

Supply chain

Our supply chain is complex, with over 75,000 suppliers worldwide. It ranges from major strategic relationships with suppliers that manufacture active pharmaceutical ingredients, intermediates, raw materials and packaging for GSK medicines through to local contracts for goods or services such as office equipment, cleaning and security.

GSK's supply chain

GSK manufactures and sells a diverse range of products which means we source from a wide range of suppliers. For example:

Products: from agricultural sourced materials such as blackcurrants and milk, to petrochemicals for our complex chemical compounds for the active ingredients in our pharmaceuticals.

Volumes: from high volume tailor-made packaging and plastics through to lower volume raw materials such as flavours.

Services: from suppliers of temporary workers and cleaners, to research companies and professional advisors. We are buying from more service providers as we start to outsource services previously managed in-house.

We endeavour to ensure that all our suppliers follow the same high standards as GSK with regards to the environment, health and safety (EHS), loss prevention and human rights. Given the size and global scope of our supply chain this is a challenge and we recognise that some suppliers do not meet these standards (see supplier performance below).

We work with suppliers on these issues. Our approach includes:

- pre-assessments before we start working with a new supplier
- inclusion of human rights and EHS requirements in supplier contracts
- review of EHS and human rights in routine supplier engagements
- EHS supplier audits

Our supply base is large and complex so it is not possible to engage directly with all our suppliers on these issues. We focus on critical suppliers.

Critical suppliers are contract manufacturers and those suppliers that present the greatest risk to GSK on one or more of the following issues:

- threats to continuity of supply
- hazards associated with manufacturing processes and materials
- environmental impacts
- regulatory requirements
- relevance to the supply of essential medicines

These suppliers are based primarily in Europe, North America, and Asia and account for approximately 30 percent of our total supplier spend.

We expect critical suppliers to work to high standards and produce an uninterrupted supply of materials and services to GSK. If they do not, the safety, effectiveness or availability of our medicines could be affected. For these reasons, it is important that we forge long-term relationships and undertake regular monitoring to assess progress and to allow intervention where necessary.

Supplier selection

Critical suppliers must pass detailed assessments before they can be selected. As well as looking at quality, we assess their policies and procedures for health and safety, human rights, and environmental issues. This includes the use of questionnaires, on-site reviews, quality audits and EHS audits of facilities which will directly supply GSK.

All contract manufacturers must also be approved by the applicable regulatory authority before they can start manufacturing GSK medicines.

SUPPLIER CONTRACTS

EHS

Our supplier contracts contain requirements based on our [Global EHS Standards](#).

Human rights

Our supplier contracts contain human rights clauses based on international workplace norms in the International Labour Organisation conventions and the UN's Universal Declaration of Human Rights. You can read the [human rights clauses](#) in the background section of our website.

All new local and central supplier contracts worldwide include human rights clauses and these are added to contracts with existing suppliers as they are renewed. Most contracts are renewed on a three-year cycle so the vast majority of our contracts now include the clauses.

Engagement and auditing

We provide contract manufacturers with information on the EHS risks associated with the GSK materials they are producing or handling.

We inform suppliers about our ethical requirements and policies. Our supplier booklet on working with GSK includes our ethics policies and explains that GSK employees are prohibited from accepting gifts and entertainment. Suppliers are asked to respect this position and to apply the same standards in their business and interactions with GSK. In some countries we send out letters to all suppliers during the local festival season making them aware of our policies and asking them to refrain from sending gifts and providing entertainment.

We consider EHS and human rights issues during our routine interactions with critical suppliers. These interactions include ongoing supplier reviews as well as follow-up visits by procurement, quality and EHS staff. We also hold global and regional supplier review meetings where senior GSK managers address and interact with suppliers on key issues.

During 2006 we started a pilot project to assess the risk of human rights issues occurring among suppliers of services. We decided to focus in the following two areas:

Suppliers of outsourced business processes

We are starting to work with more suppliers in India. This includes providers of outsourced services, for example our accounts payable department is now managed by an Indian supplier, as well as providers of technology and professional services. Since this is a growing and important area we are focusing on ensuring that we select the right suppliers with strong reputations for their Employee Satisfaction. Our research shows that the suppliers we work with typically lead the way in surveys on best Indian business process outsourcing employers.

Suppliers of promotional gift items

Many of our gift items sourced from our Indian business, are sourced from within India in an industry with a higher risk of the use of child labour.

We have implemented a process of unannounced spot checks for these suppliers, often during the night. As a result of these spot checks we have agreed corrective actions with some suppliers to improve their standards in this area.

EHS audits

We conduct regular environment health and safety audits of critical suppliers and contract manufacturers of pharmaceutical and consumer healthcare products. Priority for undertaking audits is based on business and EHS risks, including factors related to continuity of supply, hazards presented by processes and materials, regulatory regimes and essential medicines. We focus on the 150 higher risk suppliers.

A quantitative evaluation is made of sites against EHS standards and protocols. Acceptance criteria are in place and sites will not be used for supply unless minimum performance levels are met. Recommendations are made following audits and progress is monitored with particular focus on poorly performing suppliers. Performance reviews are undertaken to check progress and to help drive continuing improvements. For some sites this means, at the least, an annual visit.

Supplier performance

In 2006, 28 assessments were conducted of suppliers of active pharmaceutical ingredients and intermediate materials for the global pharmaceutical supply chain. Of these, ten were in the UK and Europe and 18 were in the Asia region. Six sites supplying other products and materials were audited in the UK, EU and US, one in Asia and one in South Africa.

The EHS acceptability criterion for key suppliers and contract manufacturers is scoring at least 50 percent in the EHS Quantitative Audit scheme. Where EHS performance is identified as unacceptable (less than 50 percent) progress is required before EHS risks and impacts can be considered to be managed robustly and sites considered as acceptable suppliers or contract manufacturers.

A wide range of performance was noted for the sites audited. The range of audit scores for these suppliers was 23 percent to 90 percent. Eleven of these suppliers failed to meet the 50 percent EHS acceptability criterion, and the companies were either not progressed for supply or work is underway to ensure improvements are made.

During these EHS audits no human rights issues of significant concern were noted.

Training for GSK procurement teams

It is important that our employees understand our standards. We provide training for procurement staff as part of our Sourcing Group Management programme. This explains how we develop sourcing strategies and our criteria for supplier selection, including human rights and EHS. The training is compulsory for all new procurement staff.

In 2006, we launched new training on Effective Contracting. This explains our requirement for human rights clauses to be included in all supplier contracts. It will be compulsory for all procurement staff and we expect everyone to have completed the training by the end of 2007.

Reporting suppliers' EHS performance

We have tried to collect EHS data from key suppliers over the past five years but have had only limited success. Suppliers either do not collect the data and use it to manage their EHS programmes or they cannot identify the impacts specific to manufacture of GSK products. Data that we have received from suppliers is often not reliable.

In 2007, we will conduct a survey of suppliers, at the request of both the Corporate Responsibility Committee and the Audit Committee of the Board, to determine why the suppliers have not provided us with this information. We want to understand suppliers' impacts as well to measure the total EHS footprint of all of the processes that generate our products, ie both GSK and supplier facilities.

We are working with our *Ribena* suppliers and the Wildlife Trust to improve biodiversity on blackcurrant farms and to understand the overall environmental impacts of these operations. See the [case study](#) section on our website for more details.