

Business principles

BT Social and
Environmental report



THE QUEEN'S AWARDS
FOR ENTERPRISE:
SUSTAINABLE DEVELOPMENT
2003

Business principles

We are committed to follow world-class standards of business integrity everywhere we operate.

Our Statement of Business Practice, The Way We Work, defines BT's business principles that apply worldwide, to all employees, agents, contractors and others when representing BT. It sets out specific aspirations and commitments that guide our relations with our customers, employees, shareholders, partners, suppliers and local communities.

BT's overall approach to corporate governance is explained in our Annual Report and Accounts. Later in this section we describe our corporate social responsibility governance framework in more detail.

During the 2004 financial year, we established a corporate social responsibility risk register that sets out our most significant social, ethical and environmental risks. For more details, see the Risk section of this document.

We are publishing for the first time a report describing our approach to regulatory compliance during the 2004 financial year, which can be downloaded as a PDF in our online Social and Environmental report.

BT has a strict policy of not giving cash contributions to any political party. But we do participate in debates on public policy (see Public Policy below) and regularly make contact with political parties, politicians and civil servants.

All BT people are asked to respect a set of specific values that underpin everything we do and the vision of the world we share. These are set out at the end of this document.

Statement of Business Practice

Our Statement of Business Practice, The Way We Work, defines BT's business principles that apply worldwide, to all employees, agents, contractors and others when representing BT.

Here we provide details on the level of awareness of the Statement within BT and the extent of implementation across the BT Group.

Use the Business practice site Index of our online report to assess our performance against the specific principles, aspirations and commitments of the Statement.

Awareness

In the 2004 financial year, a BT survey found that awareness of the Statement of Business Practice among employees in the UK stood at 84%, up from 83% in 2003.

We have set a target that, by March 2005, the indicators on the awareness of BT's Statement of Business Practice will be extended to incorporate BT's wholly owned international activities.

Awareness (UK Only)	Target	Actual
March 2004	86%	84%
March 2003	-	83%
March 2002	75%	76%
March 2001	70%	71%
September 2000	65%	68%

Over the past five years a comprehensive employee communications plan has helped improve awareness.

A printed copy of The Way We Work has been sent to every employee and is also available on the BT intranet. The Statement is available in eight languages – Chinese (Mandarin), English, French, German, Italian, Japanese, Korean and Spanish. It includes a question & answer guide to help managers brief their teams.

During the 2004 financial year we ran a number of pilot training sessions for senior managers to promote awareness and understanding of our Business Principles. This training will be further rolled out during the 2005 financial year, with effort focused on those areas of the business where we believe the risk of non-compliance is at its greatest.

Other elements of the communications plan include a training website and training videos for 2,000 managers. Senior managers are requested to write to their teams to explain the importance of complying with our Business Principles.

In collaboration with the UK's Institute of Business Ethics, we run an internal Business Practice Excellence award. Individuals are nominated by colleagues for demonstrating excellent business practice behaviour against one or more of BT's 12 business principles.

Implementation

It is crucially important that our Statement of Business Practice is implemented throughout the business and that BT employees feel able to report non-compliance.

A confidential 24-hour helpline to the Head of Group Business Practice is available via phone and email for people seeking help and confidential advice. During the 2004 financial year a letter promoting the helpline was sent to every BT employee.

We take our Statement of Business Practice very seriously and instigate strong action against anyone abusing our business principles. During the 2004 financial year, 198 employees were dismissed or resigned for unethical behaviour, including fraud, conflict of interest and internet abuse. The following examples are illustrative:

Dishonest and corrupt behaviour by BT staff:

- A group of six people, led by a BT person, used the BT network to make free calls all over the world. All were arrested and the BT person sacked.
- Fictitious purchase orders were placed by a senior BT manager. Court action resulted in a suspended prison sentence, fines and compensation payments.

- A senior BT manager was sacked for ignoring internal financial procedures, and new processes implemented.

Inappropriate use of the internet:

- Over the past two years more than 200 BT employees have been dismissed or resigned having been identified accessing inappropriate, highly offensive or pornographic sites.
- A small number of BT people have accessed inappropriate sites leading to police investigation and jail sentences of up to three years.

Nuisance calls.

- A BT person was dismissed for making over 100 nuisance calls, and another was sentenced for making obscene calls.

Disclosure of these examples is intended to demonstrate the action that backs up our Statement of Business Practice. They reinforce the strong message to our own employees that such abuse will not be tolerated.

This tough action is recognised in benchmarking exercises that examine ethical business practices. In the 2004 financial year, Integrity Works – a consultancy that helps companies design and implement their business principles – undertook an Ethical Expression benchmark study of the UK's top 100 listed companies. It sought to establish the relationship between a company's stated ethical standards and best practice, with their effective implementation. BT came joint first (in the UK), alongside Shell and BP.

In the 2004 financial year, a survey found that 93% of our UK employees were aware of specific ethical risks they faced (see chart).

Awareness of ethical risks	BT in the UK
March 2004	93%
March 2003	95%
March 2002	92%



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Lines of business

The Statement of Business Practice is a ‘reserved power’ of the BT Group Board, and all BT’s lines of business are mandated to comply with it.

Implementing the Principles is the responsibility of each line of business – all have a designated senior manager to do this. An operational working group meets once a quarter to maximise the effectiveness of implementation.

Particular attention was paid in the 2004 financial year to further implement the Business Principles in BT Global Services, which manages BT’s international operations. Andy Green, Head of BT Global Services, wrote a letter to all 5,500 managers, highlighting the Statement of Business Practice and enclosing a CD-ROM of The Way We Work in five European languages.

Our priority for the 2005 financial year is to continue ensuring our Statement of Business Practice is effectively implemented by each line of business. BT Global Services will remain the main focus of these efforts.

Wholly-owned subsidiaries and joint ventures

All BT’s wholly-owned subsidiaries are expected to follow our Statement of Business Practice.

The Statement outlines how we will work with our international joint ventures to create added value for our customers and shareholders, while continuing to adhere to high standards of business practice.

We are committed to follow our values and principles in all our dealings with subsidiaries. A comprehensive Joint Venture Statement pack promoting The Way We Work, and a briefing on the importance of corporate social responsibility, have been distributed to all directors of BT’s joint ventures.

Corporate Social Responsibility (CSR) governance framework

At least once a year the BT Board discusses our Corporate Social Responsibility (CSR) strategy. The Board is kept informed of any new developments or changing expectations that may affect its duties. This includes an identification of BT’s main CSR risks and opportunities, along with key performance indicators and strategic objectives.

Social, ethical and environmental matters are included in the Directors’ induction programme, to support the integration of CSR into daily management.

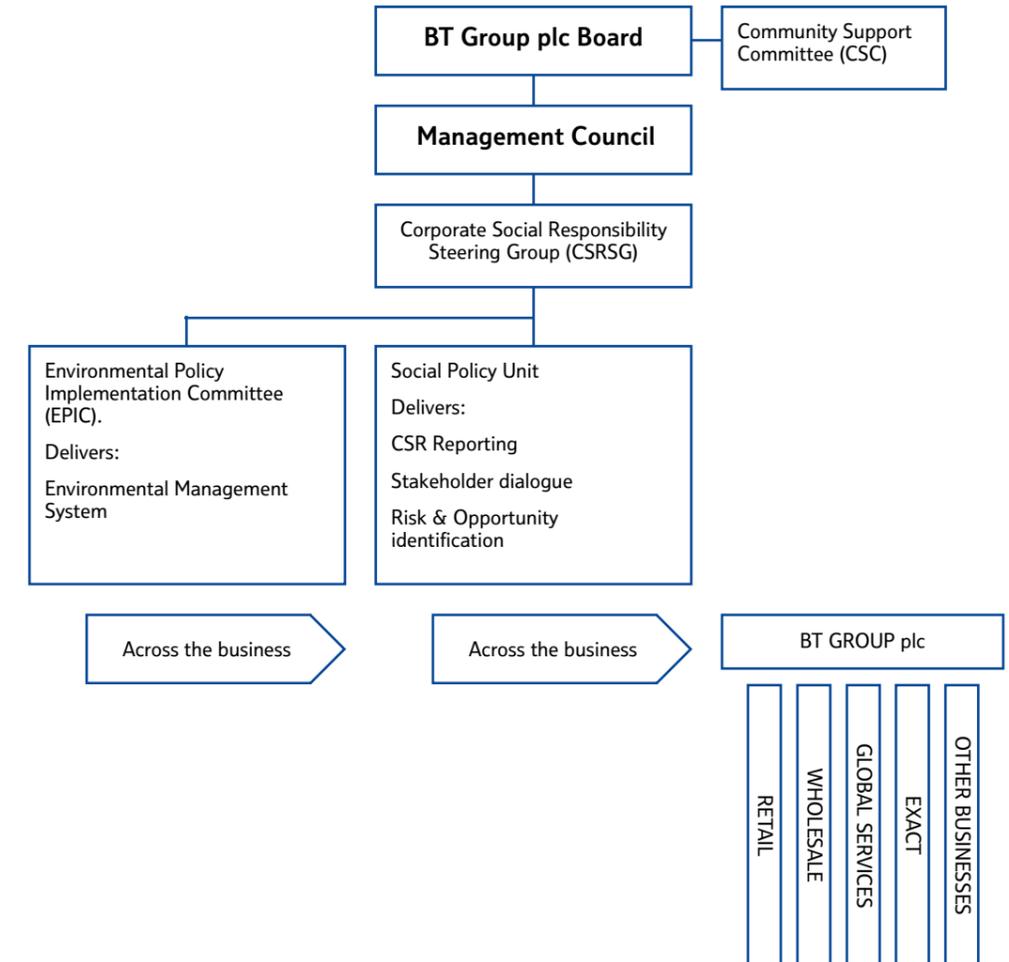
A CSR governance framework helps us manage specific environmental and social issues. A number of bodies supervise the CSR relationships between the BT Group and individual lines of business. These are:

- Management Council
- Corporate Social Responsibility Steering Group
- CSR health checks
- Environmental Policy Implementation Committee
- Social Policy Unit
- Community Support Committee
- Leadership Panel.

Management Council

BT’s main strategy committee, the Management Council, is made up of business and functional leaders from across the BT Group. It meets monthly and contributes to the long-term strategic planning and direction of the BT Group.

This includes our approach to policy and reputation, such as ethics and values, corporate social responsibility, human resources, pensions, technology, branding and health and safety. The Council provides advice on critical matters such as regulation, media relations, public policy and public affairs.



Corporate Social Responsibility Steering Group

An internal committee known as the Corporate Social Responsibility Steering Group (CSRSG) oversees the implementation of all social and environmental programmes across BT. The Steering Group reviews activities such as ethical trading, environmental management, risk management and reporting.

The CSRSG is made up of CSR champions nominated by the BT lines of business and six support functions (Human Resources, Corporate Governance, Health and Safety, Finance, Communications and Procurement).

The CSRSG meets quarterly and regularly reports to the Board. It is chaired by BT’s overall CSR champion Alison Ritchie, Chief Broadband Officer.

The main responsibilities of CSRSG are to:

- Ensure the BT CSR programme meets the needs of the business
- Champion major social and environmental initiatives and improvements
- Maintain BT’s ISO14001 certification (environmental management)
- Agree company policy on specific social and environmental issues
- Assess risk
- Agree key performance indicators and strategic targets.



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Examples of initiatives considered by the Committee during the 2004 financial year are:

- A BT CSR risk register
- Call centres in India
- CSR in Human Resources
- Product stewardship
- CSR in Board decision-making.

CSR health checks

CSR health checks are used to ensure that CSR is embedded in BT's commercial operations.

Health checks examine how key CSR impacts (such as integrity, environment or digital inclusion) may be affected by a particular commercial programme, and how CSR can help achieve the commercial objectives.

The checks are undertaken with commercial programme directors from BT's lines of business. They are not audits but structured, informal conversations to identify CSR risks and opportunities.

Since the 2002 financial year, CSR health checks have covered broadband, call centres, new technologies, research and development, people policies and plans for the 21st century network.

Our priority for the 2005 financial year is to undertake CSR health checks on our international operations.

Environmental Policy Implementation Committee

The Environmental Policy Implementation Committee (EPIC) – a sub-committee of the CSR Steering Group – meets monthly to ensure BT's environmental policy is implemented effectively.

The membership of EPIC consists of BT's environmental aspect group owners – senior operational managers from around the business whose responsibilities have environmental implications.

EPIC's main responsibilities are to:

- Meet the environmental improvement targets and objectives agreed by CSRSG
- Maintain the register of BT's environmental impacts.

Ben Verwaayen, BT's CEO, takes overall responsibility for BT's environmental performance.

Social Policy Unit

The BT Social Policy Unit is responsible for the overall co-ordination and maintenance of the BT social policy strategy and environmental management system. One of the Unit's duties is to promote awareness of BT's social and environmental policies among employees.

The Unit is made up of professional CSR experts who investigate long-term social trends, identify potential issues that might affect the business and support BT's commercial activities.

The Unit provides support to the CSR Steering Group, the Community Support Committee and the Leadership Panel.

Community Support Committee

This Board Committee oversees social investments and establishes the strategy for maximising our contribution to society. The Committee is made up of representatives from BT businesses and external non-executives who have a reputation for excellence in this field.

See more in the Community section of our online Social and Environmental report.

Leadership Panel

The Leadership Panel is an external advisory group of experts renowned for excelling in their field. The Panel has six members:

- Jonathon Porritt, Chair of the Panel and Director of Forum for the Future, a UK sustainable development think-tank
- Mark Goyder, Director, Centre for Tomorrow's Company, a UK think-tank.
- Rob Lake, Head of SRI Engagement and Corporate Governance, Henderson Global Investors
- Elizabeth Laville, Director of Utopies, a Paris-based sustainability consultancy
- Yve Newbold, independent adviser
- Jorgen Randers, Professor, The Norwegian School of Management, Oslo

The purpose of the Panel is to encourage innovation and leadership on sustainable development and corporate social responsibility in BT. It meets four times a year and provides independent guidance and expert advice.

Its responsibility covers key areas of CSR strategy and performance, including policy, performance measures, targets, future objectives, governance, stakeholder relationships and external communications.

The panel provides an annual independent comment for inclusion on our website. See the Leadership panel statement in the Assurance section of our online report.

Risk

BT is affected by a number of non-financial factors, not all of which are wholly within our control. These are described in the BT Annual Report and Accounts.

The BT Board is responsible for BT Group's systems of internal control and risk management, and for reviewing the effectiveness of those systems.

The processes for identifying, evaluating and managing the significant risks faced by the BT Group are described in the Internal control and risk management section of the Annual Report and Accounts.

CSR risks

The Board takes account of significant social, environmental and ethical matters that relate to BT's business.

In the 2004 financial year we identified no social, environmental or ethical risks that would have a material impact on our business.

In the same period, we developed a separate CSR risk register that sets out our most significant social, environmental and ethical risks.

These are the most significant:

CSR Risk	More details
Supply chain working conditions	Human rights in the supply chain
Climate change	Environment
Diversity	Diversity and inclusivity
Good Migrations?	'Hot topics' and Call centres
Breach of integrity	Business principles
Health and safety	Health and safety

There is a person in charge of dealing with each risk – all have a mitigation strategy in place.

None of these risks has been identified as material to BT's future prospects.

Regulatory compliance

It is our policy to be fully compliant with the regulatory framework in which we operate.

During the 2004 financial year, we reviewed our compliance activities. This was because we want to ensure that we meet the obligations imposed by the UK's Communications and Competition Acts, while competing fairly and vigorously within the rules.

Our main objectives are to:

- Maintain good standards of compliance
- Engage positively with the UK regulator, the Office of Communications (Ofcom)
- Engage positively with our industry sector.

Our Regulatory compliance governance framework includes:

- A Compliance Champion (Ian Livingston, BT's Finance Director)
- A Regulatory Compliance Steering Group that meets quarterly
- A Compliance Control Board that meets monthly to review performance and risks
- Compliance Control Boards in each line of business to ensure that compliance is embedded in working practices at all levels



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- Annual reports to the BT Board and the BT Board Audit Committee by the Director, Internal Audit and Regulatory Compliance.

The data published by Oftel/Ofcom shows that:

- Over the last two years, under half the investigations completed by Oftel/Ofcom were concerned with BT
- Of the investigations into BT, 62% concerned alleged breaches of regulation, and 38% concerned disputes
- Of the investigations into alleged breaches of regulation, 85% resulted in no findings against BT
- Of the investigations into disputes, 75% resulted in no findings against BT

Our 2004 Annual Report on Regulatory Compliance provides a complete description of our regulatory compliance and performance, and can be downloaded as a PDF from our online Social and Environmental report.

Public policy

BT has a strict policy of not giving cash contributions to any political party.

But we engage with political parties, politicians and civil servants on a non-partisan basis to make them aware of key arguments, and trends in technology and industry.

We put forward our views on matters that affect our business interests and we make sure that those in government are fully briefed on issues affecting BT's activities.

We interact regularly with the European Commission and national and international regulators.

Trade associations

We communicate with government directly and through trade associations, which include:

- European Telecommunications Network Operators' Association (ETNO). For further information, please visit: www.etno.be
- Confederation of British Industry (CBI). (www.cbi.org.uk/home.html)
- Intellect, (www.intellectuk.org), the trade

body for UK-based information and communication technologies and electronics industries.

We believe these activities are a legitimate part of normal relationships between business and politics.

Consultation

Our responses to important regulatory consultation documents are posted on our regulatory affairs website at www.btcom/regulate/otherresp/index.htm.

Here you can find our responses to CSR specific consultations:

- Proposals for an Operating and Financial Review
- EU Green Paper on Corporate Social Responsibility
- UK Government's consultation on sustainable development, including our position on environmental taxation.

Public policy and sustainable development

We are members of a number of organisations that attempt to influence public policy on corporate social responsibility and sustainable development matters. They include:

- Employers Forum on Disability (www.employers-forum.co.uk)
- CSR Europe (www.csreurope.org)
- Forum for the Future (www.forumforthefuture.org.uk)
- Green Alliance (www.green-alliance.org.uk).

There are two ways for government to stimulate changes in behavioural patterns that will lead society towards more sustainable lifestyles: regulation and economic instruments. We believe there is a role for the reasonable use of both.

Vision and values

Vision

Connecting your world. Completely.

Our purpose is to connect with our customers wherever they are irrespective of distance, time or complexity. Our role goes beyond simply providing a connection between people: we enable business partnerships to develop and flourish, we bring family and friends together. Communication technologies have an enormous impact on our customers' lives and on society in general. Because of this, we have an important responsibility to think forward, to develop and promote access to telecommunications around the world

Values

BT's activities are underpinned by a set of values that all BT people are asked to respect:

Trustworthy: We do what we say we will

- We build open, honest and realistic relationships with customers and with each other.
- We are reliable and act with integrity.
- We do whatever it takes to deliver.

Helpful: We work as one team

- We make complex things simpler for customers and for each other.
- We get straight to the point.
- We use our common sense and judgement.

Straightforward: We make things clear

- We pull together across BT to put the customer first.
- We support each other, without waiting to be asked.
- We help others succeed and celebrate their success.

Inspiring: We create new possibilities

- We are determined and passionate about delivering the very best for our customers.
- We come to work to make a difference.
- We set high goals and always give 100% of our energy.

Heart: We believe in what we do

- We create and deliver inspirational solutions for our customers.
- We have the ambition and confidence to do things in new ways.
- We are innovative, creative, and outward-looking.



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Offices worldwide

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