

## About the report

let's make a  
**better**  
world



## About the Report

Our Social and Environmental report includes BT's:

- Corporate Social Responsibility performance for the financial year 1 April 2005-31 March 2006, which is audited by LRQA, indicated by



- Regulatory Compliance Report which is audited by PWC, and this year includes the first report on their activities from the Equality of Access Board
- Independently written 'Hot Topics'; this year's explores what a genuinely carbon neutral BT would look like.

We have also produced a short report, [CSR – Business Overview](#) to explain our CSR issues in the context of our business strategy and summarise our CSR performance over the 2006 financial year.

Our online social and environmental report has clear links to relevant GRI indicators and the UN Global Compact principles and we have improved the search function to make it easier for readers to view relevant sections of the report.

## Assurance

This report has been assured against the AA1000 Assurance Standard and prepared in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 2002, with reference to the GRI Pilot Telecommunications Sector Supplement.

The AA1000 Assurance Standard stipulates that three specific principles must be met:

- **Materiality:** the report must include all the information about our sustainability performance that readers need to 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) is contracted by BT to assure this report against AA1000 AS. [LRQA's statement](#) explains the assurance process and provides their conclusions.

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 on the work of BT Internal Audit in forming their conclusions.

Our [Leadership Panel](#) of external experts advises on our CSR strategy and performance. Part of their role is to ensure that difficult or uncomfortable issues are not neglected. The [Panel's statement](#) contains their view of this report and our performance.

The information in the social and environmental report - and its presentation - is the responsibility of BT.



## Chairman's statement

### **Improved communications can help create a better, more sustainable world**

BT was created to help people communicate better. Over the years technology and innovation has advanced rapidly, so that today complex networks allow virtually any form of communication – words, sounds, graphics, video and information – to happen anywhere, anytime to anyone.

Never has it been needed more. The pressures on the world have never been greater with population growth, economic development, climate change and social exclusion all combining to create a potentially unsustainable future, unless things begin to change.

BT has always taken its responsibility to society seriously and, as an original signatory to the UN Global Compact, we are willing to be measured on our commitment. Indeed, BT has rated No 1 in our sector in the Dow Jones Global Sustainability Index for the last 5 years.

However, we recognise that we must all do more to tackle the big global issues we face. We believe that our industry can play a significant role through applying improved communications to these challenges.

So our strategy is to maintain our current momentum in CSR and to focus our efforts on the three biggest challenges: -

- the need for sustainable economic growth
- the need for wider inclusion of all sections of society
- the need to tackle climate change

Our approach is to address these issues internally first with our own technology and to learn from the experience until we can demonstrably prove the case.

We then seek to share the benefits as extensively as possible with customers, suppliers and the community at large

This report outlines our progress to date. It has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organisations economic, environmental, and social performance.

Any support is welcome and if you would like to get involved contact us at [yourviews@bt.com](mailto:yourviews@bt.com)

*Christopher Lee BSc*



## CEO interview

### **Making CSR part of the customer experience is common sense**

Jonathon Porritt, Founder Director of Forum for the Future and Chairman of BT's Leadership Panel, spoke with BT's CEO, Ben Verwaayen for this report. This is an edited extract from their conversation, available as a [podcast](#).

### **JP. Of the many different corporate social responsibility - CSR - issues captured in this report, which do you see as the top priority for BT?**

BV. We do not do our business and then think, "now we must also think about CSR". It is embedded in what is common sense for the company. All the elements of CSR are a natural way of how you want to live, to do business, to be treated and to develop.

### **JP. Even when cost and competition issues raise their head?**

BV. It is a mixture; it is always a balance. If you are a one-dimensional person and you just look at one aspect of life and are fanatical about it, you measure everything against that one aspect. That is not what we do. We need to balance in a way that is good for our customers, shareholders, employees, the environment and the world in which we live.

For example, I am not here simply to listen to what shareholders talk about and then run home to do it. We are trying to run a company on a sustainable basis to give a great customer experience. Part of that customer experience is the element that we call CSR.

### **JP. What is your unique contribution to BT's leadership on the CSR agenda?**

BV. I have a very strong philosophy about leadership. Leaders do only three things: they set the tone; they set the agenda; and they choose the right people.

The tonality of an organisation is truly important – it is the value set. How we deal with our customers, our shareholders and our people.

I strongly support what we do on CSR and the results in this report speak for themselves: our work on diversity, our ground breaking green energy contract, our activities on education and digital inclusion. We are top of our sector in the Dow Jones Sustainability Index for the fifth year in a row - this is encouraging.

### **JP. As CEO, do you differentiate a particular world view on the CSR agenda from anything else you do in the company?**

BV. I believe that CSR is truly important as a component of what you are doing. You need to bring it to your DNA, and you need to make it an intuition. I know there is a science to this, but it is also an art. It is head and heart – but no just head and not just heart.

### **JP. You mentioned shareholders earlier. Do you think they are becoming more interested in CSR?**

BV. Shareholders are interested in results. CSR is one important part in achieving the right results. It is an ingredient of future success. Therefore, some shareholders will focus on CSR and others will not – but they are all very interested in our success.



This report covers our performance on our relevant and significant social, economic and environmental issues during the 2006 financial year. It also includes independently written hot topics.

## Geographical coverage

In the 2006 financial year, BT's UK operations accounted for approximately 87% of our turnover and 89% (92,653) of our 104,362 employees.

Wherever possible, data cover all BT's wholly-owned activities in the UK and internationally. We clarify where data are not available or are country specific.

## Environment data

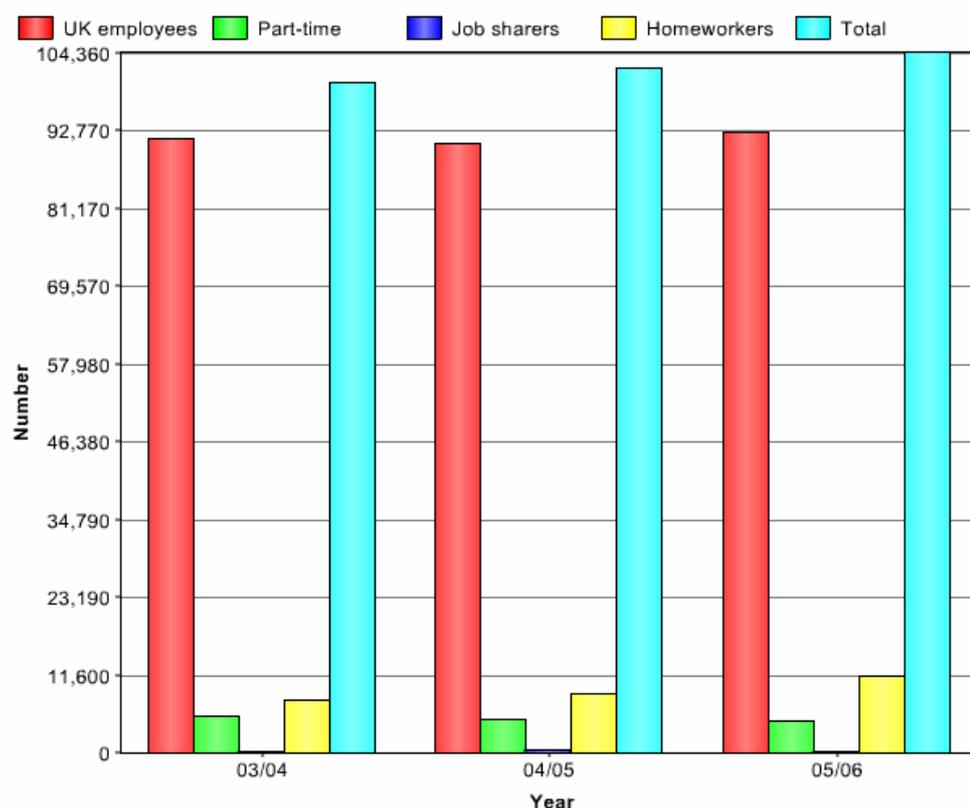
Environment content and data cover all BT Plc operations in the UK. The report does not include BT Global Services operations overseas unless specified. However energy, water and waste data is reported for all BT Global Services operations.

BT has formally requested that LRQA withdraw its BT Ireland ISO14001 certification. This is due to key in-country personnel changes, the renewal of its main facilities contract and the necessary diversion of resources to manage the integration of its BT Ireland and BT Northern Ireland operations to form an 'all-island' organisation. Subsequently, BT has recognised that a number of elements in its Environmental Management System do not fulfil the requirements of the new ISO14001:2004 Standard. It has therefore requested that LRQA withdraw approval for six months at which time re-assessment to the new standard will take place.

## Diversity

Diversity data are based on 'self-declaration' – the number of people who declare themselves to be from a minority. In some countries it is illegal to collect diversity data. We make it clear when data are country specific.

Number of employees



## Indexes

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](#)

There are also icon links to the relevant parts of the GRI, Global Compact and The Way We Work indexes throughout our report.

## Hot Topics

Each year we commission an independently written “hot topic” on a sensitive or topical issue for our business. The topic is selected by our Leadership Panel and written by an external author. The views they express are those of their authors and do not necessarily represent those of BT.

These papers make recommendations for how we should manage difficult or controversial issues and bring a thought-provoking external perspective to our social and environmental report.

This year’s hot topic considers what BT would have to do to become a genuinely carbon neutral company. Previous topics have included privacy, abuse of the internet and offshoring.





## Assurance Statement

### Scope and criteria of the assurance

Lloyd's Register Quality Assurance Limited (LRQA) was commissioned by BT Group plc (BT) to assure both its Changing World: Sustained Values (CSR – Business Overview) and its web-based Social and Environmental Report\* for the financial year ending 31 March 2006.

The assurance was undertaken against:

- Assurance Standard AA1000 AS, 2003
- Global Reporting Initiative (GRI), 2002
- GRI Telecommunications Sector Supplement, July 2003

Our assurance did not extend to data and information contained within the links that take the reader out of these reports or any .pdf files. Where BT presented data and information from a second party, LRQA corroborated only that data and information was transcribed accurately or the correct .url pathway was provided.

Ultimately, these reports remain the responsibility of and have been approved by BT.

### LRQA's approach

In order to form our conclusions we have:

For AA1000 AS:

- reviewed BT's stakeholder engagement process
- reviewed whether BT understands, responds and reports on its material issues and other risks
- compared BT's output on materiality against LRQA's own independent analysis of stakeholder issues
- reviewed whether BT uses sustainability performance data within their business decision making process
- reviewed the process for setting performance indicators and monitoring their achievement
- reviewed BT's data and information management system
- conducted interviews with BT personnel who provide this data and information

For GRI:

- reviewed the Social and Environmental Report to establish whether it is 'in accordance' with these guidelines
- checked that BT either reports performance or explains the reason for omission against each of the GRI core and telecommunications sector supplement indicators
- checked that the GRI site index allows stakeholders to assess data and information.

We also use BT's Internal Audit & Regulatory Compliance Division (IARCD)'s audit work to review the validity of reported data and information.



## Levels of Assurance

A reasonable level of assurance was achieved from our review.

Note: a review does not assure the source data, information, related processes and systems.

## LRQA's conclusions and findings

Based on the assurance performed nothing has come to our attention that would cause us not to believe that:

For AA1000 AS:

- *Materiality* – the reports include information that is material to stakeholders and these issues are considered during strategic decision-making.
- *Completeness* – the reports are complete in coverage of sustainability performance and that there are processes in place for identifying, understanding and managing these stakeholder views and potential risks to the business.
- *Responsiveness* – BT responds to those material issues raised by stakeholders.

For GRI:

- BT has met the conditions for reporting 'in accordance' with these guidelines and includes the response to the telecommunications sector supplement.
- BT's progress against previous improvements identified by LRQA - addressed.

## Future improvements identified by LRQA

- BT needs to audit those systems that generate detailed data to ensure their reliability. Key systems for audit are employees and international environmental data.
- BT needs to review how targets are written. Improvement targets should not describe objectives that effectively constitute business-as-usual.
- BT has made considerable progress in systemising its process for evaluating stakeholder issues and has introduced an electronic system for collecting data and information to be reported together with its supporting verification evidence. However, BT needs to ensure its personnel are fully aware of the system's functions and are committed to the process of annual reporting.

GKD Faemel  
D.E. Evans  
J.H. Sullivan

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on behalf of the LRQA, Coventry, United Kingdom

26th May 2006

This document is subject to the provisions about third party liability and is valid for one year.



### **Third party liability**

LRQA, its affiliates and subsidiaries and their respective officers, employees or agents are, individually and collectively, referred to in this clause as the 'Lloyd's Register Group'. The Lloyd's Register Group assumes no responsibility and shall not be liable to any person for any loss, damage or expense caused by reliance on the information or advice in this document or howsoever provided, unless that person has signed a contract with the relevant Lloyd's Register Group entity for the provision of this information or advice and in that case any responsibility or liability is exclusively on the terms and conditions set out in that contract.

### **LRQA's competence and independence**

LRQA ensures the selection of appropriately qualified individuals based on a rigorous appraisal of their qualifications and experience. The team conducting the assurance of BT's Report was multi-disciplinary and have been involved in assurance assessments from the outset of external verification of non-financial performance reports.

LRQA's internal systems have been designed to manage and review assurance and certification assessments. This involves a review by senior management of the outcome derived from the process applied to the assurance of corporate reports.

### **Independence of LRQA from BT**

LRQA is BT's ISO9001, ISO14001, BS15000-1 and BS7799-2 certification body. We also provide BT with a range of training services primarily related to Quality Management Systems. The assurance and certification assessments, together with the training are the only work undertaken by LRQA for BT.

### **Conflict of interest**

LRQA is part of the Lloyd's Register Group. Lloyd's Register Group recognises that potential conflicts of interest may exist which could impact on its independent verification activities. Lloyd's Register Group is committed to identifying and managing such conflicts so that they do not adversely impact its independence and impartiality.

In order to protect the integrity, neither LRQA nor any other Lloyd's Register Group company will provide services which create a conflict and compromise the independence and impartiality of third party certification. The Lloyd's Register Group will never verify its own solutions to a customer's problem.

### **Independence of BT's IARCD**

IARCD is an independent, objective, review function for the BT Group. It is designed to add value and improve and provide assurance over operations.

The Director, IA and Regulatory Compliance Division retains the right to report to the Board Audit Committee instances where his or his peoples' independence or objectivity is impaired by the activity or behaviour of audit clients.

\* This excludes BT's Compliance Report for 2005/06 containing the EAB – Equality of Access Board Annual Report 2006



# Statement by BT's CSR Leadership Panel 2006

## The Panel's Remit

Our purpose is to encourage innovation and leadership on sustainable development and corporate responsibility in BT by providing independent guidance and expert advice on BT's activities, including:

- Advising on key areas of CR (corporate responsibility) and sustainable development strategy and performance, including future objectives, targets, performance measures, policy, stakeholder relationships, governance and external communications;
- Making sure BT doesn't dodge difficult or uncomfortable issues;
- Bringing independent scrutiny to bear on BT's understanding of critical societal issues; and
- Advising on new or significantly altered social and environmental report content.

In this statement, which has been prepared for inclusion in BT's 2006 Social and Environmental Report, we comment on the level of progress made during the 2006 financial year by BT on sustainable development and CR. The statement covers all areas of CR strategy and performance (i.e. not just reporting) and includes our consideration of the main challenges ahead.

During the course of the last year, we have met four times and have made supplementary inputs outside the meetings. This statement covers our work as a Panel up to the on-line publication of the report in June 2006. Previous statements of the Panel are available in the [archive](#) section of this site.

In the course of these meetings and discussions we have:

- Discussed with management the company's approach to:
  - CR and corporate governance
  - Reporting
  - responsible innovation
  - business activities in the developing world
- Reviewed key risks, performance indicators and targets
- Initiated and advised on the production of a new hot topic
- Commented on the company's revised CSR strategy

Panel meetings are conducted with frankness, constructive criticism and fresh thinking. Divergent views around the table reflect the varied backgrounds and experience of the Panel members. In 2005 we evaluated our own effectiveness as a panel and [published the findings](#).

## Governance and CR

Over the past few years we have encouraged BT to engage its Board more fully in matters of CR as part of the governance process. We are pleased that progress has been made on this and that, on an annual basis, the Board now receives a performance update, signs off the published [CSR-Business Overview](#), endorses the CSR strategy for the coming year and has sight of the BT CSR risk register.



## Reporting

Whilst we have often encouraged BT to extend its reporting to cover emerging CR topics, we have also recognized that CR reports tend to get bigger but not necessarily better focused.

We had hoped the expected UK statutory Operating and Financial Review (OFR) requirements would have helped in this matter and were therefore deeply disappointed by the UK government's decision to abandon it. We commend BT for maintaining a strong coverage of CR issues in its non-statutory OFR.

We have been involved in the development and implementation of [BT's materiality process](#). We also welcome the way in which the company has described how CR is an important part of its changing business model.

## Hot Topic

The Hot Topics are matters of current concern to both BT and the society in which it operates and we commend BT's boldness in publishing independent reports on matters of topical controversy. The Panel actively oversees the Hot Topic process, from topic selection right through to publication.

Following up on our recommendation last year, the topic selected this year is entitled 'What would a genuinely carbon neutral BT look like?'. The urgency surrounding the need to act on climate change makes this paper highly topical. We not only look forward to BT's response to the report's recommendations, but also encourage other organizations to learn from it.

## Key Performance Indicators

We continue to take a keen interest in [BT's key performance indicators](#).

Last year, although we expressed some reservations, we were supportive of the inclusion of the new ethics performance measure. We are pleased to see the recognition this indicator has received and, after further review, recommend that BT stays with the current construct.

We welcome BT's intention to develop measures for community programme effectiveness and a global diversity index. The company has made great strides on broadband availability and this has led to the need to develop a new measure on digital inclusion.

## Product Innovation

Building on a good history of product innovation for disabled people, the company is now improving the way in which other social and environmental issues are considered as effective drivers of its research and development activities. This is an area we will continue to monitor closely.

## Business Activities in the Developing World

A number of companies are beginning to investigate alternative business models to address low income customers – especially those in the developing world. We recognize that BT does not address the consumer market outside the UK and Ireland. However, we would like to continue to discuss how so called 'base of the pyramid' approaches might be adapted for companies selling to other businesses.

## Performance

As a group of individuals working with a wide range of leading companies on the challenge of sustainable development and corporate responsibility, we are hugely supportive of the leadership role that BT plays in terms of responsible corporate practice.



There is no complacency about the challenges it faces (despite ranking first in the Dow Jones Index for the last five years), and an impressive readiness always “to take the next step”. It is important to maintain this momentum if BT is to stay ahead of emerging rivals for leadership in these areas. As can be seen from the summary of Key Performance Indicators, this has been (for the most part) another year of successful delivery, and this Report is in itself an innovative extension of standard CR reporting.

As we did last year, we have chosen to use this section of our statement to highlight some performance-related “headlines” arising during the course of the year.

1. BT has worked particularly hard this year to align a number of different processes in this area: its Key Performance Indicators; its CSR risk register; its analysis of “materiality”; its new reporting formats and so on. All very “processy”, but few companies in our experience are as focused on getting this stuff right as BT, in the full knowledge that performance improvements only ever flow from effective and transparent management procedures.

2. During the course of the year, the Corporate Responsibility team has moved from the Group Communications department to report to the Company Secretary. We warmly welcome this shift as an important part of the “mainstreaming strategy” that has been going on for some time within the company, and our meetings with the Company Secretary have reinforced this perception.

3. BT has been well ahead of the corporate curve in recognizing the importance of climate change, and its engagement in this year’s Hot Topic (investigating the feasibility of BT becoming a completely carbon-neutral company) has strengthened its thinking in this area. It continues to perform well in reducing emissions of CO<sub>2</sub> (60% down on 1996 levels), as it does on its other principal environmental KPIs, namely reducing waste going to landfill and increasing recycling.

4. BT’s commitment to a “digitally inclusive society” (increasing access to information and communication technologies to help reduce social exclusion) remains a critical part of its overall Corporate Responsibility strategy. Though we have never been convinced that the KPI it uses here (percentage of households in which broadband is now available) is either terribly relevant or useful, the broader digital inclusion story within BT remains a good one. Its work with older people and people with disabilities has been particularly influential. We are delighted that a new digital inclusion KPI is to be developed over the course of this year.

5. We continue to emphasize supply chain management, and the crucial role a company like BT can play in encouraging other companies to improve their social, environmental and ethical performance. “Sourcing with Human Dignity” remains one of the strongest corporate initiatives in this area.

6. Last year, we wrote as follows: “We would like to see much greater readiness from BT to capitalize on its core business expertise in communications to help build capacity in improved “communications for sustainability”.” In essence, we have seen very little progress on this during the course of the year, a point to which we return in the section below.

## **Challenges for the Future**

### **1. Climate Change**

BT is in the process of developing a formal climate change strategy and action plan, and we look forward to that engaging managers across the company as a whole. For us, given deepening concerns about the speed with which climate change is now impacting on people all across the world, it’s impossible to imagine that BT would aspire to become anything other than carbon neutral just as fast as is practically possible, recognizing that this needs to be driven primarily by systematic reductions in CO<sub>2</sub> emissions, year on year, through increased efficiency and the use of renewable energy



## **2. Communications**

We also believe it is in the area of climate change that BT can start to deploy its expertise in communications and information technology far more effectively in order to help others meet their respective climate change challenges. There is, by and large, considerable willingness on the part of both individual citizens and SMEs to “do their bit”, but it’s the how that often holds them back. BT could play a major part in removing some of these barriers.

## **3. Innovation**

This area of climate change is just one aspect of the broader innovation challenge that BT now faces. We were very pleased to be able to devote one of our meetings this year to exploring the theme of “Innovation for Sustainable Development and Corporate Responsibility” with the company’s Chief Technology Officer. We’re looking forward to re-engaging towards the end of this year to see what progress has been made. Over and above smart ideas for specific new products and services, we will be particularly interested to see how BT builds in sustainable development/corporate responsibility to all its innovation processes, so that every new product and service helps deliver environmental benefits of one kind or another, and helps promote a more equitable society. We also believe that the Innovation Awards in this area could be substantially strengthened.

## **4. Public Policy**

We touched on this in our statement last year: “the final item on our “wish list” is that BT should develop a better system for tracking and reporting on its lobbying activities and public policy work”. Again, although we are aware that discussions have been going on inside the company, we have yet to get any sense of where those discussions are going. We have therefore requested that one of our future meetings will focus on this area, and should include a formal presentation from the Head of Public Affairs.

## **5. Global Issues**

Because BT’s corporate strategy is based on growth in “Business to Business” transactions outside the UK (rather than direct engagement with customers), there may be less urgency in the way it now thinks about global poverty issues – around the Millennium Development Goals, for instance. We do not believe BT can maintain its leadership in this sector without some kind of engagement on global poverty. This is now, arguably, as big a challenge as climate change, and would hope that BT’s corporate strategy (in terms of markets targeted for expansion, choice of strategic partners, proactive management of its global supply chain and so on) will explicitly reflect this dimension of Corporate Responsibility.

## **6. Community Investment**

We were pleased to hear that BT is reviewing its community investment strategy, and welcome its intention to develop new measures for community programme effectiveness – as well as a global diversity index. We urge our BT colleagues to base these new measures on outcomes not on activity levels themselves, though we appreciate just how big a challenge this will inevitably prove to be.

We hope that you, the reader, will make use of the information and perspectives put forward by BT and respond in like spirit. Companies are often disheartened by the lack of response to reports like these, yet the use of dialogue in social and environmental decision-making offers an important opportunity to shape and inform the sustainability agenda.

Despite the diversity of views expressed in our meetings, there is one vision which we all share. This is to help ensure BT continues to build on its leadership role in sustainability performance and reporting. Mindful of that task, we will continue to challenge, exhort and counsel BT to lead the way in what is arguably the most crucial test for the business community in the twenty-first century – that of reshaping and redefining its principles and



purpose so that the proper pursuit of wealth creation is consistent with the dictates of social justice and environmental sustainability.

Jonathon Porritt

Kate Fish

Mark Goyder

Rob Lake

J Randers

The Advisory Panel members acted in a personal capacity – the organisational affiliations below are listed for identification purposes only. Elisabeth Laville took maternity leave during the 2006 financial year.

Jonathon Porritt chairs the Panel. He is one of the UK's leading environmentalists, founded [Forum for the Future](#) in 1996, together with fellow Programme Directors Sara Parkin and Paul Ekins. He is closely involved in the Forum's Business Programme, in addition to involvement in a wide range of other Forum activities. He is also Chairman of the [UK Sustainable Development Commission](#), sits on the Board of the South West Regional Development Agency, and is Co-Director of The Prince of Wales's Business and Environment Programme.

Kate Fish is Managing Director of Business for Social Responsibility (BSR) Europe. BSR is a global NGO that helps its member companies achieve success in ways that respect ethical values, people, communities and the environment. BSR provides information, tools, training and advisory services to make corporate social responsibility an integral part of business operations and strategies. She previously worked for Monsanto where she coordinated their Biotech Advisory Council and established the company's framework for Corporate Social Responsibility.

Mark Goyder is Director of [Tomorrow's Company](#) a business-led think-tank which was established in 1996 following the RSA's Inquiry, "Tomorrow's Company; the role of business in a changing world". He is the author of *Living Tomorrow's Company* in which he sets out the philosophy behind Tomorrow's Company and is a regular contributor to newspapers such as the Financial Times and the Times. He was a member of the DTI Working Party on Materiality for the Operating and Financial Review.

Rob Lake is Head of Corporate Engagement at Henderson Global Investors. He leads Henderson's work on corporate governance, as well as its engagement with companies to encourage improvements in corporate environmental and social performance. Rob was also a member of the DTI Working Group on Materiality for the Operating and Financial Review.

Prior to Henderson, Rob worked at the NGO Traidcraft, where, as Director of Policy, he worked on corporate social responsibility, corporate governance and socially responsible investment and how they relate to international development and the needs of the poor.

Jorgen Randers is professor of policy analysis at the Norwegian School of Management, where he teaches scenario analysis and corporate responsibility. He is non-executive director of a number of corporate boards. He was formerly Deputy Director General of WWF International (World Wide Fund for Nature) in Switzerland (1994-1999). He currently serves on the Board of WWF International and chairs the Norwegian Government Commission on Climate Gas Reduction.



He is co author of many books, including "The Limits to Growth" (1972) and "Limits to Growth - The 30 Year Update" (2004).

## Materiality

This report covers BT's most material issues – those that we have identified as relevant and significant for our business.

This is the first year that we have looked at significance as well as relevance when determining whether an issue is material for us. To do this we developed a new process covering four elements:

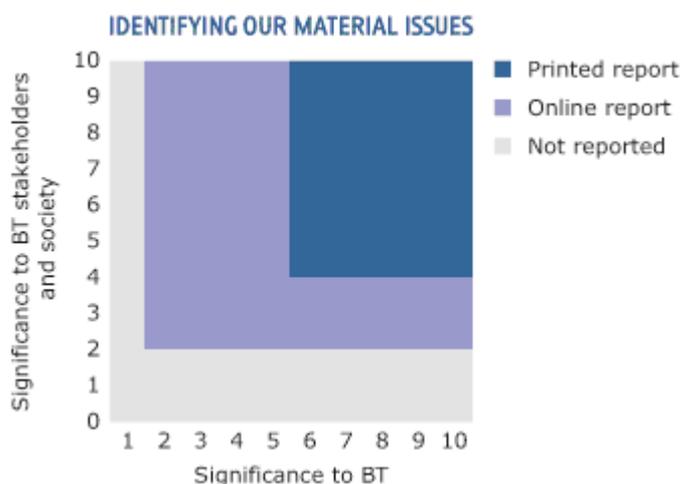
- BT's policy position on the issue
- The financial impact of the issue on BT
- The degree of stakeholder interest in the issue
- The degree of societal interest in the issue.

Stakeholder interest was assessed through research with customers, employees and suppliers. We asked them what are the most important social and environmental issues that a company such as BT should be taking action on? We also analysed Parliamentary Questions and investor questionnaires to understand the issues of most interest to them. We determined levels of societal interest through an extensive media review covering seven countries.

In most cases, the issues identified through the process were defined as 'material' by both BT and our stakeholders, and were included in our reporting. But there are some issues that BT considered important that were not identified as significant in our stakeholder research, for example working conditions in the supply chain and ethical marketing and advertising.

We consulted our Leadership Panel on these issues and in some cases we have included them in our reporting.

The materiality process has led us to exclude issues previously reported, including some GRI indicators. We have indicated these in the GRI index.



## Materiality and our Key Performance Indicators (KPIs)

There is broad consistency between the issues that our materiality process has shown to be significant to our business and our Key Performance Indicators (KPIs). A review of our KPIs during the 2006 financial year has resulted in most remaining unchanged.



## Completeness

According to the AA1000 standard, a report is complete if it covers all material issues and meets two criteria:

1. The process for determining materiality is inclusive and complete.
2. The reporting boundaries have not been drawn so as to exclude any material issues.

The materiality section of the report describes how we have identified our material issues this year, and our new test of significance. We have also:

- Prepared our report in accordance with the Global Reporting Initiative (GRI) guidelines
- Used the GRI guidelines Pilot Telecommunications Sector Supplement
- Reviewed sustainability reports from peer companies
- Included compliance and prosecution information relating to equality and diversity, environment, employee relations and regulatory affairs
- Published 'Hot Topics' on issues of concern.

This report covers all BT's main operating divisions. We have assessed all our principal operating subsidiaries (listed in our 2006 Annual Report and Accounts) to determine whether there are any issues that would alter our interpretation of materiality and completeness for this report. See more detail on our reporting boundaries in the Scope of our Report.

Our reporting extends beyond our direct operational impacts to include our supply chain and the social and environmental impacts of our products and services.

## Responsiveness

It is important that we listen to our stakeholders and consider those views when formulating policies, objectives and running our business.

That is not to say that we always can - or do - follow the views of our stakeholders. Stakeholder feedback can be contradictory. For example, the same stakeholder may expect us to offer the lowest possible prices at that same time as making the highest possible investment in non-profitable services for the wider good.

We use stakeholder feedback to inform our approach but ultimately it is up to us to select the appropriate balance point and make, and be seen to make, responsible decisions. Corporate social responsibility is about being held to account for those decisions in an open and transparent way.

The section on stakeholder dialogue describes our approach and how stakeholder feedback has influenced our reporting this year.

