



BT Social and Environmental report

Summary and highlights



THE QUEEN'S AWARDS
FOR ENTERPRISE:
SUSTAINABLE DEVELOPMENT
2003

Contents

BT's Social and Environmental report covers BT's policies, programmes and performance across a full range of social, environmental and economic issues, including targets for improvement. The full report is available online at www.bt.com/betterworld.

This is a summary of our social and environmental performance – including our 11 key performance indicators and strategic targets.

Who we are	2
Highlights	2
Chairman's introduction	3
Chief Executive's message	4
Stakeholder dialogue	5
Customers	6
Employees	8
Investors	12
Suppliers	13
Community	14
Business principles	16
Environment	18
Economics	22
Human Rights	23
Sustainability	24
Digital inclusion	25
Data & targets	26
Hot Topics	26
Feedback	27

About our Social and Environmental report

The report is part of our Better World website, which is updated regularly.

The report is assured against the AA1000 Assurance Standard and is in accordance with the 2002 Global Reporting Initiative Guidelines.

This summary covers the financial year ending 31 March 2004.

See more on the scope and how to navigate the site in the About the report section of our online report.

Who we are

BT Group is one of Europe's leading providers of telecommunications services. Our principal activities include local, national and international telecommunications services, higher-value broadband and internet products and services, and IT solutions.

In the UK, we serve over 20 million businesses and residential customers with more than 29 million exchange lines, as well as providing network services to other licensed operators.



During the year we were ranked as the top telecommunications company in the Dow Jones Sustainability Indexes for the third year running. This index recognises companies that manage social, ethical and environmental issues in ways that grow shareholder value and promote sustainable development.

Highlights

We have selected 11 non-financial key performance indicators (KPIs) to provide a quick overview of our social and environmental performance.

This performance relates to the 2004 financial year, compared with 2003:

- Customer dissatisfaction down 22%
- Broadband now available to more than 85% of all UK homes and businesses, up from 67%
- People Satisfaction Index increased from 67% to 71%
- Increase in the percentage of ethnic minority employees from 8.6% to 8.9% and disabled employees from 2.0% to 2.1%, though the percentage of women declined from 23.6% to 22.7%
- Global Warming CO₂ emissions now 42% lower than 1996
- Waste to landfill down 10,201 tonnes to 79,677 tonnes, percentage of total waste recycled up from 24% to 26%
- Health & Safety significant incident rate down from 113 to 87 per 10,000 full-time employees
- Percentage of suppliers stating they have a good working relationship with BT is 94%
- Ethical trading risk assessment questionnaires completed by 242 suppliers and 13 on-site assessments undertaken
- Awareness of our Statement of Business Practice in the UK up 1% to 84%
- Direct community investment of £5.6 million plus £12.4 million in further funding and support in kind.



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Chairman's introduction



Our purpose is to improve communications for our customers. Our ambition is for our customers to benefit fully from

increased connectivity. Our vision can be summarised by the phrase – **Connecting your world. Completely.**

BT's social responsibility is about doing this in a way that is caring and responsible, helping as many people as possible. Our goal is to help everyone benefit from improved communications and to spread the benefits of our technology as widely as we can.

For example, we are determined to spread the benefits of broadband as widely as possible. Our aim is to connect every UK community, even remote or rural ones, by 2005.

Setting up public-private partnerships across the UK will bring broadband to areas where exchanges have not yet been enabled. And existing partnerships – such as ActNow in Cornwall – show what can be achieved through broadband. This project has already delivered 1,200 jobs and a £20 million boost to regional gross domestic product. Our digital inclusion project Everybodyonline is finding ways in which more deprived communities can also benefit.

The UK Government has made a commitment to connect all primary and secondary schools to the internet using a broadband connection by 2006. We are delivering educational services such as online learning packages and interactive

applications which will enhance the learning experience. BT volunteers are helping schools take advantage of these opportunities.

Our Corporate Social Responsibility programme – described in the Better World website – is vital to encourage our customers to buy from us, investors to put their trust in us and the best people to work for us.

Our challenge

Our challenge is to manage social, ethical and environmental issues in a way that grows shareholder value and encourages sustainable development.

The Dow Jones Sustainability Indexes rank companies for their success in achieving this challenge – so I was delighted when we were ranked as the best telecommunications company for the third year running. I am proud of this achievement and thank all the motivated people across the whole of BT that made it happen.

The index recognises the approach we have taken to a broad range of issues – everything from business principles to customer service, and from work-life balance of BT people to ethical supply chain management. It reflects our ambition to create shareholder value by meeting the expectations of all our stakeholders.

I'm happy to report that we have won a number of prestigious awards in recognition of our efforts to be socially responsible – the Queen's Award for Sustainable Development, the 2003 Best European Corporate Pension Fund Award and the UK Chartered Institute of Purchasing and Supply's Award for Supply Management.

Our objective now as we transform our company for the years ahead is to maintain and improve this level of performance.

Sir Christopher Bland
Chairman
13 May 2004



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Chief Executive's message



Our values

A year ago we established five new values to capture the essence of what BT people need to do and what they need to stand for:

Trustworthy
we do what we say we will

Helpful
we work as one team

Inspiring
we create new possibilities

Straightforward
we make things clear

Heart
we believe in what we do

Only by living these values can we transform our company for the challenges ahead.

And only by living these values can we fulfil our commitment to leadership in Corporate Social Responsibility.

Being trustworthy means acting with integrity, keeping our promises and implementing our business principles.

Being helpful means listening to the needs of our stakeholders and meeting their expectations.

Being inspiring means embracing new ideas that contribute to sustainable development.

Being straightforward means being clear and honest in our communications.

And heart is believing in what we do – being passionate about the power of communications to bring friends, families and colleagues together in the creation of a better world.

Our business case

We hear a lot about how preserving and enhancing a reputation for being socially responsible can improve customer satisfaction and increase revenue.

But the business case for Corporate Social Responsibility won't work unless it generates real, lasting trust with all stakeholders. And a company can't build trust on an amoral basis. We won't build value without our values.

Our performance

Our non-financial performance underpins the achievement of our financial goals, which is why we publish 11 non-financial key performance indicators and ten strategic targets.

Our headline target is to reduce the number of dissatisfied customers by 25% a year over three years.

We are committed to connect all UK communities to broadband by 2005 – but also to cap our CO₂ emissions at no more than 25% below 1996 levels by 2010. We have made excellent progress on health and safety in recent years and have doubled our target for a reduction in incidents to 50% of 2001 levels by 2005.

Transparency

This year we had to manage some hot social issues – not least the opening of two new call centres in India. Transparency in dealing with controversial issues is paramount. We will never satisfy everyone, so openness is key.

You can read more about our performance and our approach to these controversial issues throughout our Better World web site, which contains the BT Social and Environmental report.

The report has been prepared in accordance with the 2002 Global Reporting Initiative Guidelines and is independently verified. It represents a balanced and reasonable presentation of our economic, environmental and social performance. It also sets out our progress in implementing the United Nations Global Compact Principles.

Ben Verwaayen
Chief Executive
13 May 2004



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Stakeholder dialogue

The quality of our relationships with a range of stakeholders – including customers, employees, suppliers and local communities – is critical to the success of our business. The more positive and mutually beneficial these relationships are, the more successful our business will be.

Engaging with stakeholders deepens our understanding of what they expect from us and how we can meet – and exceed – their expectations. It also challenges how we work and inspires new ways of doing business.

For example, our online Social and Environmental report describes how:

- Our consumer liaison panels helped shape our call centre strategy
- BT managers work with their teams to analyse the results of our annual employee survey and implement improvements
- Our ethical trading forums with suppliers have led to an industry-wide approach to the promotion of human rights in the supply chain.

We recognise two trade unions, Connect and CWU, and run a European Consultative Works Council.

Customers, employees and shareholders were consulted during the identification of the 11 non-financial key performance indicators we have chosen to provide an overview of our social and environmental performance.

Our Statement of Business Practice, The Way We Work, sets out the aspirations and commitments that apply in our relationship with each stakeholder group.

We also run occasional online discussions about social and environmental issues, and welcome feedback on our performance through yourviews@bt.com.



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Customers

Key Performance Indicator

Customer dissatisfaction reduced by 22%

Strategic target

Reduce customer dissatisfaction by 25% a year over the 3 years to the 2005 financial year

Key Performance Indicator

Broadband available to more than 85% of all UK homes and businesses, up from 67%

Strategic target

Broadband available to exchanges serving over 99% of UK homes and businesses by summer 2005

In the UK, we serve 20 million businesses and residential customers with more than 29 million exchange lines, as well as providing network services to other licensed operators.

Our extensive global network and strategic partnerships enable us to serve multi-site corporate and government customers in all key commercial centres of Europe, North America and Asia. In Europe, this network links more than 250 towns and cities across 19 countries.

Customer satisfaction

Reducing customer dissatisfaction by 25% a year over 3 years is a key target in our drive to deliver the highest levels of customer satisfaction.

Customer dissatisfaction measures those customers who are fairly, very or extremely dissatisfied with BT.

In the 2004 financial year we achieved a 22% reduction in customer dissatisfaction. This follows a 37% reduction in the 2003 financial year.

The principal lines of business all reduced customer dissatisfaction levels during the year. We are working to remove barriers to providing customers with excellent service and to involve all our customer facing people in improving our service.

Broadband

Putting broadband at the heart of our operations is one of our strategic priorities. In the 2004 financial year we continued in our drive to enhance the awareness, availability and attractiveness of broadband.

Broadband is an always-on high-speed connection to the internet that uses standard telephone lines. Modifications at the exchange provide a much larger capacity (hence broadband) to send and receive data.

Broadband is expected to bring a range of economic, social and environmental benefits, such as:

- Enhancing the productivity of individual enterprises, industrial sectors, regions and the economy as a whole
- Increasing opportunities for teleworking, reducing the need to travel
- Remote diagnosis and in-home care, bringing health benefits
- Increased access to learning materials.

Our strategic aim is to bring broadband to all parts of the UK.

As at 31 March 2004, more than 85% of the UK's homes and businesses were connected to broadband enabled exchanges. We are committed to make broadband available to exchanges serving over 99% of UK homes and businesses by summer 2005.

We are working to improve the quality of online information and access to the internet. See Digital inclusion, page 25.



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Customers continued

Consultation

We carry out in-depth consultation to understand our customers' needs and concerns. For example, we run a number of consumer liaison panels across the UK. These consist of 12–15 consumers with a broad range of experience and usage of communications technology – as well as different needs, interests, ages and cultural backgrounds.

Panel members provide valuable insights into consumer thinking and inform policy-making within BT. The panels regularly discuss a range of issues including customer service, how we keep customers informed, mobile telephony, payphones, billing, access to and marketing of broadband technology, and the provision of services for customers with disabilities.

Consumer liaison panels have also helped us to understand consumers' perceptions of Corporate Social Responsibility, and to define our key performance indicators.

Customers who are older or disabled

Everyone should have the same freedom and opportunities to communicate.

For many years we have offered a wide range of products and services to elderly and disabled customers who might otherwise find it difficult to make the most of telecommunications.

For example, one of our major commitments is Tynetalk, a national telephone relay service. Funded by BT since it started in 1990, and run by the RNID, a charity representing deaf and hard of hearing people in the UK, this service enables textphone users who may be deaf, deaf-blind, hard of hearing or speech-impaired to make and receive calls to and from hearing people.

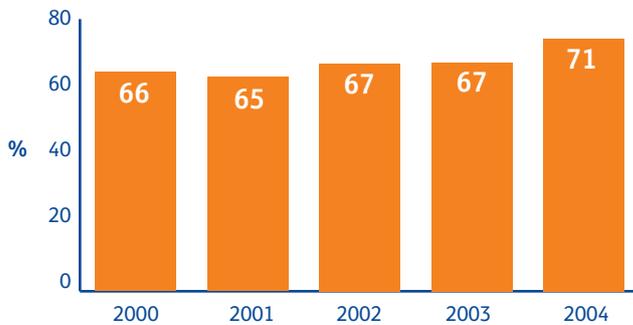
Launched in July 2001, BT TextDirect is the world's first service to provide textphone users access to the telecommunications network. It helps Textphone users get access to RNID Tynetalk operators and simplifies the making and receiving of calls between voice and Textphone users.



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Employees

Key Performance Indicator People Satisfaction Index*



*A new "Employee Engagement Index" is being introduced. Results and a new target will be available during the 2005 financial year.

We employ approximately 99,900 people around the world, including 91,600 in the UK where we are one of the largest employers.

Our approach is to treat our people fairly and responsibly, helping them achieve their full potential, while respecting their personal and community commitments.

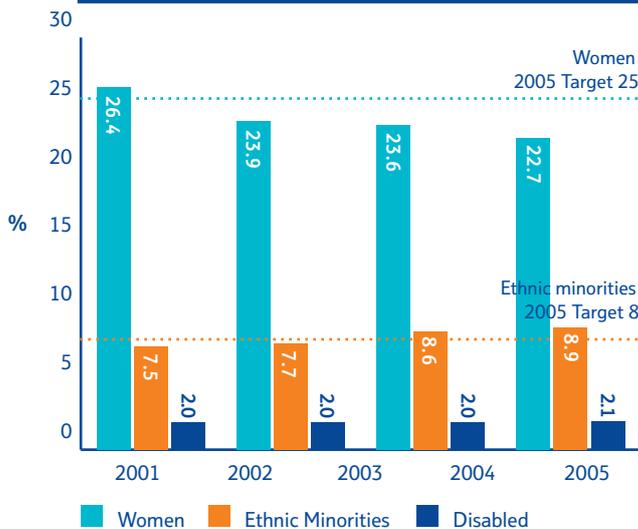
We believe this to be in the best interests of our employees, of society and of our business.

Recruitment

BT is a major recruiter, employing thousands of new people each year – and we need to be sure that we attract, select and retain the best.

During the 2004 financial year, we recruited 180 new graduates, 157 modern apprentices and 1,950 other new entrants. As part of our continuing programme to reshape BT, 4,514 people left the company voluntarily, by leaver payments or voluntary redundancy.

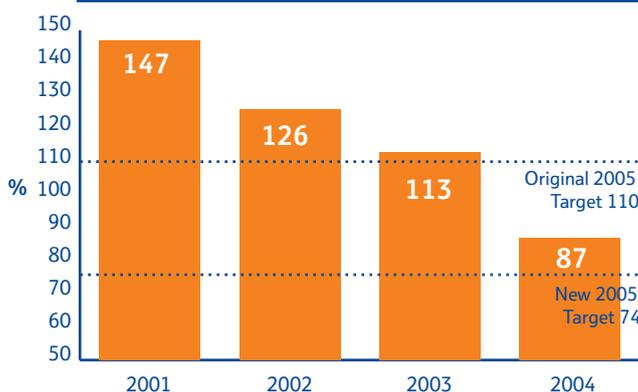
Key Performance Indicator Percentage of ethnic minority, women and disabled employees in BT



Training and development

We seek to encourage and provide people the opportunities for personal growth and professional development. In the 2004 financial year, BT successfully achieved re-accreditation as an Investor in People (IiP), a standard of good practice for training and development in the UK.

Key Performance Indicator Health and Safety significant incident rate per 10,000 full time employees



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Employees continued

People satisfaction

We run a number of formal employee surveys. The most important is the annual Communications and Attitude Research for Employees (CARE) survey. It provides an opportunity for all our people to express their views on a range of issues.

During the 2004 financial year, every BT employee in the UK was given the opportunity to complete a CARE survey during the working day. Anonymity was guaranteed and 80% of our people participated (up 2% on the previous year).

A key indicator in the CARE survey is the People Satisfaction Index, which indicates overall satisfaction with working for BT.

The People Satisfaction Index for the 2004 financial year was 71%, up from 67% in 2003 and exceeding our target of 69%.

During the 2005 financial year we will be introducing a new Employee Engagement Index.

Diversity

We seek to create an open, honest and unprejudiced workplace that encourages people to reach their full potential.

We want to create and sustain a diverse workforce where everyone's contribution is valued.

The tables show the percentage of our people who are women, have declared themselves from an ethnic minority or have declared a disability. These figures do not include around 10,000 people who work in our subsidiaries.

During the 2004 financial year, 15.3% of our new recruits came from an ethnic minority background, including 27.3% of new graduates, while 32.8% of new recruits were women, including 42.2% of new graduates.

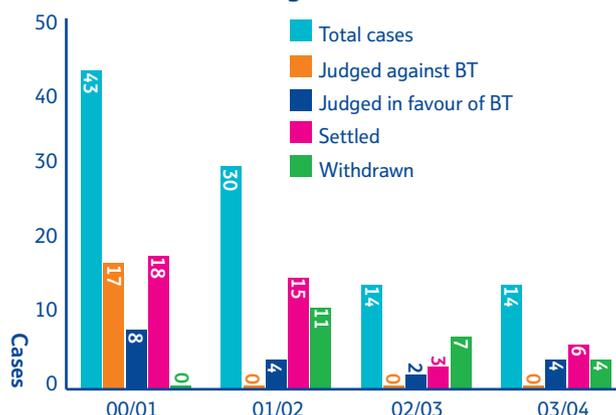
This means that we have achieved our target that by March 2004, at least 8% of our employees should be from an ethnic minority. Attaining our target for the representation of women employees is proving more difficult– the figures show that retention rather than recruitment is the main barrier.

These targets should not be taken to mean that BT is operating quotas, which are illegal under UK law. Each appointment is made on merit only.

There were a total of 14 discrimination-related litigation cases involving BT in the 2004 financial year. Four were withdrawn, none judged against BT, six settled and four judged in favour of BT.

Every discrimination litigation case is one too many. For this reason we carefully review our own cases and use real-life examples in our diversity training workshops.

Discrimination Litigation



	Senior		All BT	
Financial year	2003	2004	2003	2004
Women	20%	21.0%	23.6%	22.7%
Ethnic minority	7%	7.6%	8.6%	8.9%
Disability	0.7%	0.7%	2.0%	2.1%

Data as of 31 March 2004



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Employees continued

Work-life balance

Because we want to provide a high-quality service to our customers, the working day for many BT employees extends beyond normal hours. One of our great challenges as an employer is to reconcile good customer service with the provision of a healthy work-life balance for our employees. We strive to get the balance right and believe our record is good.

Our work-life balance policies are in one portfolio called Achieving the Balance. It covers flexible working, home-working, part-time working, job sharing, maternity and paternity leave, adoptive leave, parental leave, special leave and leave for carers.

We have approximately 5,600 part-time employees and more than 7,900 homeworkers. Through the innovative use of communications technology, many other BT people are able to work flexibly without being formally recorded as homeworkers.

We have a flexible working initiative called Freedom to Work, which enables our people, wherever operationally practicable, to develop their own attendance patterns. They can achieve more balance through a mix of home-working, working long and short days, and by accruing blocks of non-working time for use during, for example, school holidays.

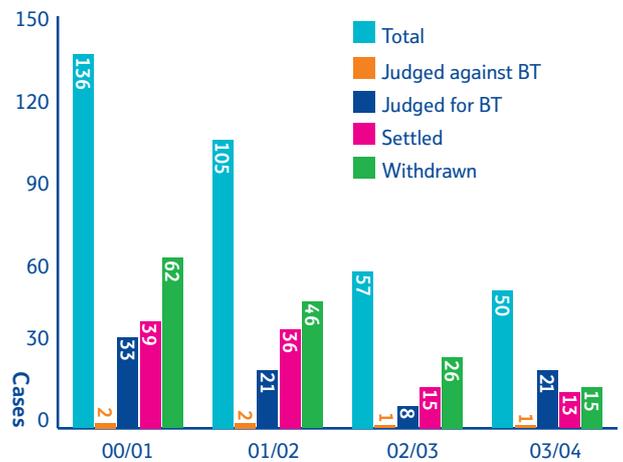
Employee relations

In the UK BT recognises two trade unions: the Communications Workers Union (CWU), which represents around 65,000 BT non-management grades, and Connect, which represents around 20,000 BT people, predominantly line managers and professionals.

We maintain a positive working relationship with both unions at local and national levels. In the 2004 financial year, no industrial action was taken. There were no cases of legal action against BT concerning anti-union practices.

The number of Employment Tribunal cases involving BT in the 2004 financial year was down to 50 from 57, with 15 withdrawn, 1 judged against BT, 13 settled and 21 judged in favour of BT.

Employment Tribunal cases

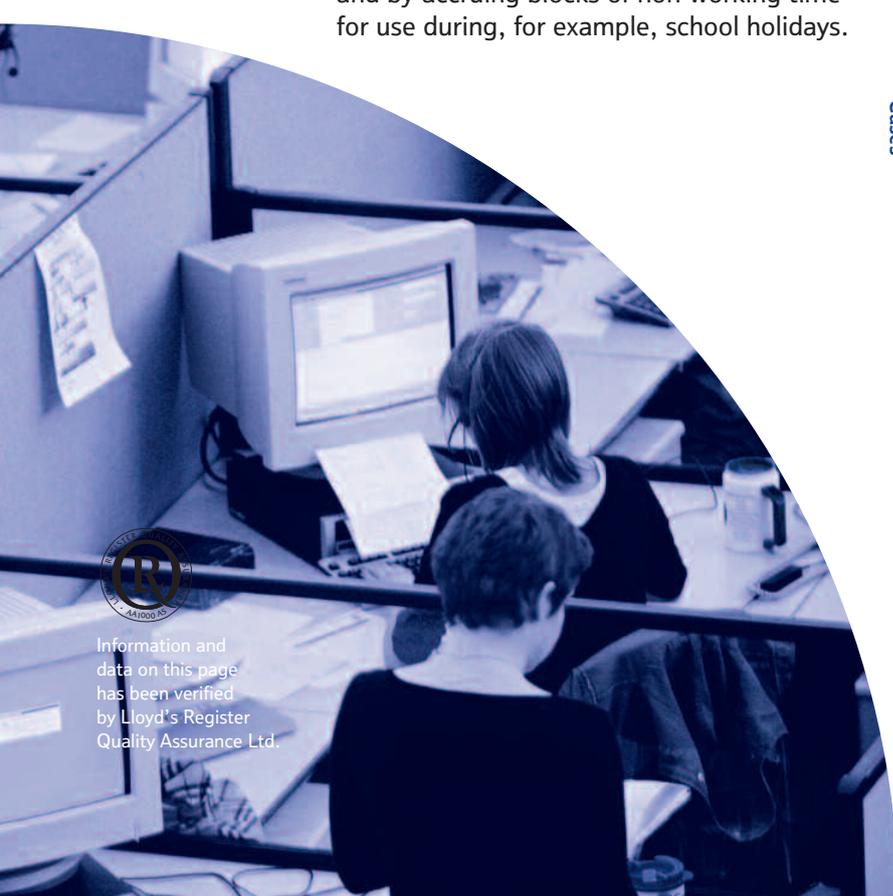


Call centres

We have completed a comprehensive two-year restructuring of our call centre operations.

Our Next Generation Contact Centre programme has transformed our original 104 call centre sites into a slimmed-down network of 33 larger, multi-functional contact centres.

The programme was designed to achieve the twin goals of reducing costs and providing improved customer service – for example, by providing a range of services for residential and



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Employees continued

small business customers without their being transferred from one call centre to the next.

The overall net effect on BT and agency jobs has been a reduction of 2,200 full-time equivalent posts – reducing the number of full-time equivalent posts in BT’s call centre operations to around 13,600.

There were no compulsory redundancies and we remain committed to finding alternative work for every affected person that wishes to remain in BT. By the end of March 2004, more than 900 people had been redeployed to other roles in BT and over 1,000 had left BT voluntarily. In addition around 1,900 employees have been redeployed to the new, long-term sites.

Two of the new call centres are located in Bangalore and New Delhi in India.

The Delhi and Bangalore call centres employed around 800 people by the end of the March 2004, with capacity available to increase to around 2,200.

However, it has been suggested in the media that there is an incompatibility between these developments and BT’s stance on Corporate Social Responsibility (CSR).

To address these issues we commissioned independent consultancy and think-tank SustainAbility to explore service sector offshoring through the lens of Corporate Social Responsibility.

Included in its report ‘Good Migrations?’ are:

- An examination of the global trend of offshoring and evaluation of its implications for CSR
- A study of the specific impacts of BT’s offshoring decisions, both in the UK and in India
- Strategic advice to companies interested in exploring offshoring and Corporate Social Responsibility.

SustainAbility concludes that, on balance, offshoring’s benefits outweigh its negative impacts. However, SustainAbility make some important reservations concerning the way that offshoring is handled and it is here that Corporate Social Responsibility has an important part to play.

Networks

We use a number of employee networks to communicate with our people worldwide. The networks – promoted by senior management – are there to support and advise our employees by providing mentoring and development programmes, information on websites and at conferences.

Health and safety

One of our business principles is to care for the health and safety of each other, our products and our operations. We have also made a specific commitment to promote a healthy lifestyle.

For this reason we have established our Significant Incident Rate as a non-financial key performance indicator and set the accompanying strategic target of a 25% reduction in incidents (from 2001 levels) by March 2005.

The Significant Incident Rate records incidences of injuries, diseases and dangerous occurrences, and stands as a good measure of our success in promoting health and safety.

We reached our target two years early and at that point doubled the reduction to be achieved by the financial year 2005. We have done the same for our target on reduction in sick absence due to workplace accidents (down 33% since 2001) and reduction in occupational ill health cases (down 36% since 2001).

We continue to focus on a number of major health and safety risks: driving, fire and incidents on BT property, international travel health, call centre health, injuries while working on the network and work-related stress.

These priorities illustrate the scope of our approach to health and safety: it is not just about avoiding accidents, we consider it very important to protect our employees’ physical and mental health too.



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Investors

Investors are increasingly interested in the social and environmental dimension of business performance and how it relates to the business strategy.

The key issue for investors is the business case for sustainable development and Corporate Social Responsibility (CSR): how social, environmental and ethical risks and opportunities are managed to preserve and grow shareholder value.

Our business case for CSR demonstrates how good CSR performance helps implement key aspects of the BT strategy:

- Keep a relentless focus on improving customer satisfaction.

CSR is critical to optimising customer satisfaction. For example, we estimate that BT's CSR performance accounts for over 25% of the Image and Reputation driver of customer satisfaction. Further statistical analysis shows that a 1% improvement in the public's perception of our CSR activities means a 0.1% increase in our retail customer satisfaction figures.

Increasingly, we have to address social and environmental matters when bidding for new contracts – nearly £900 million in the 2004 financial year.

- Motivate our people and live the values.

Working conditions and our relationship with our employees is crucial to the success of our business. A proactive approach to, for example, flexible working, diversity, and learning and development improves employee satisfaction and helps improve customer satisfaction.

- Lead the world in network-based information and communications technology (ICT) solutions.

Long-term sustainability trends create new market opportunities. For example, the use of teleconferencing and flexible working reduce the need to travel and provide more flexible lifestyles. Another example is the sale of online environmental management systems.

- Achieve competitive advantage through cost leadership.

Our environmental programme, which includes energy efficiency and fuel savings, has saved BT more than £600 million over ten years.

- Put broadband at the heart of BT.

Local and regional partnerships with social inclusion objectives have been critical to the roll-out of broadband to the most remote and rural areas in the UK.

- Transform our network for the 21st century.

Climate change could lead to more extreme and unpredictable weather events. We need to build a robust network that meets this new challenge.

Ratings

A number of specialist CSR ratings agencies provide rankings based on information about a company's social, ethical and environmental policies and practices.

All are based on the premise that a company's management of these aspects will have a significant bearing on its ability to both preserve and grow shareholder value over the long term.

Our main ratings are:

- BT has been ranked as the world's number one telecommunications company in the Dow Jones Sustainability Indexes for three years running
- BT is top of the telecommunications sector in the Business in the Community Corporate Responsibility Index (Business in the Community is an independent business-led charity based in the UK) and ranked 11 in the top 100 UK companies who took part in the 2004 Index.
- BT is included in the UK, European and World FTSE4Good Indices.



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Suppliers

Key Performance Indicator

Ethical trading risk assessment questionnaires completed by 242 suppliers and 13 on-site assessments undertaken

Strategic target

Evidence that action has been conducted within 3 months on all contracts identified as high or medium risk

Key Performance Indicator

Percentage of suppliers stating they have a good working relationship with BT is 94%

We buy products and services, such as IT equipment, cables, software, design and disposal services, from thousands of suppliers worldwide. In the 2004 financial year, we spent over £8.2 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. These are set out in our Purchasing Principles.

Our approach to these issues, along with a description of our supplier partnership, payment, relationship management, human rights, excellence awards and diversity activities are described in the Suppliers section of our online Social and Environmental report.



In the 2004 financial year, BT was the overall winner of the UK Chartered Institute of Purchasing and Supply's Supply Management Awards for applying ethical purchasing principles.

Supply-chain human rights

Sourcing with Human Dignity (SWHD), our supply-chain initiative, seeks to ensure that the working conditions in our supply chain are consistent with international guidelines. Chief among these are the UN's Universal Declaration of Human Rights (UNDHR) and the International Labour Organisation (ILO) conventions.

Training

It is crucial that our buyers have the awareness, knowledge and skills required to implement the SWHD standards.

A total of 176 BT buyers have attended half-day awareness training courses on Sourcing with Human Dignity. This training remained a key focus during the 2004 financial year.

We launched a computer-based training (CBT) package to enable all BT buyers to undergo the SWHD training. It is now mandatory for all those who have not taken the half-day course.

At the end of the 2004 financial year, 270 buyers had completed either the CBT or the half-day training session.

We have also delivered a two-day course to our procurement and quality professionals on how to conduct on-site assessments. At the end of the 2004 financial year, 21 BT people had been trained to conduct SWHD assessments.

2004 risk assessments

We undertake on-site assessments of supply-chain working conditions in those areas identified as being at the highest risk of falling short of our SWHD standards.

In the 2004 financial year, we conducted 13 on-site assessments in China, India, Sri Lanka, Turkey and the UK. Of these, 9 were assessments of facilities not previously assessed.

Further details, including the results of these assessments, are available in the Suppliers section of our online Social and Environmental report.

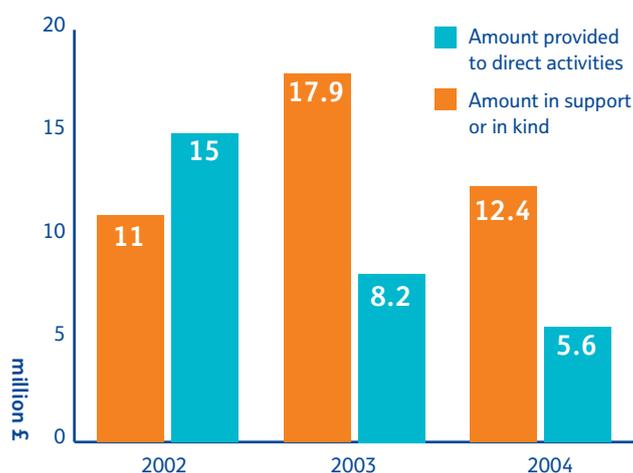


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Community

Key Performance Indicator

Amount provided to direct activities in support of society, and amount provided in support or in kind



Strategic Target

Contribute a minimum of 1% of our UK pre-tax profits to activities in support of society, either through direct funding or support in kind

We commit a minimum of 0.5% of our UK pre-tax profits to direct activities in support of society. This was £10 million in 1987; it peaked at £16 million in 2001; and was £5.6 million (including £1.2 million to charities) in the 2004 financial year.

BT operations provided a further £12.4 million in funding and support in kind in the financial year 2004.

We invest in communities to improve the quality of life and sense of well-being of the people who live there. The central theme of our community programmes is improved communications.

Education

BT's Education programme is one of the UK's most significant corporate investments in the education sector. It uses a number of techniques and media to promote communications in schools.

One of the main strands of the programme is a touring roadshow, a drama-based campaign helping children to improve their communication skills. By the end of the 2004 financial year, the roadshow had made 9,500 school visits and over two million children had been involved in the BT Education programme.

We have taken a number of initiatives to help young people around the world benefit from communications technologies. This includes a partnership in Delhi, India, with KITES, a local charity, and the Young Scientist Technology Exhibition in Ireland.

Charities and fundraising

We co-ordinate major national charitable events, including telethons for Children in Need and Comic Relief. BT manages the entire telephone network for these events, as well as providing call centres to take donations over the phone.

We are working with ChildLine, the UK children's charity, on a major campaign to help ensure that all young people can be heard. We are committed to raise funds to help ChildLine answer every one of the 4,000 children who call them every day.



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Community continued

Employee involvement

We encourage our people to volunteer in the community because of the mutual benefits this brings. Employees learn new skills that help them at work and the community benefits from their expertise.

There are many ways that our people can get involved: support a local school's activities as a BT Volunteer, answer telephones in a telethon, or donate money regularly via BT's Give As You Earn programme.

BT people personally gave £2 million directly to charities during the 2004 financial year through Give As You Earn, to which BT added a direct contribution of £1 million.

Arts and heritage

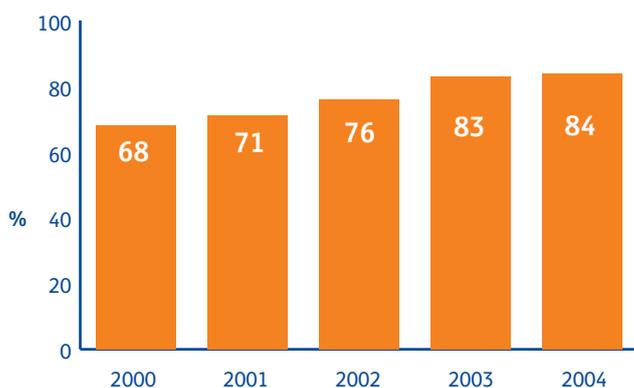
We are an enthusiastic promoter and supporter of the arts. The Tate Modern is the UK's leading modern art gallery and we sponsor Tate Online, a virtual gallery and the UK's most visited arts website.



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Business principles

Key Performance Indicator
Awareness of the Statement of Business Practice, The Way We Work, among BT's UK employees



Statement of Business Practice

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

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

It sets out specific aspirations and commitments that apply in our relations with our customers, employees, shareholders, partners, suppliers and in the communities where we operate.

Because this Statement is critical to the promotion of integrity and high standards of business practice across BT, we have made awareness of the Statement a key priority.

During 2004 we raised the number of our employees aware of the Statement from 83% to 84%, short of our 86% target.

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.

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. We aim to extend the survey to incorporate BT's wholly owned international activities by March 2005.

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.

We have a confidential 24-hour helpline for people seeking help and confidential advice. This is available via phone and email and is dealt with by the Head of Group Business Practice. The helpline was relaunched during the 2004 financial year and a letter promoting the helpline was sent to every BT employee.

Corporate Social Responsibility governance framework

A Corporate Social Responsibility (CSR) governance framework is in place to manage CSR issues effectively and supervise the CSR relationship between BT and our individual lines of business.

Social, ethical and environmental matters have been incorporated into our Director's induction programme, to support the integration of CSR matters into the day-to-day management of the business.

An internal committee known as the Corporate Social Responsibility Steering Group (CSRSG) oversees the implementation of all social and environmental programmes across BT. Chaired by Alison Ritchie – a member of BT's top-level Operating Committee – the CSRSG makes regular reports to the Board.



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Business principles continued

CSR health checks

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

Health checks examine how a cross-section of key CSR impacts may be affected by a particular commercial programme, and how CSR can help achieve the programme's commercial objectives. The checks 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.

Risk

We currently identify no social, environmental or ethical risks that would have a material impact on our business.

In the 2004 financial year, we developed a separate CSR risk register that sets out our most significant social, environmental and ethical risks (supply-chain working conditions, diversity, offshoring, business integrity, health and safety, climate change). Although important to our stakeholders, none is considered material to BT's future prospects.

Political involvement

BT has a strict policy of not giving cash to any political party. But we participate in public policy issues and regularly make contact with political parties, politicians and civil servants.

We undertake these activities directly and through many intermediary organisations such as:

- Our European trade association (ETNO)
- The Confederation of British Industry (CBI)
- Intellect, the trade body for UK-based information and communication technologies and electronics industry.

Our responses to important regulatory consultation documents are posted on our regulatory affairs website.

We are members of organisations that attempt to influence matters connected with Corporate Social Responsibility and sustainable development. These include:

- Forum for the Future
- CSR Europe
- Employers' Forum on Disability
- Green Alliance.

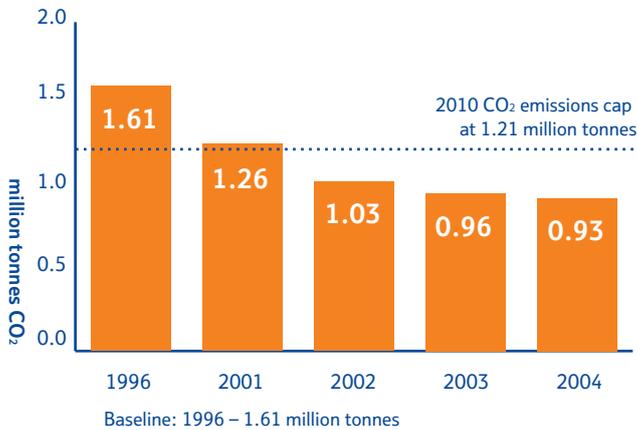
We are keen for government to change legal and fiscal frameworks to enable business to survive and flourish from sustainable business practices. We believe there is an appropriate role for both regulation and economic instruments.



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Environment

Key Performance Indicator Global warming CO₂ emissions



Key Performance Indicator Waste recycled and waste to landfill



Telecommunications is perceived as an environmentally friendly technology. But as one of the UK's largest companies – and biggest energy consumers – we have an inevitable impact on the environment. Since the end of 1999 our environmental management system has been certified to ISO 14001, the international management systems standard.

In the 2004 financial year, we were able, for the first time, to include international data in our performance figures.

We are establishing an environmental management system (EMS) that covers all BT Global Services' activities in every country of operation. As a first step we are running a pilot project in Ireland to produce an EMS that is transferable to all countries, cultures and activities.

Once our international EMS is in place, we will seek to obtain the ISO 14001 certification where appropriate, followed by registration with the EU Eco-Management and Audit Scheme (EMAS).

Fuel and energy

We are one of the largest consumers of commercial and industrial electricity in the UK and the growth of broadband is likely to increase our electricity use. However, during the 2004 financial year, investment in our energy conservation programme enabled us to reduce our electricity consumption by 1.5%, from 2,106GWh to 2,074GWh.

We are committed to meet and, where possible exceed, the UK Government's sustainability targets to buy renewable energy. We work with our suppliers to increase capacity and we are investigating housing our own renewable generation systems, such as wind turbines, at suitable sites.

In the 2004 financial year, special efforts were made to develop new technologies using wind energy.



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Environment continued

Electricity use and source



We created a partnership with the UK's Carbon Trust to investigate the suitability of using BT buildings to house wind turbines for trials in the 2005 financial year.

We support turbine specialist, Wind Dam, in its development and deployment of rooftop vertical wind turbines at two sites in Cornwall, UK. We are also considering the use of three large wind turbines to power one of our major satellite communications sites in the UK.

We are investigating the feasibility of new energy systems. These include systems that combine the use of solar energy and wind, and fuels made from plants (biofuels) to replace the diesel used in our emergency generators.

We have several thousand oil storage tanks, many of which are below ground. The oil is used for heating and to supply standby diesel generators to power our network if the electricity supply fails. Tank testing, repair and decommissioning of fuel tanks are vital components of BT's programme to reduce the risk of pollution to ground water and land from the storage of diesel fuel.

A project team has now visited 1,391 sites, tested 1,168 tanks, passed 714 (61%) and provided detailed recommendations for remedial action.

Emissions to air

We monitor the emissions to air of a number of substances that impact adversely on the environment, through their contribution to climate change or ozone depletion.

By the end of the 2004 financial year, our energy and transport programmes had saved almost 1.2 million tonnes of CO₂ annually. This includes:

- 62% reduction in CO₂ emissions since 1991 because of improved energy efficiency
- 38% reduction in CO₂ emissions since 1992 because of improvements to transport.

Our emissions savings already exceed the UK Government's target to reduce greenhouse gases emissions by 20% by 2010 (from a 1990 baseline). This goes beyond the Kyoto Protocol target of a 12.5% reduction by 2010.

During the 2004 financial year, our ozone depleting emissions (measured in CFC-11 equivalents) increased by 11%.

This is because we are now able to report the refrigerants used in our office buildings as well as in our network.

CFC-11 Equivalent emissions



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Environment continued

Waste

We produced 107,303 tonnes of waste in the 2004 financial year. Of this, we recycled 27,626 tonnes - 26%, up from 24% the previous year - and sent 79,677 tonnes to landfill, down by 10,201 tonnes from the previous year.

We had mixed success in meeting our waste improvement targets. Although we only managed to increase the amount of items we recycled by 2% - below our 10% target - we managed to reduce the amount of waste going to landfill by 11%.

Transport

We run a fleet of 32,663 vehicles, managed under contract by our subsidiary, BT Fleet. In the 2004 financial year, we achieved our target to use smaller vans and to remove 832 vans from our commercial fleet. This means we reduced both our commercial fleet - still one of the largest in the UK - and our fuel consumption by 4%.

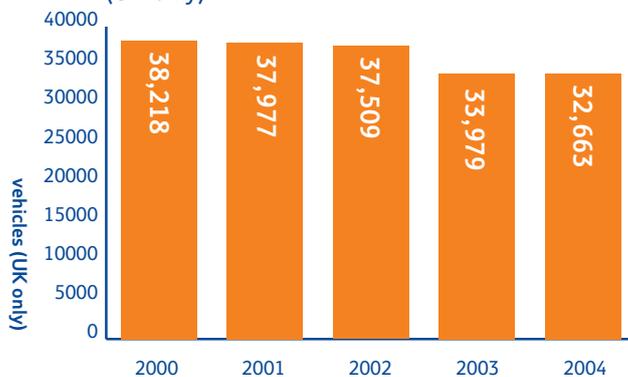
BT's company car policy supports the key objectives of the UK Government's emissions-based company car taxation initiative. This includes:

- Increased allowance to employees who choose to opt out of company car ownership
- Improved tax efficiencies for employees who opt for lower-emission cars
- Improved advice and communications to company car drivers, encouraging users to choose lower-emissions cars.

New tax rules have removed the incentive to travel more and we anticipate our overall company car mileage will continue to reduce.

Since April 2001, when our new car policy was introduced, our company car fleet has reduced by 25% (nearly 4,000 vehicles), with a reduction of over 19 million kilometres (8.5%) for company cars and private vehicles on BT business.

Transport
Number of vehicles in the commercial fleet (UK only)



Transport
Commercial fleet fuel consumption



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Environment continued

Product stewardship

BT is a major buyer and user of electronic equipment and subject to both new and pending legislation designed to encourage sustainability in industry. We strongly support this legislation and go beyond the minimum efforts required for compliance.

Key legislation includes EU Directives that became European Law on Waste Electrical and Electronic Equipment (WEEE) and the Restriction of the use of certain Hazardous Substances in electrical and electronic equipment (RoHS).

Both aim to minimise the use of hazardous materials in electrical and electronic equipment, to minimise the amount of hazardous waste going to landfill, and to encourage reuse of materials.

We require suppliers to provide information about compliance with WEEE. As part of our compliance with RoHS, BT is researching a number of alternative materials – such as lead-free solder – found in electrical and electronic equipment.

Procurement and the environment

As one of the UK's largest purchasers, we have an environmental influence that extends well beyond that of our own staff and workplaces.

We seek to influence our suppliers and contractors through our environmental purchasing policy. We have specific objectives to ensure appropriate supplier environmental data is collected, and to encourage improvement of poor performers in significant risk areas.

We use two supplier questionnaires to enable us to identify risk and take appropriate action if needed.



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Economics

BT is one of the largest telecommunications companies in the world and a significant economic force in its own right. In our Social and Environmental report we discuss some of BT's direct and indirect economic impacts, and highlight the links to their social and environmental consequences.

Direct impacts

Our direct economic impacts can be measured with traditional financial indicators, such as turnover, spend with suppliers, dividends, employee costs and tax paid.

These measures can be used to demonstrate how the economic status of each stakeholder group changes as a result of BT's activities.

The figures in the economics section of our website measure the financial flows between BT and our key stakeholders – customers, suppliers, employees and shareholders – as well as with governments.

Indirect impacts

Indirect economic impacts arise from the income and employment created in businesses that supply goods and services to BT.

For example, the expenditure of BT in the UK creates over £2.6 billion of income in the UK economy that in turn supports the employment of almost 135,600 people.

Further indirect impact is created when incomes created directly and indirectly by BT are spent in the economy – estimated by DTZ Pieda Consulting to be £3.4 billion of income and 173,780 employees.

When added to BT direct impacts, these activities generate income of £8.9 billion and support the employment of 431,753 people in the UK – almost 1.7% of all employment in the UK.

Further discussion of these and other significant economic issues in the communications sector, such as globalisation and the development of the knowledge economy, are in the Economics section of our online Social and Environmental report.

Total Income and Employment Impact of BT in the UK

	Income (£ billion)	Employment
Direct	2.974	122,423
Indirect	2.616	135,550
Induced	3.354	173,780
Total	8.944	431,753

Source: DTZ Pieda Consulting, February 2004

Notes

- These figures take account of 'leakages' of expenditure from the local economy in the form of non-UK purchases, savings and national taxes.
- The study is based on BT employing 122,423 people in the UK, either directly by BT or as contractors.



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Human rights

We base all our relevant policies and procedures on the principles set out in the United Nations Universal Declaration of Human Rights, which sets “a common standard of achievement for all peoples and all nations”.

We are committed to protect and enhance the human dignity of every BT employee and everyone who has dealings with BT. We are a signatory to the UN’s Global Compact, an initiative that strives to motivate business and industry around nine principles covering the environment, labour and human rights. See more in the Global Compact index section of the online Social and Environmental report.

Supply and use chain

We monitor the working conditions under which the products and services we purchase are produced. We also consider their effects on human rights after they’ve been sold. The main concern here is the misuse of our products and services, for example using the internet for crime. We have published two ‘Hot Topics’ on our Better World website exploring the problems of misuse of the internet.

Privacy

Privacy is not a new issue but developments in information and communications technology (ICT) have given rise to new dilemmas.

One of these is to balance our desire to give a tailored customer service with protecting customer privacy.

For example, BT customers in the UK who wish to use our website to manage their account, check their bill and buy various products or services, have to register first – which involves the disclosure of certain personal information. We have a specific privacy policy

covering this situation.

We also have a detailed Acceptable Use Policy that shows how we protect the privacy of customers who use our online services.

Privacy is important to all our customers – not just those online. BT complies with and is registered under the Data Protection Act in the UK, and we take all reasonable care to prevent any unauthorised access to personal data.

Freedom of expression

A key challenge is to balance the right to freedom of expression with the need to protect children online.

BT is a board member of the Internet Content Rating Association (ICRA), which aims to “protect children from potentially harmful material; and to protect free speech on the internet”.

Our own programme, BT Safe Surf, gives detailed information for parents and provides user-friendly training for children.

BT acts on complaints about content hosted on our servers. We sit on the funding council of the UK Internet Watch Foundation, which notifies us of illegal content stored on our servers and webspace.

We have contributed to the work of the Independent Committee for the Supervision of Standards of Telephone Information (ICSTIS).



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Sustainability

The concept of sustainable development has increasingly come to represent a new kind of world – where economic growth delivers a more just and inclusive society, at the same time as preserving the natural environment and the world’s non-renewable resources for future generations.

We use the term Corporate Social Responsibility (CSR) more often than sustainable development and consider CSR to be the voluntary actions a company takes to contribute to the wider societal goal of sustainable development.

No individual country, business or other organisation can become sustainable on its own. But it can become more sustainable than it was, and it can make a valuable contribution to make the world more sustainable.

CSR requires a co-ordinated approach to managing social, economic and environmental issues across the company. However, sustainability is not just about having the right systems, checks and balances in place. We aspire to lead by example not only in addressing our own impacts, but also by raising awareness and by working with others through partnerships for action.

For example, we chair the Global e-Sustainability Initiative and were closely involved in its sector report for the 2002 World Summit on Sustainable Development and submissions to the World Summit on the Information Society. These contain a number of helpful recommendations to information and communications technology (ICT) companies and governments.

We also believe that ICT can act as an enabling technology for sustainable development – such as cutting energy and resource use through transport substitution and dematerialising physical products – thereby decoupling economic growth from resource use.

ICT sustainability impacts

Information and communications technology (ICT) brings many potential social, economic and environmental benefits to society.

ICT can support social and economic development by transforming communication and access to information, leading to powerful social and economic networks needed to bring sustainable development to emerging economies.

The use of BT’s own products and services enables us to reduce our consumption of finite materials and to improve the work-life balance of our people.

Conferencing by video, phone or the web is not only more time and cost-efficient than meeting in person – it improves the quality of life for frequent travellers. It’s also a major benefit for BT’s 7,900 home-based workers and a growing number of teleworkers – those who occasionally work from home.

In a survey carried out within BT during the 2003 financial year, 66% stated that conferencing was essential to their job and over 80% that it had improved their performance.

The survey also showed clear environmental benefits, with each call avoiding travel of at least 91 miles a year for car users and 94 miles for train users. At a conservative estimate, each conference call saves a minimum 22.05 kg of CO₂. Taken together, all our conference calls save at least 20,060 tonnes of CO₂ a year.

Another survey into teleworking illustrated the social benefits that communications technology can provide, with the majority of respondents reporting a better life through teleworking than if they commuted to an office. Many reported an increased contribution to domestic and community activities, while a small number believed that they would be unable to do their present job if unable to telework.

Additionally, the increased use of electronic transactions has clear environmental benefits, such as paper-free billing.



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Digital inclusion

Access to information and communication technologies can improve people's lives and open doors to education, jobs, employment, entertainment and personal contacts with friends and family. But many people do not yet have the opportunity or the necessary skills to use the technology.

We want everyone to participate in the digital revolution. In our online Social and Environmental report we discuss how we promote digital inclusion, in three ways:

- **Connectivity** – provide greater access to communications technology. Broadband plays a central role in improving access to information on the internet. By 31 March 2004, we had upgraded more than 1,100 exchanges, making broadband available to more than 85% of UK homes and businesses. We have set out a road map that will see broadband available to exchanges serving over 99% of UK homes and businesses by summer 2005.
- **Content** – encourage communication and its use for social and economic benefit. While the amount of information on the internet is vast, there is still a great need for content that brings benefits to communities, small businesses and individuals. This is why we work with others to promote new content.
- **Capability** – help groups and individuals use technology. We have launched a digital inclusion campaign to support the UK Government's aim to give all citizens online access by 2005 and demonstrate how communications can help improve society. A key element is Everybodyonline, run by Citizens Online, a UK-based charity promoting the use of information and communications technology (ICT) for all members of the community, and supported by BT.



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Data and targets

Targets are essential if we are to improve our social and environmental performance and our contribution to sustainable development.

Our online Social and Environmental report includes:

- BT's 11 non-financial key performance indicators – an overview of our social and environmental performance
- All of our social and environmental performance data
- Social and environmental performance targets.

Our 2003 Social and Environment report included 47 targets. Of these, 33 were completed, 4 remain on target, 1 is delayed, 8 have failed and 1 has been abandoned.

We have introduced 39 new targets this year and progress on these, as well as our 5 ongoing targets, will be tracked on a quarterly basis.

Further details are available in the Data and target section of our online Social and Environmental report.

Hot Topics

Our online Hot Topics, written by guest authors, cover our more controversial social impacts.

Abuse of the Internet

Solitaire Townsend of independent consultancy Futerra considers the issue of abuse of the internet.

Good Migrations?

Judy Kuszewski and Kavita Prakash-Mani of independent consultancy SustainAbility consider the relationship between offshoring, Corporate Social Responsibility and the geography of jobs.

Virtual Vice

James Wilsdon and Paul Miller of the UK think-tank Demos examine BT's approach to internet activities of concern such as hacking, copyright infringement and spam.

Modern Communications and the Quality of Life

Written and researched by the Future Foundation, this examines the impact of modern communications technology on our daily lives.

E-business and the Environment

The UK Centre for Environment and Economic Development analyses the direct and indirect environmental impacts of e-business.



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Feedback

Your views on our Social and Environmental performance are important because they help us improve. Contact us with your questions and comments and we will reply within five days of receiving your message.

For feedback relating to:

Corporate Social Responsibility strategy, reporting and stakeholder dialogue
email Liz Cohen, sustainability advisor, at liz.cohen@bt.com

Digital inclusion

email digitalinclusion@bt.com

Education programme

email Helena Murray, project co-ordinator, at helena.murray@bt.com or visit the programme's website at www.bt.com/education.org/

Employee volunteering programme, BT Volunteers

email Ruby Trippet, Volunteering programme, at rbytrippet@volunteers.org or visit the BT Volunteers website at <http://www.btvolunteers.org/>

Employment equality and diversity

email Pam Farmer, HR manager, Equality and Diversity, at pam.farmer@bt.com

Environment programme

email Simon Paul, environment manager, at bt.environment@bt.com

Ethical and environmental supply chain management

email Liz Emerson, ethical trading and environment manager, at liz.emerson@bt.com

Fundraising and charities

email Beth Courtier, head of charities, at beth.courtier@bt.com or visit the BT/childline "I am Listening" campaign website at www.biglisten.co.uk

Shareholder enquiries relating to BT's social and environmental impacts

email Susan Morgan, sustainability manager, at susan.2.morgan@bt.com

If you have a question or comment that doesn't match any of these, please email yourviews@bt.com.



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Better World website



Our Social and Environmental report is part of our regularly updated Better World website.

The report covers all externally verified content (as indicated by a symbol at the bottom of the page) and our independently written Hot Topics.

The report is complemented by other content on our Better World web site – Latest news, our Occasional papers, Studies and reports, and our Better business game.



Offices worldwide

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