

# Investors



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# CSR for investors

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

During the 2005 financial year, BT made two sizeable acquisitions, Infonet, one of the world's leading providers of international managed voice and data network services, and Albacom, the second largest telecommunications operator in the Italian business market.

These acquisitions significantly enhance BT's profile in the global Information Communications Technology (ICT) market, as well as extending our reach and presence in North America and the Asia Pacific region. From a CSR perspective, this brings challenges not only as we extend the way we work to our newly acquired companies, but also into new countries through our greater global reach. Details of how we are working to achieve this are available throughout the Social and Environmental Report.

The revenue base of BT's business is also changing. Our traditional fixed line telephony business in the UK is under competitive pressure and, while we continue to maximise the potential of this business, we are also pursuing profitable growth by migrating our customers to new wave products and services such as IT and networking services, broadband, mobility and managed services.

As BT's business extends into these areas, the nature of the CSR issues we face is changing. For example, privacy has been identified as a CSR risk during the 2005 financial year. It is also the subject of our latest Hot Topic, 'Privacy in the Digital Networked Economy'.

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

### Common approaches

There are few enterprise-specific, quantitative business cases for CSR.

Social and environmental performance reports (like all reports of performance) are often backward-looking (investors are more interested in future prospects) and unfocused (investors want information presented in terms of business strategy and growth).

### BT's approach

We want to present investors with a forward-looking, quantitative business case for CSR and sustainable development. Our business case sets out how good CSR performance is critical to the delivery of BT's strategy.

We measure our CSR performance through a series of key performance indicators (KPIs) which have been developed in consultation with stakeholders.

See our 2005 financial year sustainability performance briefing to French analysts, hosted by HSBC in October 2004.

In addition, BT's response to the Association of British Insurers' disclosure guidelines covering social, environmental and ethical risks and opportunities is provided in the Annual Report and Accounts.

## The future

It is crucial to show our investors how sustainable development and CSR strategies can add shareholder value. More importantly, the strength of individual business cases for CSR will become a key test of how the market is being shaped and harnessed to deliver sustainable development.

### Our business case

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

The BT strategy identifies eight strategic imperatives: build on our IT and networking services capability; deliver on broadband; create convergent mobility solutions; defend our traditional business vigorously; drive for cost leadership; keep a relentless focus on customer satisfaction; motivate our people and live the BT values; and transform our network for the 21st century.

### Our business case

Our CSR work is integral to the BT strategy, and affects business performance in five key areas:

#### 1. Risk management

As covered in detail in our [business principles](#) section, we have undertaken CSR risk analysis and risk management for several years. Currently we identify no CSR risks which are material to the future of the business. Our seven key risks are geography of jobs (offshoring); breach of integrity; diversity; climate change; health and safety; ethical issues in the supply chain; and privacy.

## 2. Reputation

When people trust a company they in effect deliver a societal 'licence to operate'. This is reflected in the company's reputation which, in BT's case, we know directly affects customer loyalty.

Through this relationship we have understood how CSR is critical to optimising customer satisfaction. For example, we estimate that BT's CSR performance accounts for over 25 per cent of the image and reputation element of customer satisfaction. Further statistical analysis shows that a one per cent improvement in the public's perception of our CSR activities translates to a 0.1 per cent increase in our retail customer satisfaction figures.

## 3. Cost reduction

During the 2005 financial year, we commissioned the sustainable development organisation, Forum for the Future, to help us improve our understanding of savings from environmental activities. First, by creating a more robust methodology for measuring our environmental cost savings each year, and second, by widening the scope of the environmental initiatives we include when calculating this annual figure.

Using the Forum model, our environmental cost savings for the 2005 financial year were £410 million.

## 4. Employee motivation

Working conditions and our relationship with employees are crucial to the success of our business.

For example, a proactive approach to flexible working, responsible management, personal involvement in community initiatives, diversity, learning and development all improve employee satisfaction. In a recent survey, we found that 63 per cent of employees felt more proud to work for the company as a result of our CSR activities.

## 5. Marketplace innovation

Increasingly, we have to address social and environmental matters when bidding for major new contracts in both the public and private sector - worth £2.2 billion in the 2005 financial year. We believe that major business clients see that the quality of our CSR performance differentiates us from our competitors.

During the 2005 financial year, the Major Business, Commercial and Brands team have been incorporating BT's CSR messages into existing propositions and bids to differentiate our networked IT services. They have also supported existing bids by facilitating CSR peer-to-peer engagement between BT and clients to share knowledge and best practice around CSR.

Long-term sustainability trends create new market opportunities. For example, teleconferencing and flexible working reduce the need to travel and provide more flexible lifestyles. The [sustainability](#) section of our report gives more detail about research we have carried out into these new market opportunities and their benefits.

BT will also expect to be able to exploit a number of new market opportunities through its 21st Century Network (21CN) programme.

BT's 21CN programme will see the phasing out of the UK's public switched telephone network (PSTN), which uses a multitude of networks offering specific services, and replacing it with a global Internet Protocol (IP) infrastructure that is capable of carrying voice, data and Internet services on a single network.

For BT's customers, the 21CN will deliver more choice, control and accessibility as well as increased flexibility whilst maintaining reliability and security. For BT, it will mean fewer network elements overall, such as fewer boxes and buildings, and will require simpler network management.

The benefits of 21CN will be:

- Empowerment for customers
- Faster speed to launch for new products for BT
- Reduced costs through more efficient network management, maintenance and energy consumption.



# CSR for investors continued

## Ratings

Specialist CSR ratings agencies rank companies based on the information available about their social, ethical and environmental policies and practices.

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

### BT's ratings are as follows:

- BT has been ranked as the world's number one telecommunications company in the [Dow Jones Sustainability Indexes](#) for four 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 third in the top 100 UK companies who took part in the 2004-05 index.
- The German independent ratings agency, [OEKOM research AG](#), has ranked BT second out of 24 in its analysis of corporate responsibility in the telecommunications sector.
- BT is included in the UK, European and World [FTSE4Good Indices](#).
- [Storebrand](#) (a Norwegian social investment fund index) rated us best in class for our social and environmental performance.
- BT has been named as one of the '[Global 100 Most Sustainable Corporations in the World](#)'. The new global business ranking identifying the top 100 was unveiled at the World Economic Forum, held in Davos, Switzerland, in February 2005. Companies were selected on their ability to manage strategic opportunities in new environmental and social markets. Research and analysis was conducted by environmental investment advisory firm, Innovest.
- BT is included in the [Ethibel Investment Register](#). Ethibel has been a leading European research organisation in the field of Corporate Social Responsibility (CSR) and sustainable development for ten years. Ethibel reviews companies worldwide on their economic, social and environmental performance. The Investment Register is used as the basis for Socially Responsible Investment (SRI) products for a growing number of European banks, fund managers and institutional investors.

### Case study

In July 2004, BT won four awards at the Investor Relations Magazine Awards. The awards were for best investor relations in the telecoms sector; best investor relations for the retail shareholder; best corporate social responsibility practice; and best use of the internet for investor relations.

