Business principles

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

Our Statement of Business Practice, The Way We Work, defines BT’s business principles that apply worldwide, to all employees, agents, contractors and others when representing BT. It sets out specific aspirations and commitments that guide our relations with our customers, employees, shareholders, partners, suppliers and local communities.

BT’s overall approach to corporate governance is explained in our Annual Report and Accounts.

Here we describe our corporate social responsibility framework in more detail.

During the 2005 financial year, we continued to develop our understanding of our key corporate social responsibility risks. We have published our second regulatory compliance report.

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

All BT people are asked to respect a set of specific values that underpin everything we do and the vision of the world we share.

Statement of Business Practice

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

Here we provide details on the awareness of the Statement within BT and the extent of implementation across the BT Group.

Use the Business practice site index to assess our performance against the specific principles, aspirations and commitments of the Statement.

Awareness

In the 2005 financial year we surveyed awareness of the Statement of Business Practice in our international operations and discovered that 75 per cent of employees in those operations were aware of the Statement. Those surveyed were predominantly line managers.

During the 2005 financial year, we developed an Ethics Performance Measure (EPM). The EPM includes our existing awareness of the Statement of Business Practice, alongside two additional components. These are:

- An external ethics benchmarking study we commission annually to measure how we compare with a number of other FTSE 100 companies.
- Two questions from our annual staff attitude survey: is BT trustworthy, and is it safe to speak up?

The EPM moves us away from a purely perception-based measure to one of performance. Our EPM score in the 2005 financial year was 70 per cent. Our target is 71 per cent in 2006.

Since 2000, a comprehensive employee communications plan has helped improve awareness of our Statement of Business Practice within the UK.

A printed copy of The Way We Work has been sent to every employee and is also available on the BT intranet. The Statement is available in eight languages - Chinese (Mandarin), English, French, German, Italian, Japanese, Korean and Spanish. It includes a question & answer guide to help managers brief their teams.

During the 2005 financial year, we continued the roll-out of training sessions for senior managers to promote awareness and understanding of our Business Principles. We have focused our effort on those areas of the business where we believe the risk of non-compliance is greatest.

Other elements of the communications plan include a training website and training videos for managers. Senior managers are requested to write to their teams to explain the importance of complying with our Business Principles.

In collaboration with the UK’s Institute of Business Ethics, we run an internal Business Practice Excellence award. Individuals are nominated by colleagues for demonstrating excellent business practice behaviour against one or more of BT’s 12 business principles.

Implementation

It is crucially important that our Statement of Business Practice is implemented throughout the business and that BT employees feel able to report non-compliance.

A confidential 24-hour helpline to the Head of Group Business Practice is available via phone and email for people seeking help and confidential advice. During the 2004 financial year an email promoting the helpline was sent to every BT employee.

We take our Statement of Business Practice very seriously and act against anyone abusing our business principles. During the 2005 financial year, 152 employees were dismissed or resigned for unethical behaviour. The following examples are illustrative:

- Dishonest and corrupt behaviour by BT staff:
  - A BT employee has been dismissed for stealing and then selling large quantities of cable to a scrap metal dealer.
  - Two employees were interviewed and suspended from duty and one subsequently dismissed following the misuse of a corporate credit card.
  - A BT employee has been dismissed following theft from a customer contact centre and misuse of one of our customer databases.
  - A BT manager has been dismissed following considerable business expense claims fraud.
  - Inappropriate use of the Internet:
    - A former contractor for BT pleaded guilty to offences under the Protection of Children Act.

Disclosure of these examples demonstrates the action that backs up our Statement of Business Practice and underlines that such abuse will not be tolerated.

Lines of business

The Statement of Business Practice is a ‘reserved power’ of the BT Group Board, and all BT’s lines of business are mandated to comply with it.

Implementing the Principles is the responsibility of each line of business - all have a designated senior manager to do this. An operational working group meets once a quarter to maximise the effectiveness of implementation.

In the 2006 financial year we will work to ensure our Statement of Business Practice is more effectively implemented. In particular, that it is embedded into the practices of newly acquired businesses and partnerships, such as Albacom (Italy) and Infonet.

Wholly-owned subsidiaries and joint ventures

All BT’s wholly owned subsidiaries are expected to follow our Statement of Business Practice.

The Statement outlines how we will work with our international joint ventures to create added value for our customers and shareholders, while continuing to adhere to high standards of business practice.

We are committed to follow our values and principles in all our dealings with subsidiaries. A comprehensive Joint Venture Statement pack promoting...
Business principles continued

Examples of initiatives considered by the Committee during the 2005 financial year are:
- International CSR activities
- The development of the Ethics Performance Measure
- Offshoring
- The communication of CSR, internally and externally
- A review of BT’s key performance indicators.

**CSR health checks**

CSR health checks are used to ensure that CSR is embedded in BT’s commercial operations.

Health checks examine how key CSR impacts (such as integrity, environment or digital inclusion) may be affected by a particular commercial programme, and how CSR can help achieve the commercial objectives. Additionally, health checks raise understanding and awareness of the business case for CSR.

The checks are undertaken with commercial programme directors from BT’s lines of business. They are not audits but structured, informal conversations to identify CSR risks and opportunities.

During the 2005 financial year, five health checks were conducted in Global Services on major business change programmes covering customer service and delivery, our values and organisational culture, and creation of a global standard operating environment.

In early 2005 we reviewed the health check process. Some changes will be introduced, including a stronger use of the BT Values, an extension of scope and attendance at all health checks of an internal BT expert from the appropriate lines of business.

The membership of EPIC consists of BT’s environmental aspect group owners - senior operational managers from around the business whose responsibilities have environmental implications.

EPIC’s main responsibilities are to:
- Meet the environmental improvement targets and objectives agreed by CSRSG
- Maintain the register of BT’s environmental impacts.

Ben Verwaayen, BT’s CEO, takes overall responsibility for BT’s environmental performance.

**Corporate Responsibility Team**

BT’s Corporate Responsibility Team - formerly known as the Social Policy Unit - is responsible for the overall co-ordination and maintenance of BT’s CSR strategy and environmental management system. One of the team’s responsibilities is to promote awareness of BT’s social and environmental policies among employees.

The team is made up of professional CSR experts who investigate long-term social trends, identify potential issues that might affect the business and support BT’s commercial activities.

The team provides support to the CSR Steering Group, the Community Support Committee and the Leadership Panel.

During the 2005 financial year, the Social Policy Unit changed its name to better reflect the full scope of its CSR activities and trends in the CSR marketplace.

**Community Support Committee**

This Board Committee oversees social investments and establishes the strategy for maximising our contribution to society. The Committee is made up of representatives from BT businesses and external non-executives who have a reputation for excellence in this field.

See more in Community.

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**Corporate Social Responsibility (CSR) governance framework**

At least once a year the BT Board discusses our CSR strategy and performance. The Board is kept informed of any new developments or changing expectations that may affect its duties. This includes an identification of BT’s main CSR risks and opportunities, along with key performance indicators and strategic objectives.

Social, ethical and environmental matters are included in the directors’ induction programme, to support the integration of CSR into daily management.

A CSR governance framework helps us manage specific environmental and social issues. A number of bodies supervise the CSR relationships between the BT Group and individual lines of business. These are:

- Management Council
- Corporate Social Responsibility Steering Group
- CSR health checks
- Environmental Policy Implementation Committee
- Corporate Responsibility Team
- Community Support Committee
- Leadership Panel.

**Management Council**

BT’s main strategy committee, the Management Council, is made up of business and functional leaders from across the BT Group. It meets monthly and contributes to the long-term strategic planning and direction of the BT Group.

This includes our approach to policy and reputation, such as ethics and values, corporate social responsibility, human resources, pensions, technology, branding and health and safety. The Council provides advice on critical matters such as regulation, media relations, public policy and public affairs.

**Corporate Social Responsibility Steering Group**

An internal committee known as the Corporate Social Responsibility Steering Group (CSRSG) oversees the implementation of all social and environmental programmes across BT. The Steering Group reviews activities such as ethical trading, environmental management, risk management and reporting.

The CSRSG is made up of CSR champions nominated by the BT lines of business and seven support functions (Human Resources, Corporate Governance, Health and Safety, Group Property, Communications, Internal Audit and Procurement).

The CSRSG meets quarterly and regularly reports to the Board. It is chaired by BT’s overall CSR champion Alison Ritchie, Chief Broadband Officer.

The main responsibilities of the CSRSG are to:
- Ensure the BT CSR programme meets the needs of the business
- Champion major social and environmental initiatives and improvements
- Maintain BT’s ISO14001 certification (environmental management)
- Agree company policy on specific social and environmental issues
- Assess risk
- Agree key performance indicators and strategic targets.

**Corporate Responsibility Team**

The team provides support to the CSRSG and the Leadership Panel.

The team is made up of professional CSR experts who investigate long-term social trends, identify potential issues that might affect the business and support BT’s commercial activities.

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Leadership Panel
The Leadership Panel is an external advisory group of experts renowned for excelling in their field. The Panel currently has five members:
- Jonathon Porritt, Chair of the Panel and Director of Forum for the Future, a UK sustainability think-tank
- Mark Goyder, Director, Centre for Tomorrow’s Company, a UK think tank
- Rob Lake, Head of SRI Engagement and Corporate Governance, Henderson Global Investors
- Elizabeth Laville, Director of Utopies, an independent sustainability consultancy
- Jorgen Randers, Professor, the Norwegian School of Management, Oslo.

During the 2005 financial year, one panel member, Yve Newbold, an independent adviser, retired.

The purpose of the Panel is to encourage innovation and leadership on sustainable development and corporate responsibility in BT. It meets four times a year and provides independent guidance and expert advice.

Its responsibilities include key areas of CSR strategy and performance, including policy, performance measures, targets, future objectives, governance, stakeholder relationships and external communications.

The panel provides an annual independent comment for inclusion on this web site.

Risk
BT is affected by a number of non-financial factors, not all of which are wholly within our control. These are described in the BT Annual Report and Accounts.

The BT Board is responsible for BT Group’s systems of internal control and risk management, and for reviewing the effectiveness of those systems.

The processes for identifying, evaluating and managing the significant risks faced by the BT Group are described in the internal control and risk management section of the Annual Report and Accounts.

CSR risks
The Board takes account of significant social, environmental and ethical matters that relate to BT’s business.

During the 2004 financial year we developed a CSR risk register which sets out our most significant social, ethical and environmental risks.

In the 2005 financial year we identified no social, environmental or ethical risks that would have a material impact on our business. In the same period, we further developed our understanding of our key CSR risks.

We have identified these as our key risks:

- CSR Risk
- Supply chain working conditions
- Climate change
- Diversity
- Geography of jobs (‘offshoring’)
- Breach of integrity
- Health and safety
- Privacy

The key risks are unchanged from the initial work done in the 2004 financial year, apart from the inclusion of an additional risk - privacy. As we enter new markets in the IT services arena there are issues around privacy which we are keen to address in a proactive way to minimise the level of risk. Privacy in the Digital Networked Economy is the subject of our latest Hot Topic.

There is a person in charge of dealing with each risk and all have a mitigation strategy in place.

None of these risks has been identified as material to BT’s future prospects.

Regulatory compliance
It is our policy to be fully compliant with the regulatory framework in which we operate.

During the 2005 financial year, we have continued to strengthen our compliance activities. This is because we want to ensure that we meet the obligations imposed by the UK’s Communications and Competition Acts, while competing fairly and vigorously within the rules.

Our main objectives are to:
- Maintain good standards of compliance
- Engage positively with the UK regulator, the Office of Communications (Ofcom)
- Engage positively with our industry sector
- Engage positively with compliance teams in other regulated industries to share best practice.

Our Regulatory Compliance governance framework includes:
- A Compliance Champion (Hanif Lalani, BT’s Finance Director)
- A Regulatory Compliance Steering Group that meets quarterly
- A Compliance Control Board that meets monthly to review performance and risks
- Compliance Control Boards in each line of business to ensure that compliance is embedded in working practices at all levels
- Annual reports to the BT Board and the BT Board Audit Committee by the Director, Internal Audit and Regulatory Compliance.

The data published by Ofcom shows that:
- Over the last two years, under half the investigations completed by Ofcom were concerned with BT
- Of the investigations into BT, ten concerned alleged breaches of regulation, and eight concerned disputes
- Of the investigations into alleged breaches of regulation, two resulted in findings against BT
- Of the investigations into disputes, one resulted in a finding against BT.

A major activity in the 2005 financial year has been the Ofcom Strategic Review of Telecommunications. At the time of writing Ofcom was still considering its course of action and the responses to the review. But the consultation document acknowledges BT’s efforts to apply significant resources to regulatory compliance and to enrol over 50,000 people in its compliance training courses.

Our 2005 Annual Report on Regulatory Compliance provides a complete description of our regulatory compliance and performance.

Public policy
BT has a strict policy of not giving cash contributions to any political party.

We engage with political parties, politicians and civil servants on a non-partisan basis to make them aware of key issues, opportunities and trends in technology and industry.

We put forward our views on matters that affect our business interests and we make sure that those in government are fully briefed on issues affecting BT’s activities.

We interact regularly with the European Commission and national and international regulators.

Trade associations
We communicate with government directly and through trade associations, which include:
- European Telecommunications Network Operators’ Association (ETNO)
- Confederation of British Industry (CBI)
- Intellect, the trade body for UK-based information and communication technologies and electronics industries.

We believe these activities are a legitimate part of normal relationships between business and politics.

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

Here you can find our responses to CSR specific consultations:
- BT response to UK government consultation paper on a Sustainable Development Strategy for the UK
- Proposals for an Operating and Financial Review
- EU Green Paper on Corporate Social Responsibility
- UK Government’s consultation on sustainable development, including our position on environmental taxation.
Business principles continued

Public policy and sustainable development

We are members of a number of organisations that attempt to influence public policy on corporate social responsibility and sustainable development matters. They include:
• Employers Forum on Disability
• CSR Europe
• Forum for the Future
• Green Alliance.

There are two ways for government to stimulate changes in behavioural patterns that will lead society towards more sustainable lifestyles: regulation and economic instruments. We believe there is a role for the reasonable use of both.

Vision

Connecting your world. Completely. Our purpose is to connect with our customers wherever they are, irrespective of distance, time or complexity. Our role goes beyond simply providing a connection between people: we enable business partnerships to develop and flourish, we bring family and friends together. Communication technologies have an enormous impact on our customers’ lives and on society in general. Because of this, we have an important responsibility to think forward, to develop and promote access to telecommunications around the world.

Values

BT’s activities are underpinned by a set of values that all BT people are asked to respect:

• Trustworthy: We do what we say we will
  - We build open, honest and realistic relationships with customers and with each other.
  - We are reliable and act with integrity.
  - We do whatever it takes to deliver.

• Helpful: We work as one team
  - We pull together across BT to put the customer first.
  - We support each other, without waiting to be asked.
  - We help others succeed and celebrate their success.

• Straightforward: We make things clear
  - We make complex things simpler for customers and for each other.
  - We get straight to the point.
  - We use our common sense and judgement.

• Inspiring: We create new possibilities
  - We are determined and passionate about delivering the very best for our customers.
  - We come to work to make a difference.
  - We set high goals and always give 100 per cent of our energy.

• Heart: We believe in what we do
  - We create and deliver inspirational solutions for our customers.
  - We have the ambition and confidence to do things in new ways.
  - We are innovative, creative, and outward-looking.