

About the report

BT Social and
Environmental report



About the report

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, and our 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 our Social and Environmental report. It can be downloaded as a PDF file or you can order a printed version (email: yourviews@bt.com).



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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 who made it happen.

The index recognises the approach we have taken to a whole 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

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 the three years to the 2005 financial year.

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 website, 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

Triple Bottom Line reporting

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 partners – need to make informed decisions.

Our approach has been recognised by a number of external bodies. We were pleased to be joint winners of the 2001 Association of Chartered Certified Accountants (ACCA) Sustainability Reporting Award. We were also commended for the 2002 awards and shortlisted for the 2003 awards. We won the ACCA award for the best web-based sustainability report in the 2002 and 2003 awards.

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 stop compartmentalising these three aspects of business and find new ways of reporting their total contribution to a more sustainable society.

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

For example, we include a series of articles on controversial topics, such as abuse of the internet, offshoring and the digital divide.

We have included these articles 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 also enables us to show the various links between social, environmental and economic dimensions of sustainability. This is achieved by using links between the various sections and by opportunities to navigate the site according to different indexes, such as the Nine 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 2004 financial year (ending 31 March 2004).

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 also includes latest news, Occasional Papers, our business game and other studies and reports – none of these is part of the Social and Environmental report.

Geographical coverage

In the 2004 financial year, BT's UK operations accounted for approximately 93% of BT's turnover and 92% of our 99,900 employees.

Wherever possible we cover all BT's wholly-owned activities in the UK and internationally. The sections on Employees, Suppliers, Business Principles, Customers and Community are predominantly international in scope.

Where data is not available or relates only to activities in a particular country, we try to be clear about precisely what is covered. You will find that data on the site can include segmentation by UK and non-UK, by region and sometimes by country.



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About the Report continued

Environmental scope

Although BT's environment policy covers the entire BT Group, the scope of the environment section is in line with our ISO 14001 certification and covers our UK operations only. We do not currently cover the environmental performance of our overseas operations, joint ventures or subsidiary activities.

However, we are now collecting data on BT's key environmental impacts – energy use, transport, waste and emissions to air – for some of BT's most significant international activities.

We expect to be in a position to publish this performance information by March 2005.

Business practice

Data relating to our Statement of Business Practice in the 2004 financial year covers our UK operations only. But we have set the target that, by March 2005, indicators on the awareness of BT's Statement of Business Practice will be extended to BT's wholly-owned international activities.

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.

Diversity

Existing data is based on 'self-declaration'. However, collecting data on diversity for our international operations is more difficult than in the UK. We will be investigating this further during the 2005 financial year.

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 section of our online report.

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 both our stakeholders and we consider to be the most important issues. Our KPIs condense complex issues into 11 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 exercise 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. People Satisfaction Index
4. Percentage of Women, Ethnic Minorities and Disabled Employees
5. Health and Safety Significant Incident Rate
6. Supplier Relationships
7. Ethical Trading
8. Greenhouse Gas Emissions
9. Total Waste (including recycling rate)
10. Awareness of BT's Statement of Business Practice
11. Community Contribution

The KPIs complement the comprehensive set of social and environmental performance figures in the Data and targets section of our online report, 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 2004 financial year, we attempted to develop a measure of digital inclusion that goes beyond just broadband. But we were unable to achieve this in a manner that met the requirements of a good indicator.

In the 2005 financial year, the People Satisfaction Index will be replaced by an Employee Engagement Index, which will reflect the BT values, strategy and our commitment to keep people engaged with their colleagues, work and customers.

We will also be developing and introducing a supplier relationship index, and an index-based measure to provide information on our performance across a range of corporate governance issues.

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.

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(LRQA) have been contracted by BT to assure the report against this standard and are supported in their work by BT's Internal Audit Department.

A Leadership Panel was also recruited to ensure that difficult or uncomfortable issues are not neglected. The Panel was 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 Social and Environmental report and was last updated in May 2004 it is available in our online report under Assurance.

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.

Further technical details are available 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 contained in the Social and Environmental report – and its presentation – is the responsibility of BT.

The Leadership Panel and LRQA statements are available in our online report under Assurance.

Materiality

The starting point for our determination of materiality is the BT Statement of Business Practice. This defines BT's worldwide business principles and sets out the specific aspirations and commitments that apply in our relations with stakeholders. It was compiled in an



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About the Report continued

inclusive fashion and makes explicit reference to our legal obligations and mechanisms of regulatory compliance.

From this we define 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 (KPIs) 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 our online report – cover the most significant and strategic components of BT's sustainability performance:

Seven material **categories**

Eleven material **key performance indicators**

Eleven related material **strategic targets**

To ensure that the remainder of the report incorporates all other important 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 Telecommunications Sector Supplement
- Have undertaken a review of sustainability reports from peer companies
- Have reviewed relevant prosecutions and international sustainability standards
- Publish 'Hot Topics' on specific issues of concern.

In effect, we are introducing two levels of materiality. The top level covers those categories, indicators and targets we specifically declare as material and the second level covers information that ensures the report's

completeness. Our considerations for inclusion of information at this second level of materiality have not led us to alter our selected key performance indicators.

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 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.

Ten competitors and related ICT companies are selected covering a variety of geographical areas, including those companies known to have performed best in the field of sustainability reporting. All the identified key categories tend to be covered in some detail in BT's report. However, and as one might expect, there is not an exact match between the key aspects used by our peers and our own KPIs.

As a result of the review undertaken in April 2003 we are now making more complete disclosures on training and development and BT's marketing activities.

Our April 2004 peer review confirmed this decision, and that in other subject areas we are making appropriate social and environmental disclosures.

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 users of our reports have told us that the traditional, triple bottom line reporting constructs described above still do not tell the whole story. They provide comparable measures of performance, but don'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 abuse of the internet, mobiles and health, and BT in India. 'Hot Topics' are selected by our Leadership Panel and, by their very nature, are dynamic.

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 in this document.

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 2004 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.

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 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 in our online report 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.



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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 ensuring that public sustainability reporting adheres to particular reporting standards and guidelines.

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

ETNO Environmental Charter

BT led the team at the European Telecommunications Network Operators' Association (ETNO) that created its Environmental Charter. With 25 signatories, companies whose turnover exceeds 197 billion Euros have now signed the charter. ETNO (www.etno.be) produces an environmental report every two years to summarise the environmental 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.

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 nine principles of the Global Compact by using our Global Compact index in the online report.

Global e-Sustainability Initiative

The Global e-Sustainability Initiative 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, which includes our industry submission to the 2002 Johannesburg World Summit on Sustainable Development and the development of Global Reporting Initiative telecommunications sector-specific guidelines.

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 online Social and Environmental 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 new telecommunications supplement to the GRI Guidelines. This site has now been updated in line with these guidelines.

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 four occasions.

During the 2004 financial year BT successfully achieved re-accreditation as an Investor in People (IiP). We remain one of the largest companies to measure up to this challenging outcomes-based test.

ISO 14001

Our environmental management system covering BT Wholesale, BT Retail, BT's support services and BT Group has been certified to this international environmental management system standard. In addition, BT Payphones also has an environmental management system certified to ISO 14001.

We are in the process of extending our environmental management system to our most significant international operations. For more information, see the BT and the environment section of our online report.

Making a Corporate Commitment

BT supports the UK Government's Making a Corporate Commitment Campaign for targeted environmental improvement. The targets we have agreed with the Government have been fully integrated into our environmental management system.

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 of our online report.

Winning with Integrity

This guide to social responsibility, published in 2000, describes the business case for action, as well as suggested measures of performance across the full sweep of corporate social responsibility. Its development was supported by the UK Department of Trade and Industry,

with representation from business. BT's Group Managing Director led the task force.

Navigation

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.
- Nine principles of the United Nations Global Compact.

These can be found in the report index section of the online report.



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Offices worldwide

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