers completed our self assessment questionnaires and we are currently working with 270 suppliers on environmental standards, and 261 suppliers on labour standards. 251 suppliers have now filled in our climate change questionnaire.

We followed up within three months with all suppliers identified as high or medium risk, through our ethical standard questionnaires, meeting our target of 100% follow up.
We followed up within three months with 96% of suppliers identified as needing to improve their scores, through our environmental questionnaires, missing our target of 100%

We use the results of these questionnaires to focus further engagement, including onsite assessments.

Key performance indicators

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Quantitative data

Number of SWHD on-site assessments

Number of SWHD risk assessment questionnaires
Training and awareness

Internal training

We train our procurement teams to ensure they understand our CR standards using a number of channels:

- Training on specific topics including product stewardship, climate change development and supplier diversity. These are conducted via web-meeting to reduce the need for our employees to travel.
- Face to face sessions including one to one training sessions.
- For any new employees, bespoke induction training and information in our induction booklet.

Buyers and CR managers jointly engage and discuss with suppliers to follow up on the results of CR questionnaire scores and risk assessments. This helps to increase the buyers’ knowledge and awareness of CR standards.

We employ our own assessor based in Shanghai. We have invested in her training and coaching, both remotely from the UK and face to face in China.

External training and awareness

In 2010 our assessor in China participated in training and awareness programmes, including delivering a presentation on CR at a conference organised by a key supplier.

We launched a supplier sustainability newsletter which was published in October 2009. This edition focussed on climate change and carbon footprinting, and was sent to our contracted suppliers. The next edition is due for publication in April 2010.

Onsite supplier assessments

We carry out detailed follow up and engage with suppliers identified as high or medium risk through our CR questionnaires. We also conduct onsite assessments for a number of high risk suppliers through an ongoing programme.
Assessments help us to identify areas for suppliers to improve. We take a collaborative approach and work with suppliers to resolve issues identified during assessments. We recognise that the most effective way to bring lasting improvements is to empower our suppliers to manage risks in their own operations and supply chains.

Assessments also raise the profile and awareness of our standards with suppliers and emphasise the importance of Corporate Responsibility (CR) to BT.

On site assessments may also include an assessment of a sub contractor jointly with a tier one supplier (a company that supplies us directly). This joint approach helps the tier one supplier to understand our requirements and increases our influence with the sub contractor.

Site assessments cover our Sourcing with Human Dignity standard and our environmental standards. A typical assessment includes:

- A review of documentation, such as payslips, accident reports and personnel records.
- Interviews with managers.
- An assessment of the premises, including canteen and accommodation, as well as the office and production facilities.
- Worker interviews.
- Consideration of environmental and safety factors including safe storage and handling of hazardous materials and preventative measures to protect the environment.

We discuss assessment findings with suppliers and agree appropriate improvement plans. We monitor progress against these plans through follow up reports, review meetings, or return visits.

**Assessments in 2010**

We completed 32 site assessments, compared with 27 in 2009 and 25 assessments in 2008. The majority of assessments were conducted in China, although we also conducted assessments in Hungary India, Malaysia, South Korea, Tunisia, the UK and the USA. We now employ our own assessor based in Shanghai, which has enabled us to focus our efforts on suppliers in China.

Suppliers assessed included:

- 22 existing or potential tier one suppliers
- 7 existing tier two suppliers
- 6 joint assessments (tier two suppliers jointly assessed with tier one)

The most common, significant issues found during assessments of medium and high risk suppliers related to health and safety, working hours and the welfare of employees. In 2010, we did not stop using any suppliers due to their CR standards.

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**Quantitative data**

**Number of SWHD on-site assessments**

**Number of SWHD risk assessment questionnaires (GS18) completed**

**Working with others**

We recognise that we need to engage with a broad range of stakeholders to help develop our supply chain practices. For example; this year we engaged with an MBA student at the University of Bath to write a dissertation on climate change and business, and to benchmark BT’s strategy and performance compared to the approach taken by other companies.

We are active in the following organisations;

**Global e-Sustainability Initiative**

We are a founding member of the Global e-Sustainability Initiative and we participate in its Supply Chain Working Group. The Group is developing common supply chain standards and assessment processes.
Minority Supplier Development UK
We are a founding member and are on the board of Minority Supplier Development UK, an organisation that provides a link between UK businesses and diverse suppliers. The organisation hosts a website which lists diverse suppliers.

East London Business Place
We are a member of the East London Business Place, an organisation which facilitates engagement between London corporates and local businesses in the east of the capital.

The Carbon Trust
In 2010 we worked with The Carbon Trust to understand best practice approaches to engaging with suppliers on climate change.

Supplier diversity
We believe that doing business with diverse suppliers enables us to reach more customers and helps us create innovative new products and services. BT procurement works closely with our diversity team to expand procurement opportunities for minority businesses and to increase the diversity of our supply chain.

Using our supplier survey we identified that we spent £15 million with diverse suppliers in 2009.

There is growing interest in supplier diversity in the UK and we frequently receive enquiries on our approach to this issue from potential public sector and corporate customers.

Assessing the diversity of our supply chain
We use a questionnaire to help us understand the diversity of our global supply chain and to identify ways to help more small and minority owned businesses work with BT.

In 2010, 229 contracted suppliers completed the survey (out of a total of 1160 suppliers contacted). 10% of respondents identified themselves as a Minority Business Enterprise (MBE). An MBE is a company which is at least 51% owned, controlled or operated by people who are members of an ethnic minority group, are women, are either lesbian, gay, bisexual or trans-gender or are disabled or supporting disabled people into work.

Working in partnership
We are working with others to improve our understanding of supplier diversity and to find ways to increase the diversity of our supply base. For example:

- We are founder members and on the board of Minority Supplier Development UK (MSDUK), an organisation that provides a link between UK businesses and diverse suppliers. The organisation hosts a website which lists diverse suppliers.
- We are members of the East London Business Place Steering Group, an organisation which facilitates engagement between London corporates and local businesses in the east of the capital.

Other activities
During 2010 we have:

- Refreshed our supplier diversity policy and implementation plan agreed by the chief procurement officer and people and policy director. In particular to reflect how our supplier diversity model is customer led, anticipating and responding to customers’ requirement for diversity in the supply chain.
- Appointed a senior manager as a supplier diversity champion.
- Chaired the MSDUK Corporate Best Practice Event in April 2009 and the Best Practice Working Group in September 2009.
- Developed a working group to increase the diversity of suppliers that we use for products and services we will supply to the London 2012 Olympic and Paralympic Games.
- Gathered details on the level of diversity engagement among our key suppliers through a detailed questionnaire. These responses will be used to support targeted engagement on supplier diversity.
Diversity award

BT won the Race for Opportunity award for Supply Chain Diversity in 2010. This award focused on good practice in supplier diversity and engaging with minority owned businesses.
Thanks for reading what we have to say – now we want to listen to you. E-mail us at yourviews@bt.com and tell us what you think of this review and sustainability at BT.