About the report

let's make a
better
world

THE QUEEN'S AWARDS
FOR ENTERPRISE:
SUSTAINABLE DEVELOPMENT
2003

About the report

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

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 website - latest news, our occasional papers, studies and reports, video case studies and our better business game.

We only publish our social and environmental performance online because the innovative use of information technology offers possibilities to communicate more effectively and to engage in a two-way dialogue. The internet is a critical tool to help promote greater transparency and accountability in business.

Here you will find our:
• Chairman's introduction

• Chief Executive's introduction

We also explain our reporting methodology and approach in:
• Triple Bottom Line reporting

• Scope of the Report

• Key Performance Indicators

• Assurance

• Standards

• Navigation.

Our Summary and highlights document provides an overview of the Social and Environmental report. It can be downloaded as a pdf file or you can order a printed version (email: yourviews@bt.com).

Chairman's introduction
Helping our customers to benefit from improved communications and increased connectivity continues to be at the heart of BT.

Achieving this responsibly and in a way which contributes to society is important to us. This year there have been a number of accomplishments that demonstrate this commitment.

For example, broadband. We are confident that we will connect virtually every UK community during 2005, which is a vital part of the role we play in spreading the benefits of broadband. And we have made real progress with our digital inclusion initiative, Everybodyonline, which is working to help deprived communities enjoy the benefits of broadband technology and develop new skills.

I am particularly proud of our efforts in response to the Asian Tsunami which struck on 26 December 2004. Our knowledge and expertise, together with the commitment of our people, enabled us to work alongside the Disasters Emergency Committee to ensure the largest ever volume of online and telephone donations were taken quickly and securely. We also had 16 volunteers who went out to the region to assist in the re-building of local and international communication links.

Our Corporate Social Responsibility programme has a key role to play in meeting our stakeholder's expectations and encouraging them to invest in us, buy from us or work for us. Full details of the programme and our performance in the last year are available in our online Social and Environmental report.

We endeavour to manage our social, ethical and environmental issues to grow shareholder value and I am always pleased when we achieve external recognition for our attempts to do this.

This year we maintained our position as the top telecommunications company in the Dow Jones Sustainability Indexes for the fourth year running, which recognises our work in a wide range of areas from business principles, ethical supply chain management and work-life balance to customer service and corporate governance.

For the year ahead, business transformation is critical to delivering growth to our business. This will bring new challenges for our Corporate Social Responsibility programme, which I am confident it will meet.

Sir Christopher Bland
Chairman
18 May 2005

Chief Executive's message
I am convinced that being a responsible company through living our values (trustworthy, helpful, inspiring, straightforward and heart) brings us business advantage.

Our major business and government customers are increasingly concerned about our CSR performance. Growing stakeholder, legal and regulatory pressures mean our customers expect us to provide the solid CSR credentials that help them provide a trusted service to their own customers.

Our Performance
We publish 12 non-financial key performance indicators. These provide a snapshot of our performance on the key measures that underpin our financial performance. Our progress on these measures includes: reducing customer dissatisfaction; connecting the majority of UK communities to broadband; maintaining a motivated, diverse and secure workforce; minimising ethical risks in our supply chain; and massively reducing our carbon dioxide emissions.

The UK is committed to take action on climate change. As one of the country's largest users of electricity we have a responsibility to help make that happen. This year we became the world's largest purchaser of green energy and now meet almost all our UK energy needs from environmentally friendly sources. In carbon dioxide emissions savings, it equates to an additional 325,000 tonnes each year, on top of the considerable savings we have already made in the last ten years. This is a substantial contribution to tackling climate change.

Accountabilit - challenges and opportunities
As we continue transforming our business we must maintain our vigilance on matters of corporate social responsibility. For example, we are increasing our international footprint, through the evolutionary growth of our global services business, by making strategic acquisitions and through the rise in outsourcing and in-sourcing as a key part of BT's business model. Different approaches to corporate governance and ethical issues in the countries where we operate underline the importance of our CSR activity. In addition, our increasing sales in networked IT services have highlighted the potential privacy implications of the digital networked economy.

The big opportunity is to use ICT products and services to promote sustainability, not only in the way we run our own business, but by helping our customers to benefit too.

You can find details of how we are responding to these challenges and opportunities in our online Social and Environmental report. The report has been prepared in accordance with the 2002 Global Reporting Initiative guidelines and is independently verified. I commend it as a demonstration of how living our values helps us deliver long-term shareholder value.

Ben Verwaayen
Chief Executive
18 May 2005

About the report continued

Triple Bottom Line reporting

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

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

This concept of 'triple bottom line' or 'sustainability reporting' has become a common feature of large companies. We believe it provides an invaluable holistic view of the company, making connections between aspects of performance previously evaluated separately and aiding our transition to a more joined-up approach to the management of social, environmental and economic issues.

We also believe that companies have a responsibility to disclose the social and environmental performance information that their stakeholders - customers, employees, shareholders, suppliers and communities - need to make informed decisions.

Our approach has been recognised by a number of external bodies and in the 2005 financial year we were joint winners of the ACCA award for the best web-based sustainability report.

The future
The concept of triple bottom line reporting suggests that there are three separate and distinct bottom lines - each of equivalent standing.

We believe that, in the context of sustainable development, it's impossible to consider the economic dimension in isolation from the social or the environmental, and vice versa. We think the time has come for

organisations to find new ways of reporting their total contribution to a more sustainable society in a way which fully includes the social, environmental and economic dimensions.

This is what we try to achieve in our Social and Environmental report.

As well as reporting on our performance, we also include 'Hot Topics' on some of our more controversial social impacts, such as extreme abuse of the internet, offshoring and the implications for privacy in the digital networked economy.

We have included these because readers want a qualitative insight into the way BT (and the industry generally) responds to its stakeholders. They want to see how we put our values into practice, and how our products and services can help contribute towards sustainable development.

The flexibility of the internet enables us to show the connections between the social, environmental and economic dimensions of sustainability through our reporting. We do this by using links between the different sections of the report and by giving the reader the chance to navigate the site according to different indexes, such as the Ten Principles of the UN Global Compact or the Global Reporting Initiative (GRI) Guidelines.

Scope of the Report
This report covers all of BT's main social, economic and environmental performance areas for the 2005 financial year (ending 31 March 2005). 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 part of our Better World website, which is updated regularly and also contains archived content. The Better World website includes latest news, occasional papers, our better business game, video case studies and other studies and reports.

Geographical coverage
In the 2005 financial year, BT's UK operations accounted for approximately 91% of BT's turnover and 90,800 of our 102,100 employees.

Wherever possible we cover all BT's wholly-owned activities in the UK and internationally.

Where data are not available or relate only to activities in a particular country, we try to be clear about precisely what is covered.

Environmental scope
Although BT's environment policy covers the entire BT Group, the scope of the environment section is in line with our ISO14001 certification which currently covers all British Telecommunications Plc Operations in the UK; BT Ireland and BT Spain. The exception to this is BT Global Services operations in the UK and overseas excluding Ireland and Spain, which are not covered within the environment scope.

This year, for the first time, we are including energy, water and waste data for BT Global Services in the environment section.

Business practice
This year we have introduced an Ethics Performance Measure and we have measured awareness of our Statement of Business Practice in our international operations.

Financial, regulatory and corporate governance information is predominantly located in the Annual Report & Accounts, while background information about BT is set out in the Corporate Information section of the BT website.

Find our Regulatory Compliance report in the Business Principles section.

Diversity
Existing data are based on 'self-declaration'. However, different legal frameworks outside the UK mean that collecting data on diversity for our international operations is not always possible. Working within these limitations, during the 2005 financial year we have focused on gaining a better view of our global workforce profile. For example, we are now collecting data on ethnicity for our operations in the US.

Global Reporting Initiative
This report has been prepared in accordance with the 2002 Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. We have also used the GRI Pilot Telecommunications Sector Supplement in preparing this report. Full details are found in the GRI Index.

Key Performance Indicators
There is a huge amount of information in our Social and Environmental report. We have

established a set of key performance indicators (KPIs) to help you understand what our stakeholders and we consider to be the most important issues. Our KPIs condense complex issues into 12 key measures of non-financial performance which have been used to enable a strategic approach to target setting.

The indicators were derived from a consultation involving report users such as investors, customers and employees, together with outside experts such as the BT Leadership Panel. The indicators are:
1. Customer Dissatisfaction
2. Addressable Broadband Market
3. Employee Engagement Index
4. Percentage of Women, Ethnic Minorities and Disabled Employees
5. Lost Time Injury rate
6. Sickness Absence rate
7. Ethical Trading
8. Greenhouse Gas Emissions
9. Total Waste (including recycling rate)
10. Ethical Performance Measure
11. Community Contribution
12. Supplier Relationships

The KPIs complement the comprehensive set of social and environmental performance figures in Data and targets, where our latest performance information and a more detailed explanation for each KPI are found. We will publish the latest figures every year and make appropriate adjustments to them if circumstances change.

The KPIs create BT's sustainability dashboard. This gives an at-a-glance view of the company's performance. To achieve this, we had to identify indicators that are:

- Quantitative – can be presented as a number
- Practical – interface with existing company processes
- Directional – we know when we are getting better
- Actionable – are sufficiently in our control to effect change.

We recognise the final indicators are far from perfect. While there was general consensus on the spheres of measurement - integrity, community, customers (including digital divide), employees (including health and safety), environment and suppliers - it was often difficult to identify a single indicator that reflected all the intricacies and manifestations of these broad areas. This reflects the difficulties in measuring the non-financial performance of companies.

During the 2005 financial year, the People Satisfaction Index has been replaced by an Employee Engagement Index, which better reflects the BT values, strategy and our commitment to keep people engaged with their colleagues, work and customers.

We have also developed and introduced a measure to provide information on our performance across a range of corporate governance issues. Called the Ethics Performance Measure, this replaces our Awareness of Statement of Business Practice with a broader measure of ethics performance within the company. The Awareness of Statement of Business Practice is one of the indicators within this new measure.

About the report continued

During the 2006 financial year we will conduct a comprehensive review of our KPIs to check if they are still the most appropriate key measures of our non-financial performance.

Assurance
This report has been assured against the AA1000 Assurance Standard. This stipulates that three specific principles must be met:
- **Materiality**: the report must include information about our sustainability performance to help readers make informed judgements, decisions and actions.
- **Completeness**: the report must include all material aspects.
- **Responsiveness**: the report must demonstrate that BT has responded to stakeholder concerns, policies and relevant standards and adequately communicated these.

Lloyd's Register Quality Assurance Limited (LRQA) has been contracted by BT to assure the report against this standard and is supported by BT's Internal Audit Department.

In addition to their overall assurance role, LRQA ensure that we don't provide unreliable data or make claims that we can't back up. This includes identifying and assessing the data gathering systems and validating data samples.

The work of LRQA is complemented by the role of BT's Internal Audit department, which undertakes substantial work to validate data and information. LRQA rely heavily on the work of BT Internal Audit in forming their conclusions.

The LRQA Statement outlines the way in which they undertake the assurance, together with their recommendations on how future reports might be improved.

The Leadership Panel also plays a part in ensuring that difficult or uncomfortable issues are not neglected. Members of the Panel were selected on the basis of their independence of thought, experience and insight - as well as their knowledge of corporate accountability.

The Leadership Panel statement sets out their perspective on the report and BT's performance and was last updated in May 2005.

Further technical details are available later in this assurance section on how we determine our critical aspects, indicators and targets in line with the AA1000 Assurance Standard principles of materiality, completeness and responsiveness.

The information in the Social and Environmental report - and its presentation - is the responsibility of BT.

The Leadership panel and LRQA statements are available in our on-line report under Assurance.

Materiality
The starting point for our determination of materiality is the BT Statement of Business Practice. This defines BT's world-wide business principles and sets out the specific aspirations and commitments that apply in our relations with stakeholders. It was compiled in an inclusive fashion and makes explicit reference to our legal obligations and mechanisms of regulatory compliance.

From this we have defined seven material categories of non-financial performance:
- Business practice
- Community
- Customers
- Employees
- Environment
- Suppliers
- Digital inclusion.

These categories then guided us towards a set of key (or material) performance indicators which were selected following extensive consultation, both inside and outside BT. Each KPI is accompanied by a strategic (or material) target.

These material categories, indicators and targets - described in more detail in the Data and targets section of the report - cover the most significant and strategic components of BT's sustainability performance:
Seven material **categories**.

Twelve material **key performance indicators**.

Twelve related material **strategic targets**.

To ensure that the remainder of the report incorporates all other relevant information that our stakeholders may require to make informed decisions about our company we:
- Construct the report in accordance with the Global Reporting Initiative (GRI) guidelines
- Use the GRI guidelines Pilot Telecommunications Sector Supplement
- Undertake a review of sustainability reports from peer companies
- Review relevant prosecutions and international sustainability standards
- Publish 'Hot Topics' on specific issues of concern.

Our approach to materiality is designed to ensure we cover all relevant issues, particularly highlighting via our KPIs those which have greatest significance to our business.

Global Reporting Initiative
The term 'in accordance with' has a specific meaning in the GRI context and our assurance providers have ensured that we meet these requirements. In essence it means that we meet the GRI reporting principles - similar in many ways to the AA1000 AS principles - and that we include all GRI core indicators. The latter are important as they were developed through a stakeholder inclusive process and are designed to

be "relevant to most reporting organisations and of interest to most stakeholders".

We also use the GRI Pilot Telecommunications Sector Supplement.

Peer Review
Once a year we undertake a review of sustainability reports published by other telecommunications companies to identify any content gaps in BT's sustainability reporting. This is achieved by comparing the key or material categories presented in peer reports with BT's KPIs and overall sustainability report content.

This year, 12 competitors and ICT companies were selected covering a variety of geographical areas, including those companies known to have performed best in the field of sustainability reporting. Based on the results of our peer review we believe we have not missed any key aspects.

Prosecutions and Standards
We have made sure that all compliance and prosecution information relating to equality and diversity, environment, employee relations and regulatory affairs have been included in the report and that reference has been made to critical international sustainability standards.

'Hot Topics'
Finally, the readers of our report have told us that the traditional, triple bottom line reporting described above still does not tell the whole story. It provides comparable measures of performance, but doesn't describe how the company applies its values when dealing with difficult and often controversial issues.
This is why we include in our report a series of 'Hot Topics' that have, over time, covered matters such as extreme abuse of the internet, offshoring and the privacy implications of the digital networked economy. 'Hot Topics' are selected by our Leadership Panel.

Completeness
The report will be complete provided that all material issues have been captured.

This requires two criteria to be met:
1. The process for determining materiality has been inclusive and is, in its own right, complete.
2. The reporting boundaries have not been drawn so as to create an exclusion of any material issues.

The first criterion is covered in the section on materiality.

The second criterion is dependent on the completeness of the reporting boundaries as described in the Scope of the report section. To check this we have reviewed the scope to ensure that:
- All BT's main operating divisions are included
- All BT's principal operating subsidiaries as listed in the 2005 Report and Accounts have been assessed for any issues that would alter our interpretation of materiality and completeness for this report.

In addition, the report coverage extends beyond the direct operational impacts of BT to include our supply chain and various considerations of the sustainability impacts of our products and services.

About the report continued

Responsiveness
It's important that we not only listen to the views of our stakeholders but also reflect our response to those views in our policies, operations and objectives.

That's not to say that all our stakeholders always agree with each other on our priorities of resource allocation. Even single stakeholders can offer paradoxical and conflicting views - for example, often expecting the lowest possible prices and the highest possible levels of non-profitable service for the wider good.

As we say in one of our occasional papers, Enlightened Values: "As all groups of stakeholders rarely reach a consensus, a company must select the appropriate balance point and make, and be seen to make, responsible decisions."

Corporate social responsibility is then about being held to account for those decisions in an open and transparent way."

The section on stakeholder dialogue describes our overall approach to informed decision making and at various junctures of the report we describe how such engagement has influenced our policies, targets and indicators.

We believe our long history of publicly disclosed sustainability targets demonstrates our commitment to allocate the necessary levels of resource to improve our performance and the external recognition we have achieved for our actions is further evidence of this. For example, we have been awarded the Queen's

Award for Enterprise in the sustainable development category and are consistently at the top end of important rankings such as the Dow Jones Sustainability Index.

Standards
There are many different guidelines, standards and codes of practice that companies are encouraged to sign up to. In this section we describe BT's approach to some of the most prominent.

AA1000 AS
The AA1000 Assurance Standard provides a systematic approach to ensure that public sustainability reporting adheres to particular reporting standards and guidelines.

This Social and Environmental report is assured against AA1000 Assurance Standard.

ETNO Sustainability Charter
In 1996, BT led the team at the European Telecommunications Network Operators' Association (ETNO) that created its Environmental Charter. In 2004, ETNO launched a new 'Sustainability Charter', which calls on signatories to review overall company policy in order to implement sustainable growth in the widest, most integrated manner possible. The new charter includes commitments on business ethics, employee relations, human rights, community investment and environmental management. Seventeen signatories, with a combined turnover of around 150 billion Euros have now signed the charter. ETNO produce a sustainability report every two years to summarise the progress made by Charter signatories.

Guidelines for Telework in Europe
Welcomed by the European Commission, these guidelines have been signed by BT and its trade unions. The guidelines stress that telework constitutes a form of work organisation whose increasing use is a clear sign of a trend towards a more flexible and mobile workplace.

Under the guidelines, teleworkers are granted equal treatment with employees working in traditional office environments, with equal access to training and career opportunities.

Guidelines for Customer Contact Centres
In a groundbreaking initiative to support fair and professional working conditions in e-communications, ETNO and the pan-European labour organisation, Union Network International (UNI), have jointly defined a new set of principles to govern the operation of customer contact centres.

The new principles lay down high standards of employment and training, working conditions (eg ways to ease stress on the job, respect for family-versus-work obligations and employee rights, including the freedom to join a union) while guaranteeing safe and flexible working conditions for all our customer contact centre employees.

Endorsed by the member companies of the European Telecommunications Network Operators' Association, the principles will apply to each signatory's call centre operations across the globe. ETNO represents 41 major operators in 34 countries.

Global Compact
BT is a supporter of the UN Secretary General's Global Compact initiative.

The activities described in this report are intended to demonstrate how we apply and promote the Compact's principles. You can navigate the site according to the ten principles of the Global Compact by using our Global Compact index.

Global e-Sustainability Initiative
The Global e-Sustainability Initiative (GeSI) is a voluntary industry initiative in partnership with the United Nations Environment Programme and the International Telecommunications Union. BT chairs the initiative and continues to support its goals and actions. GeSI is currently co-ordinating a major ICT cross-industry initiative covering ethical and environmental impacts in the supply chain.

Global Reporting Initiative
The Global Reporting Initiative (GRI) is a multi-stakeholder international undertaking whose mission is to develop and disseminate globally applicable sustainability reporting guidelines. It is for voluntary use by organisations reporting on the economic, environmental and social dimensions of their activities, products and services.

Our Social and Environment report has been prepared in accordance with the 2002 Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. An Index based on the GRI Guidelines is provided to help you read the report using the GRI structure and to aid comparability with other reporting organisations.

BT was industry co-chair during the multi-stakeholder process to establish the pilot telecommunications supplement to the GRI Guidelines. We also use these guidelines in the preparation of our report.

Investors in People
Investors in People (IiP) is a quality standard for effective investment in the training and development of people to achieve business goals. BT gained corporate accreditation for all its UK activities in October 1998, and has since been successfully reassessed on five occasions.

During the 2005 financial year BT successfully achieved re-accreditation as an IiP. We remain one of the largest companies to measure up to this challenging outcomes-based test.

ISO14001
Details of the coverage of our environmental management system certification can be seen in the Scope of the report section.

We are in the process of extending our environmental management system to our most significant international operations. BT Ireland was certified to ISO 14001 in March 2005. This added to the certificates already held for BT UK and BT Spain.

OECD Guidelines for Multinational Enterprises
Although it is primarily the responsibility of governments belonging to the Organisation for Economic Co-operation and Development (OECD) to demonstrate compliance with their guidelines, BT is supportive of the basic principles, which are covered in this report.

Universal Declaration of Human Rights (UDHR)
The UDHR applies to all member states of the United Nations. While there are numerous other conventions and codes from the UN and others, the UDHR stands as the iconic definition of human rights. BT has assessed its relevant policies and procedures to ensure a consistency with the UDHR. More details are available in the human rights section.

Report index
We provide four separate indexes:
- Alphabetical
- Global Reporting Initiative (GRI) Guidelines - to read the report in accordance with the GRI structure and to aid comparability with other reporting organisations.
- Statement of Business Practice, The Way We Work - to identify performance against our business principles, aspirations and specific commitments.
- Ten principles of the United Nations Global Compact.