

Changing World: Sustained Values



let's make a
better
world

ANTICIPATING THE
ENVIRONMENTAL AND
SOCIAL IMPACTS OF OUR
FAST-CHANGING BUSINESS

Including BT's social and environmental performance 2006



INTRODUCTION

Our changing world

Throughout history, technological developments have affected the shape of society and its impact on the environment. The ability to make fire brought dramatic change to people's eating habits and nutritional intake. The wheel transformed the mobility of goods and people. The harnessing of steam powered the industrial revolution.

More recently, information and communications technologies (ICT) have created an information revolution. This is transforming our societies and speeding globalisation by making it easier, faster and cheaper to communicate and do business worldwide, often without the need to travel.

Now we are experiencing a convergence of broadcasting, computing and telecommunications technologies. This is having a profound effect on all companies, but particularly those in the ICT sector, such as BT.

At the same time, the world and our markets are in a state of rapid change. We are affected by societal and environmental shifts, including the globalisation of business, ageing populations, climate change, poverty and concerns about security.

PERFORMANCE SUMMARY

3%

INCREASE IN
CUSTOMER
SATISFACTION

EMPLOYEE ENGAGEMENT INDEX

65%

A MEASURE OF THE OVERALL
SUCCESS OF BT'S RELATIONSHIP
WITH EMPLOYEES

SUPPLIER RELATIONSHIPS

89%

A MEASURE OF THE OVERALL
SUCCESS OF BT'S RELATIONSHIP
WITH SUPPLIERS

HEALTH AND SAFETY

40%

REDUCTION IN LOST TIME
INJURY RATE

HEALTH AND SAFETY
SICKNESS ABSENCE RATE
REDUCED BY

7%

COMMUNITY CONTRIBUTION

£21.3m

IN FUNDING AND SUPPORT
IN KIND

GLOBAL WARMING
CO₂ EMISSIONS

60%

LOWER THAN THE
1996 LEVEL

Sustained values

What follows reflects our new approach to reporting. For the first time we have used a formal process to determine which social and environmental issues are most significant and relevant to BT and our stakeholders (see page 14). We focus only on these.

We explain our response to the significant issues that are changing our industry and the world. We examine the rapid technological developments that are transforming our business sector and put these into a social, environmental and commercial context. We then describe our strategy to achieve profitable growth within this new reality. We go on to explore how BT can be best prepared for the future by ensuring that all our business decisions are based on our well-established values.

Our vision to be dedicated to helping customers thrive in a changing world.

Our mission to be the leader in delivering converged network services.

Our values

- 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

We are committed to contributing positively to society and to a sustainable future. This is part of the heart of BT.

THIS REPORT

This report complements our full online social and environmental performance report and does not attempt to summarise it. Rather, the following pages are an exploration of what sustainability and responsibility mean for BT as we implement our business strategy and transform our company.

We highlight some of the many dilemmas and challenges we face as we begin to compete in new, exciting markets made possible by advances in technology. For example, new technology enables the gathering of personal information on a much broader scale than ever before. So how do we ensure the privacy of our customers while taking advantage of the commercial opportunities that arise? The answer lies in maintaining our values as the bedrock of our decision making. We have an enviable reputation for taking our corporate responsibilities seriously. This gives us the confidence both to highlight our

achievements and to admit when we do not know the answer, or indeed, when we need to do better.

Throughout our reporting history we have emphasised the importance of transparency. On page 14 we explain how we have prioritised social and environmental issues.

On page 16 there is a short summary of progress against our key performance indicators.

ASSURANCE

This report has been assured by Lloyd's Register Quality Assurance (LRQA) against the AA1000 Assurance Standard. On page 17 we include extracts from LRQA's assurance statement and the statement from BT's CSR Leadership Panel. The CSR Leadership Panel is a group of external experts that advise BT on our Corporate Social Responsibility (CSR) strategy and performance. Panel members have also given their views on the issues raised throughout this report.

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Our full social and environmental performance report covering the financial year ending 31 March 2006 is available online at www.bt.com/betterworld

Improved communications can help create a better, more sustainable world



BT'S RESPONSIBILITY

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.

BT has always taken its responsibility to society seriously... we are willing to be measured on our commitment.

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 been rated No 1 in our sector in the Dow Jones Global Sustainability Index for the last five 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.

OUR STRATEGY

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. Any support is welcome and if you would like to get involved contact us through the full online report at www.bt.com/betterworld

Sir Christopher Bland
Chairman
17 May 2006



Sir Christopher Bland Chairman



Making CSR part of the customer experience is common sense



Ben Verwaayen Chief Executive

Jonathon Porritt, Founder Director of Forum for the Future and Chairman of BT's CSR Leadership Panel, spoke with BT's CEO, Ben Verwaayen for this report. This is an edited extract from their conversation, available as a podcast on www.bt.com/betterworld

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.

We are trying to run a company on a sustainable basis to give a great customer experience.

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

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

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.



Jonathon Porritt Chair of BT's CSR Leadership Panel

JP. As CEO, do you differentiate a particular world view on the CSR agenda from anything else that 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 into 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 not just head and not just heart.

CSR is one important part in achieving the right results. It is an ingredient of future success.

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.



Putting our strategy into practice

New technologies are changing the face of the telecommunications industry. Revenues from traditional telephony are falling as customers take advantage of a new generation of ICT products and services, and greater competition in the market. BT is no longer just a phone company. We now aim to be a leader in converged network services. We are extending our range of products and services. To meet the needs of our major multinational customers we are expanding our business globally. BT now has employees in over 50 countries and delivers services in 170 countries.

This report explores our social and environmental impacts and looks at how we apply our values to new challenges created by changes in technology and our business. It is important to see this in the context of global socio-economic and technological changes that influence our business strategy.

BT'S BUSINESS STRATEGY IN BRIEF

- 1 **Pursue profitable growth in new wave markets** – BT is now a major provider of new services including broadband, mobility and networked IT services.
- 2 **Maximise the return of our traditional business** – revenues from telephone calls are decreasing but remain fundamental to our business.
- 3 **Transform our networks, systems and services for the 21st century** – we are installing a new network that will enable us to bring customers a range of new communications services.
- 4 **Create long-term partnerships with our customers** – this is key as our market undergoes major transformation.

The delivery of this strategy depends on the commitment of all our people and our ability to manage their development and reward them.

We are subject to extensive regulation, particularly in the UK, and this has a significant impact on how we carry out our business. Read more about changes to the regulatory regime in the UK following Ofcom's strategic review of telecommunications on page 13.

WHAT DOES THE STRATEGY MEAN IN PRACTICE?

NETWORKED IT SERVICES

- 1 As communications and information technologies converge, major customers look to suppliers to develop and run their integrated communications networks.
 - BT provides major corporate and public sector customers in Europe, the Americas and Asia Pacific with a range of networked IT services tailored to their needs. For example:
 - integrated networks for voice, data and internet access, enabling organisations to communicate efficiently across multiple sites;
 - IT systems including server hosting and electronic data storage;
 - security including firewall protection, remote access, disaster recovery, and continuity services;
 - industry specific solutions such as electronic trading systems for the financial sector;
 - customer relationship management helping companies connect customers with agents at their contact centres more efficiently.

This is an increasingly significant part of our business. Many of our networked services customers are multinational companies with global operations. To meet their needs we must offer a worldwide service. BT now serves customers across 170 countries.

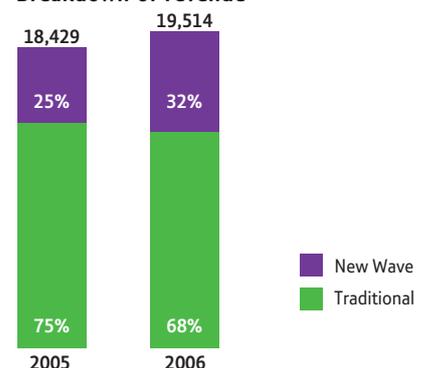
OUR TRADITIONAL BUSINESS

- 2 Regulation, competition and changing customer buying patterns are putting our traditional telephony business under pressure.
 - We are responding by making our services more competitive – for example, through subscription-based charging packages rather than individually priced calls. We are creating new services and packages with extra value for customers. For example: BT Privacy, which enables customers to screen out unwanted calls and unsolicited marketing; and BT Text, which enables customers to send and receive texts from their landline phone.
 - We have reduced the price of some calls for our business customers through BT Business Plan.
 - Keeping control of costs is critical. We saved over £400 million in 2005/06 through greater efficiency, enabling us to invest in our new wave activities. We aim to save at least £400 million in each of the next three years.

2005/06 GROUP REVENUE (£m)

years ended 31 March

Breakdown of revenue



OUR BUSINESS STRATEGY

TWENTY-FIRST CENTURY NETWORK (21CN)

3 To provide converged services we need the most up-to-date infrastructure. We believe that our twenty-first century network programme is the most ambitious business transformation programme in the global telecommunications industry today.

BT's current network is actually a series of parallel networks used for different functions. For instance, there is one network for voice calls and others for transmitting data. The 21CN will carry everything – voice, data, music, video, internet access and emails – over one digital network. It will use IP technology and have the capacity to transmit huge volumes, securely and efficiently.

By 2010 migration of services to the new network will be substantially complete.

CUSTOMER PARTNERSHIPS

4 We must focus on improving customer satisfaction. This is challenging as we introduce complex, new wave products. We have recruited 900 extra engineers to ensure we can meet customer demand.

Understanding the needs of our customers and responding to them will help us distinguish ourselves from our competitors.

BRINGING IT ALL TOGETHER

CONVERGENCE means bringing telecommunications, IT, the internet and television together in new ways to create new products and services. This is a key growth area for BT. We already offer many converged services. For example:

MOBILITY enables people to connect wherever they are, using any device (for example, mobile or fixed-line, phone or PC). For instance, the BT Fusion handset works like a normal mobile phone when the customer is out of the house. But at home it links wirelessly to their broadband to become a home telephone.

VOICE OVER INTERNET PROTOCOL (VoIP) enables telephone calls between computers using the internet. VoIP challenges our traditional revenues but also provides us with an opportunity to create new products and attract new customers. BT Broadband Talk is a VoIP product that enables customers to make phone calls over their broadband connection, giving them the flexibility of an extra phone line.

VIDEO-ON-DEMAND (VOD) allows customers to get more services on their television using broadband. With VOD, customers will choose when they watch their favourite programmes, download videos and use interactive shopping and banking services. BT plans to launch the BT Vision broadband TV service in autumn 2006.

BROADBAND makes converged services possible by providing more capacity and greater speed to carry digital information.



Anticipating change

On the following eight pages we explore our significant social and environmental impacts. These cover the three key strands of our CSR strategy – sustainable economic growth, inclusive society and climate change. We describe how we aim to apply our values to all aspects of our business and address risks associated with new technologies and our changing business model. We have focused on those issues that are most material to BT. These have been identified through a detailed analysis of the importance of each issue to BT, our stakeholders and wider societal interests (see page 14).

KEY ISSUES:

1. NEW TECHNOLOGY
2. DIGITAL INCLUSION
3. CUSTOMERS
4. ETHICS
5. OUR PEOPLE
6. CLIMATE CHANGE
7. REGULATION

LOOKING FORWARD

Telecommunications offers many social benefits, including easier, faster and more interactive communication, available to a greater number of people globally. Our new products and services have the potential to increase these benefits for customers and society, with the resulting financial rewards for our shareholders.

There are opportunities for technology to contribute to sustainable development by promoting greater social inclusion and bringing environmental benefits through easier remote working, phone and video-conferencing.

Of course there are challenges too. New technology can have potential drawbacks as well as benefits: broadband, for example, increases energy consumption for us and our customers; and the privacy of customers' personal information needs to be protected.

We have got to tackle these issues responsibly by applying our values to our business decisions. We are fully aware that meeting challenges and resolving dilemmas will become increasingly important – and no easier – as our business becomes more complex, competitive, diverse and global.

CONTRIBUTING TO THE ECONOMY

BT makes a significant direct economic contribution – employing 104,400 people; providing services and products that improve economic efficiency; and buying goods and services worth billions of pounds a year (see details below).

BT's most significant economic impacts are in the UK, our largest market, where 89% of our workforce is employed and where we believe our twenty-first century network programme is one of the largest ever investments by a private company in the UK's infrastructure.

As an ICT company we have an indirect economic impact through our technology. For example, because technology makes it easier and faster for businesses and individuals to access more information online. Our contribution to economies outside the UK is increasing as we expand our business globally.

CSR Leadership Panel comment

"Showing that responsibility pays is the best way to investors' hearts. BT can really embed corporate responsibility into its business strategy by asking whether every new product and service is not just profitable, but whether it delivers environmental benefits and whether it helps make society more equitable and more inclusive."

Rob Lake Head of Corporate Engagement, Henderson Global Investors



EMPLOYEES



104,400
WORLDWIDE

93,000
IN THE UK

IN FINANCIAL YEAR 2006

£19,514m
REVENUE

£2.2bn
PROFIT BEFORE TAX AND SPECIFIC ITEMS

£4,966m in employee expenditure, including wages and salaries, social security costs, pension costs and share-based payments;

£3,142m capital expenditure. Our investment in the twenty-first century network is one of the largest procurement programmes ever undertaken in the communications industry;

£912m in dividends to shareholders;

£533m in taxes to government.

ANTICIPATING CHANGE/NEW TECHNOLOGY

1. New technology – new challenges

New and converging information and communications technologies create opportunities to improve social cohesion and help people lead easier, more fulfilled lives. But the technology and related services are open to abuse. Prime concerns include the privacy of personal information held by service providers, the safety and protection of users (especially children) and the potential tagging and tracking of users.

Fulfilling technology's potential depends on how it is deployed and whether customers have adequate information on how best to use the services. We strive to put the systems and processes in place to help us deal with sensitive issues as we implement our business strategy.



PROTECTING PERSONAL PRIVACY



Changes in technology and business practices potentially increase the risk of personal data (such as name, address, buying habits and financial information) being used without consent or illegally.

As people use more online services, personal data are captured more frequently. Network expansion, outsourcing and offshoring mean data are transferred more frequently and more easily between organisations and countries. This could include countries without strong data protection laws. New technology such as Radio Frequency Identification Tags (RFID) – used to track products and inventory – could potentially be embedded in consumer items and used to monitor the people who buy the products.

Privacy is significant for BT because we hold personal and financial data on our customers. Our servers and networks are a conduit for information controlled by others. We manage data for many of our public and private sector customers and we sell RFID technology.

For many years we have had internal processes in place to ensure we abide by data protection laws. These include mandatory training and a publicly available privacy policy.

As we move into digital networked services we are issuing guidance to relevant BT people working on surveillance or tracking technologies, data management and biometrics (for example, eye recognition technology). This will help them identify and address privacy risks during research, development, marketing, bid management and contract negotiations.

On page 15 you can see how we managed privacy as an evolving issue.

INTERNET SECURITY

We have a responsibility to make our services as secure as possible. But it is impossible to ensure that internet and network connections are totally protected through technology alone. Ensuring privacy and security can only be done by network, content and service providers such as BT, legislators and customers working together.

We provide tools to enable our personal customers to use the internet safely and protect against computer viruses, unwanted emails (spam), email scams, spyware and identity theft. All BT Broadband packages include security features, for example, BT Yahoo! Mail Protection with Anti-Phishing to protect against online fraud. Parental controls are standard with all BT Broadband packages. We offer a number of options for our business customers, including PC Security Check and Internet Security Pack.

CONTENT STANDARDS

The internet provides immediate access to a new world of resources, information and entertainment. But not all of this content is appropriate for everyone, particularly children. Some of it is illegal.

BT has launched controls to help people get the most out of the internet without putting children at risk. Cleanfeed is our internet filtering system that blocks child abuse websites blacklisted by the Internet Watch Foundation. It is incorporated into our BT Yahoo! internet service and we give away the blueprint for the technology under nondisclosure agreements to other internet service providers. We are a member of the Internet Content Rating Association that enables parents to set their web browser to prevent access to certain types of information. Our online Safer Surfing guide helps parents and children use the internet safely.

Standards will become even more important as BT becomes a content provider – for example through TV-to-mobile services and video-on-demand over broadband. We have a policy on taste and decency that is applied to services that might involve controversial issues such as gambling or sexually explicit content.

EXAMPLES OF PRIVACY CONCERNS

Identity theft.

Spyware that self-installs and can 'steal' banking details, track internet behaviour or call premium rate numbers. Spyware has increased with the advent of broadband.

Radio Frequency Identification tags used to track products. Civil liberty organisations are concerned that these will be used to track people without consent.

Sharing personal data without consent.



2. Opening digital doors to all

In recent years we have aimed to put broadband at the heart of BT as part of our strategy to move into new wave markets. We are excited about the potential for broadband to improve people's lives by opening doors to education and employment and by increasing contact with friends and family.

BT is working with governments and charities to increase access to technology and find new ways to use communications technology to reduce social exclusion. This is part of our commitment to making a positive difference in society. While the provision of these services brings clear social benefits, the costs can be high. But we believe that our business benefits in the long term through an improved reputation and the commercial advantages of making technology accessible to more people.



TOWARDS A DIGITALLY INCLUSIVE SOCIETY

Many people don't have the opportunity or skills to use ICT. Our approach to increasing digital inclusion has three elements:

- **Connectivity** – making broadband available to all homes in the UK. Almost everyone (99.7%) of people in the UK now have access to a broadband connection. In areas where making this happen is not commercially viable, such as the Highlands of Scotland, we have partnered with public organisations to share the necessary costs of investment;
- **Content** – working with partners to develop online content that benefits communities, small businesses and individuals. For example, we have funded the development of a website for mothers to help them make local contacts and get information about returning to work;
- **Capability** – helping individuals and groups use technology. For example, BT is a partner in EverybodyOnline which works in disadvantaged areas to create a network of community-based, public internet access points and teach local people how to use computers and the internet. Lifelines India is a community project in support of the UN Millennium Development goals. It provides farming information over the telephone to Indian villagers. BT is working with Cisco and the charity OneWorld to implement this programme during 2006.

HELPING PEOPLE WITH DISABILITIES

Using computers, accessing the internet, or using mobile phones can be difficult for older people or those with disabilities. We provide a range of services and advice to ensure that older people and people with disabilities benefit from modern communication services. These include TextDirect, incorporating the text relay, Typetalk, enabling text phone users and hearing people to have a real time conversation.

Accessibility isn't just about specialist products. Sometimes services developed for these groups can benefit all our customers. For example, BT Text (which developed from TextDirect) now enables people to send SMS text messages to landline numbers where they are converted to voice messages. The BT employee Disability User Panel provides us with early feedback on new products and services to ensure accessibility.

COMMUNITY INVESTMENT

BT is committed to make a positive difference in society by acting responsibly in our everyday business conduct and also by making specific investments in communities. We gave £21.3 million in financial year 2006.

Our community investment is focused on activities and programmes that inspire people and communities to make a better world through the power of communication skills and technology. This enables us to use our capabilities and expertise to maximise the benefits to communities. For instance, BT provides free resources to help teachers, pupils and parents improve their communications skills through one of the largest company-sponsored in-school education programmes in the UK.

BT Archives has sponsored the virtual gallery, Tate Online, since 2001. Over 7 million unique visitors visited Tate Online in 2005.

BT has a large collection of historic telecommunications artefacts, documents, images and films that we make available through museums across the UK, and through a public reading room.



DIGITAL INCLUSION RELIES ON

1

CONNECTIVITY
Easy Access.

2

CONTENT
Things people want to do.

3

CAPABILITY
Motivation and skills to take advantage of ICT.

£21.3m

COMMUNITY CONTRIBUTION
IN FUNDING AND SUPPORT
IN KIND



Details of our digital inclusion activities are included in our online report at www.bt.com/betterworld

ANTICIPATING CHANGE/CUSTOMERS

3. Competing fairly



In the UK and internationally, our customers include large and small businesses, government and public agencies as well as other communications providers. We also serve consumer customers in the UK and Ireland. Improving customer satisfaction is a key part of our business strategy. We intend to build long-term customer relationships, understand their needs and help them thrive in a changing world.

Customer loyalty depends on us providing the right products and services at the right price. We must also communicate with them honestly and sell our products fairly.

PRICING

BT operates in a highly competitive market with multiple competitors and rapidly developing technologies offering new product and service opportunities. This means that prices in our industry can be complex. For example, call charges may vary depending on time, location and a customer's contract.

BT is committed to competing strongly but fairly when setting prices for its products and services. Our pricing must comply with legal and regulatory obligations to ensure customers and competitors are treated fairly. In areas where we have significant market power, BT publishes key prices, recovers relevant product or service costs and does not discriminate between customers. We have a governance process in place to ensure compliance with these obligations.

We aim to make our prices easy for our customers to understand and have taken steps to simplify our pricing structures. Our call packages offer consumer customers in the UK a range of options. For BT Together customers, inland calls in the evening and

at weekends are charged at a set fee of 5.5 pence for up to an hour. Or customers can select an inclusive calls option with a higher monthly fee but no geographic call charges. In 2005, BT launched the 'Value Check' service enabling consumer customers to compare BT's prices with those of our competitors.

BT business customers can control their costs by capping the price of certain calls within BT Business Plan.

In 2005, we simplified the prices for our broadband service by creating four pricing packages all under one brand name.

Simplifying prices for some services is more difficult; for example, calls that terminate on other networks such as international calls or calls to mobiles. This is because each operator charges BT a different amount for different types of call.

PACKAGED OFFERINGS

We sell some products in packages enabling customers to buy several products at once. This may often result in a better deal for the customer. We try to ensure that customers don't end up paying more or buying services they don't need.

In the parts of our business where we are able to offer packages of services, we aim to offer combinations of products and services that provide great value and benefit customers.

MARKETING AND ADVERTISING

As one of the UK's largest advertisers we have a public duty to uphold high marketing standards. All our advertising must comply with our Statement of Business Practice and our Competitive Marketing Principles. It must be truthful and accurate. In the 2006 financial year, there were 27 complaints made to the UK Advertising Standards Authority about BT and six of these were upheld. During the 2006 financial year, BT made 58 complaints to the Advertising Standards Authority, of which 15 were upheld.

3%

INCREASE IN CUSTOMER SATISFACTION

BT HAS AROUND
20m
CUSTOMERS



Full details of our customer policies including our complaints procedures are in our online report at www.bt.com/betterworld

4. Values, reputation and integrity

Our business is changing. We are expanding into new commercial areas and new (and often higher risk) countries. Our supply chain is becoming more complex with thousands of suppliers worldwide. It is important that during these changes we continue to apply our values to all our business decisions.



HOW WE WORK

All BT employees are expected to follow our values: trustworthy, helpful, inspiring, straightforward and heart. Detailed guidance is provided in our Statement of Business Practice – The Way We Work, which has been in place for seven years and applies to all employees, agents and contractors. This includes commitments to compete fairly; to protect the confidentiality of company, employee and customer information; and to minimise the company's impact on the environment.

Our reputation as a trustworthy company depends on us performing well on all the issues covered in this document. We have measured the link between customer satisfaction and CSR for a number of years. Our customer satisfaction models show a positive correlation. Customers who believe that BT takes its responsibilities to society and the community seriously are more than twice as likely as other customers to be very or extremely satisfied with BT. We believe that our performance on CSR also affects our reputation with employees. Sixty-six per cent of employees say that knowing about our social responsibility activities makes them proud to work for BT.

Acting with integrity is one of our key performance indicators. We measure our progress using an Ethics Performance Measure (EPM) with three elements: employee awareness of the Statement of Business Practice; findings from an external ethics benchmarking study that compares BT with other FTSE 100 companies; and two questions from our annual staff attitude survey (Is BT trustworthy? Is it safe to speak up?). Our EPM score in the 2006 financial year was 72%, exceeding our target of 71%.

CSR Leadership Panel comment

“Companies are like people. We only really learn to trust them when we witness how they behave under pressure. That's why values are central to long-term performance. They are the anchor of consistent behaviour.”

Mark Goyder Director, Centre for Tomorrow's Company



£4bn

SPENT ON PROCUREMENT

ETHICS PERFORMANCE MEASURE

TARGET	71%
ACTUAL	72%

SUPPLY CHAIN WORKING CONDITIONS

In 2005/06 we spent £4 billion on procurement. Through our supply chain initiative Sourcing with Human Dignity (SWHD), we seek to ensure that the working conditions in our supply chain meet internationally accepted human rights standards. CSR has been incorporated as a key measure in BT's procurement 'scorecard' and buyers' objectives. We do on-site assessments in areas of high risk. During 2005/06 assessments took place in China and Mexico. We are working for consistent standards with other companies in our sector, through the Global e-Sustainability Initiative (GeSI), supported by the United Nations Environment Programme (UNEP).

ETHICS IN PRACTICE

A confidential 24-hour helpline is available via phone and email for employees and contractors to get help and confidential advice or to report suspected cases of misconduct.

During the 2006 financial year, 163 employees were dismissed or resigned for unethical behaviour.

We reward excellence through our internal Business Practice Excellence award, established with the UK's Institute of Business Ethics.

We have a comprehensive ethics training facility, using primarily computer-based training.



ANTICIPATING CHANGE/OUR PEOPLE

5. How change affects our people

Changes to our business – such as the launch of new products and services, international expansion and our drive for cost efficiency – affect our people. We need to manage these changes responsibly without reducing employee satisfaction and motivation. We are acquiring new businesses to help us expand internationally and gain new areas of expertise.

**INSOURCING
OUTSOURCING
SKILLS**



INSOURCING AND OUTSOURCING

We now have employees in over 50 countries and 11% of BT employees are located outside the UK.

Some of our networked IT services customers outsource their IT services to us. Employees that previously worked in the customer's IT department become BT employees. From BT's perspective this is known as insourcing. It means we are employing groups of people who previously worked for other companies with different corporate cultures.

At the same time, we have outsourced some of our non-core activities to suppliers who can manage these parts of the business more cost efficiently. For example, our pensions, recruitment and training are now operated by Accenture HR services. In some cases, employees or suppliers are based overseas where labour costs are lower (known as offshoring). For example, we use two outsourced call centres in India.

CHANGING JOBS

The skills required of our employees will change as we launch our twenty-first century network. The new network will be much simpler to maintain than our current infrastructure. At the same time our customer-facing staff need to acquire new

CSR Leadership Panel comment
“Change brings with it uncertainty and in companies, uncertainty often brings speculation and concern for the future. A record of corporate responsibility, built up over an extended period of time, can help companies and employees navigate a successful plan through change.”

Kate Fish Managing Director, Europe, BSR (Business for Social Responsibility)



skills to deliver complex converged services to our customers.

In 2005/06, in the UK, more than 6,600 people joined BT, natural attrition was running at 3% and 2,169 people left BT under our voluntary paid leaver package.

MOTIVATION AND MORALE

Managing the way people leave and join BT in a way that reflects our values is important to us. For people joining from other organisations, including our newly-acquired businesses, we keep in mind that they did not choose to join us. We work hard to help them to understand the benefits of joining BT through induction programmes, roadshows, and regular communication.

SAFE AND HEALTHY WORKPLACE

Providing a safe workplace is one of our fundamental responsibilities as an employer. One of our business principles is to care for the health and safety of people across all BT's operations and products. We have made a specific commitment to promote a healthy lifestyle through our health and wellbeing programme. Our lost time injury rate is one of our key performance indicators.

Last year 4,377 BT people lost 10.05 tonnes of weight as a result of our Work-Fit programme.



Our human resources policies help us to manage the impacts of all these changes on workforce morale. We maintain regular dialogue with our unions and work councils.

We measure employee satisfaction through an Employee Engagement Index, informed by the results of our employee survey. This indicates BT people's overall engagement and motivation with regard to their job, colleagues and customers. The index for the 2006 financial year is 65%, the same as 2005.

WHAT CHANGE WILL MEAN FOR JOBS

1 Greater demand for employees with the skills to deliver our new wave products and services.

2 Our cost efficiency programme means that some services are being outsourced to suppliers.

3 Insourcing our customers' IT services so that their IT employees join BT.

EMPLOYEE ENGAGEMENT INDEX **65%**

DIVERSITY

22.1% WOMEN
9.2% ETHNIC MINORITIES
2% DISABLED



HEALTH AND SAFETY

40% REDUCTION IN LOST TIME INJURY RATE
7% REDUCTION IN SICKNESS ABSENCE RATE



Details of our employment policies including workforce diversity, remuneration, work/life balance, flexible working and pensions information are included in our online report at www.bt.com/betterworld

6. Climate change

ICT is often seen as an environmentally friendly technology – potentially reducing travel and paper usage. But the reality is more complex. ICT has environmental drawbacks, particularly in its consumption of natural resources, energy use (with the consequent impact on climate change) and waste creation. Our aim is to make sure that the positive impacts of ICT outweigh the negative.



CLIMATE CHANGE

We accept the science of climate change. We expect to be affected and we will play our part in tackling it.

Climate change poses both risk and opportunity for our business. Global warming is expected to bring an increase in extreme weather conditions such as floods and storms that could damage our network infrastructure, particularly exchanges located in flood-prone areas. Damage to our network could mean service interruptions that disappoint customers and generate higher maintenance costs that reduce our profitability. All businesses are affected by increased energy costs.

We believe that the use of ICT has a part to play in helping organisations reduce their carbon emissions. This will create opportunities for BT. Regulation and taxation also have a role in creating low-carbon economies.

TAKING ACTION

Reducing our carbon dioxide emissions has been a target for BT for the past 14 years. As part of our strategy to reduce our contribution to climate change, in 2004/05 we signed a three-year contract with npower and British Gas that provides nearly

WASTE AND RECYCLING

We have long-standing policies to manage other environmental impacts, such as waste. In the 2006 financial year, we recycled 42% of our total waste, around 8% more than the previous year.

all of BT's UK electricity as 'environmentally friendly' energy. At the time this made us the world's largest purchaser of green energy and has helped us lower our CO₂ emissions by 60% from the 1996 level. We are using small renewable electricity generation systems at three of our sites. We will test a new type of micro wind turbine at a further two sites during 2006.

The roll out of broadband has increased energy use. We will also need to run our current networks in parallel with the twenty-first century network for some time during the transition to the new infrastructure. However, we expect the new network to use less energy than our existing infrastructure, be more reliable and require less maintenance – reducing site visits and energy use from transport. Energy efficiency was taken into account when specifying equipment for the network and during supplier selection. Our energy management initiatives mean that our overall energy use remained static for two years, despite the roll out of broadband.

BT was ranked fourth in the Low Carbon Leader awards 2005 for our action on reducing CO₂ emissions. In the run-up to the 2005 G8 summit, Ben Verwaayen joined the CEOs of 23 other multinational companies in signing a statement calling for action by world leaders on climate change.

NEXT STEPS

We know we need to do more. See our hot topic written by Carbonsense, which considers the steps we might take next to become a genuinely carbon neutral company (www.bt.com/betterworld). We are now developing a strategy for the company to help tackle climate change.

HELPING PEOPLE AND THE PLANET

Our products can help BT and our customers address climate change by enabling easier remote working, phone- and video-conferencing. This reduces travel time and energy use and enables more people to enjoy flexible work schedules. New products such as broadband that enable even faster and more flexible communication, will increase these benefits.

Flexible working, enabled by ICT, isn't just good for the environment it benefits BT and our people too. We now have around 11,000 employees that work from home. Flexibility in attendance patterns opens opportunities for people with disabilities, carers and those returning to work after a career break. A recent report by the Centre for Social Inclusion at Sheffield Hallam University shows that employees who work part-time, or whose employment offers flexibility are happier and more productive at work. We estimate that on average BT employees who work flexibly are 21% more productive and take less sick leave.



42%

OF WASTE RECYCLED

CO₂ EMISSIONS

60%

LOWER THAN 1996 LEVEL

CSR Leadership Panel comment

"In addition to speaking out in favour of early societal action to stop climate change, every company should voluntarily, proactively and methodically reduce its own carbon footprint."

Jorgen Randers Professor, the Norwegian School of Management, Oslo



Find all our environmental data in our online report at www.bt.com/betterworld

ANTICIPATING CHANGE/REGULATION AND LOOKING FORWARD

7. Regulation

BT operates in an increasingly competitive environment but we remain subject to significant regulation, particularly in the UK, but also in countries where we use the networks and services of other regulated operators.



BT'S UNDERTAKINGS

In the 2006 financial year, significant changes to the UK regulatory regime came into force, following Ofcom's Strategic Review of Telecommunications. BT volunteered and Ofcom accepted legally binding Undertakings. BT has undertaken to provide to all communications providers fair and equal access to key network services, through the creation of a new division within BT – Openreach. The Undertakings introduce new obligations relating to influence over

commercial policy, organisational structure, incentives, governance and to the sharing of and access to certain restricted information. BT's Undertakings are generally regarded as an innovative and creative solution, and are being viewed with interest by regulators and operators outside the UK.

Implementing the Undertakings is a significant task for BT. Programme offices in each line of business, and a central team in BT Group, oversee and track the many individual work packages which together comprise delivery of the obligations.

Progress is reported internally and externally in regular bulletins. Under the Undertakings BT created the Equality of Access Board (EAB), a new Board committee with a majority of independent members, charged with monitoring and reporting upon compliance with the Undertakings.

The EAB has been in operation since November 2005. The EAB have published their annual report on their activities, which forms a distinct part of BT's regulatory compliance report.

BT's regulatory compliance report can be found in our full online social and environmental performance report at www.bt.com/betterworld



Looking forward

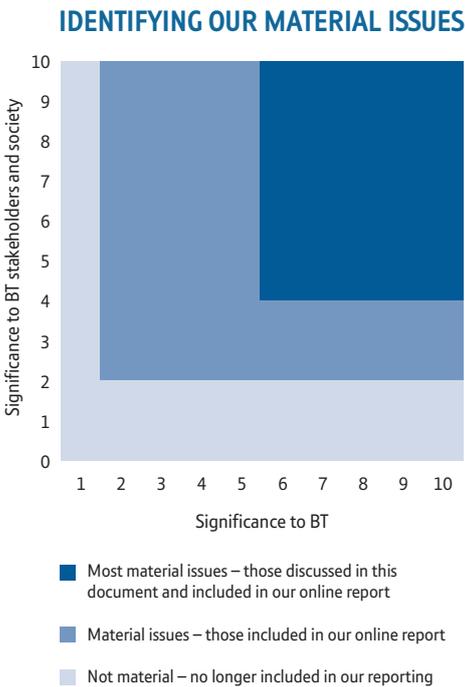
Our world faces a future of tremendous opportunity for social advancement and the eradication of poverty through increased development. But such optimism is tempered by the threat of dramatic environmental damage from climate change and the long range effects of social instability in some regions.

To ensure that ICT is used for the greater good, society must provide the right regulatory framework in which the technology is put to work. Consumers must use their buying power to ensure that companies providing ICT-related services do so with integrity. Our industry – and BT itself – must ensure that we constantly look for ways to maximise the technology's benefits and minimise the drawbacks.

Given the commercial pressures and demands of our stakeholders, we know that the future will not be easy. But we are fully aware that we will have to tackle all the issues and dilemmas raised in this report if we are to run a successful, profitable company.

Identifying significant issues

We started reporting on sustainability matters with our first environment report in 1992. Since then we have expanded the scope of our reporting to include the social and economic dimensions of sustainability.



We found our report was growing each year. So this year we felt it was the right time to review our reporting approach and check that we are still prioritising and reporting the right issues. We developed a new materiality determination process for doing this.

For each issue we asked four questions:

- 1 **Does BT have a policy on this issue?**
- 2 **What is the financial impact of the issue on BT?**
- 3 **Are stakeholders interested in this issue?**
- 4 **Is there societal interest in this 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. We determined levels of societal interest through an extensive media review covering seven countries.

This report covers BT’s most material social and environmental issues – those that have been identified as the most relevant and significant. Our online report explains our performance on these issues as well as those identified as less important but still material to BT.

In most cases, the issues identified through the process were defined as ‘material’ by BT, our stakeholders and wider society, and were included in our reporting. There were some issues that BT considered important that were not identified as significant in our stakeholder research, for example: supply chain working conditions; ethical marketing and advertising; and health and safety.

There are several reasons that might explain these inconsistencies. Some issues, such as working conditions in the supply chain, are relatively new for BT and many stakeholders may not yet be aware of their significance. Issues such as health and safety are so fundamental to our business that stakeholders may assume we are managing them.

We consulted our CSR Leadership Panel for advice when these inconsistencies arose. In several cases we decided to include the issues in this or our online report.



For more about our stakeholder engagement, see our online report at www.bt.com/betterworld

Embedding CSR

In BT all our activities are underpinned by a set of values that everyone is asked to respect and follow. These are – trustworthy, helpful, straightforward, inspiring and heart. It is particularly important that our values are embedded into the way we operate as we expand our business internationally, create new products and services and source from a more complex global supply chain.

CSR GOVERNANCE

Management of CSR issues is integrated into our business governance processes. The BT Board discusses our CSR strategy, performance and risks at least once a year and signs off this report.

A number of committees with members drawn from all areas of BT's business provide oversight for CSR issues:

- **Operating Committee** – made up of BT's CEO, the CEOs of each line of business, and BT's Company Secretary, the committee agrees group-wide CSR policies;
- **CSR Steering Group** – senior CSR champions from across the business that assess CSR risks and set policies;
- **Community Support Committee** – a Board committee that oversees community investment, chaired by BT's Chairman.

Our Corporate Responsibility team carries out regular CSR health checks with commercial programme directors from BT's lines of business. These identify CSR risks and opportunities and help to ensure that CSR is embedded in our operations.

RISK MANAGEMENT

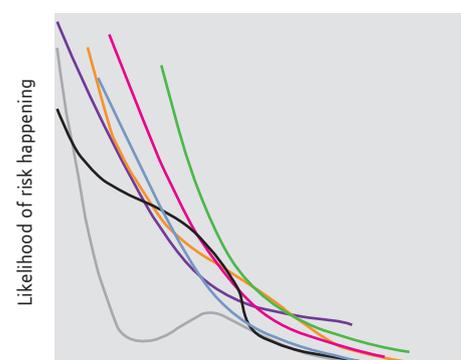
The Board takes account of significant social, environmental and ethical matters that relate to BT's business. Our CSR risk register sets out our most significant social, ethical and environmental risks. There is a person accountable for each key risk and we have a mitigation plan in place. The register is updated twice a year and reviewed by the Board annually.

In the 2006 financial year, we identified no social, environmental or ethical risks that would have a material financial impact on our business.

Our key CSR risks are:

- breach of integrity;
- climate change;
- diversity;
- health and safety;
- outsourcing;
- privacy;
- supply chain working conditions.

CSR KEY RISKS



Financial impact on the business over a three-year period

- Breach of integrity
- Climate change
- Diversity
- Health and safety
- Outsourcing
- Privacy
- Supply chain



More information on corporate governance at BT, including details of directors' remuneration, is available in our Annual Report and Accounts at www.bt.com/annualreport

HOW EMERGING PRIVACY ISSUES WERE IDENTIFIED, UNDERSTOOD AND MANAGED

IDENTIFIED PRIVACY AS A BUSINESS AND CSR RISK THROUGH:

- our analysis for the CSR risk register;
- feedback from our CSR Leadership Panel;
- CSR health checks with our product teams;
- sales teams expressing concerns;
- monitoring media coverage.

DEEPENED OUR UNDERSTANDING OF PRIVACY RISKS:

- set up a cross-functional group for BT people working on privacy issues;
- held stakeholder workshops;
- published a Hot Topic*.

* available at www.bt.com/betterworld

DEVELOPED A MANAGEMENT STRATEGY:

- oversight provided by our CSR Steering Group;
- developed internal guidance;
- launched BT Privacy products so customers can protect their privacy online.

Key performance indicators and targets

CATEGORY	INDICATOR	2004	2005	2006	TARGET 2007
CUSTOMERS	Customer Satisfaction – a measure of satisfaction across BT's entire customer base*	29% compound reduction in dissatisfaction	23% compound reduction in dissatisfaction	3% increase in satisfaction	To increase the number of extremely and very satisfied customers by 5%‡
EMPLOYEES	Employee Engagement Index – a measure of the overall success of BT's relationship with employees	64%	65%	65%	To maintain or improve the Employee Engagement Index at 65%
	Diversity – a measure of the diversity of the BT workforce	22.7% Women (21% of senior) 8.9% Ethnic Minority (7.6% of senior) 2.1% Disabled	22.4% Women (22.1% of senior) 9.2% Ethnic Minority (8.1% of senior) 2.2% Disabled (0.7% of senior)	22.1% Women (15.8% of senior)♦ 9.2% Ethnic Minority (7.4% of senior) 2.0% Disabled (0.59% of senior)	To establish a new diversity index to take account of BT's growing global activities
	H&S: Lost Time Injury Rate – rate of Lost Time Injury Incidents expressed as a rate per 100,000 hours worked on a 12-month rolling average	0.60 cases per 100,000 working hours	0.468 cases per 100,000 working hours	0.281 cases per 100,000 working hours	Reduce to 0.242 cases per 100,000 hours
	H&S: Sickness Absence Rate – percentage of calendar days lost to sickness absence expressed as a 12-month rolling average	2.84% calendar days lost to sickness absence	2.53% calendar days lost to sickness absence	2.35% calendar days lost to sickness absence	Reduce to 2.26% calendar days lost due to sickness absence
SUPPLIERS	Supplier Relationships – a measure of the overall success of BT's relationship with suppliers	94%	Not available†	89%	To run the survey on a bi-annual basis and achieve 90%
	Ethical Trading – a measure of the application of BT's supply chain human rights standard▲	242 risk assessments with 100% follow-up	240 risk assessments with 100% follow-up	230 risk assessments with 100% follow-up	To achieve 100% follow up within three months for all suppliers identified as high or medium risk
COMMUNITY	Community Contribution – a measure of our investment in society	£18m in funding and support in kind	£20.8m in funding and support in kind	£21.3m in funding and support in kind	Maintain a minimum investment of 1% of pre-tax profits and trial a new measure of community programme effectiveness
ENVIRONMENT	Global Warming CO₂ Emissions – a measure of BT's climate change impact	42% below 1996 level 0.93 million tonnes	53% below 1996 level 0.76 million tonnes	60% below 1996 level 0.64 million tonnes	Cap 2010 CO ₂ emissions at 25% below 1996 levels
	Waste to Landfill and Recycling – a measure of BT's use of resources	79,677 tonnes to landfill (74%) 27,626 tonnes recycled (26%)	73,201 tonnes to landfill (66%) 37,408 tonnes recycled (34%)	59,665 tonnes to landfill (58%) 42,340 tonnes recycled (42%)	To reduce the tonnage of waste sent to landfill by 5%
DIGITAL INCLUSION	UK Addressable Broadband Market – a measure of the geographical reach of broadband	More than 85% UK households	95% UK households	99.7% UK households	To maintain at 99.7% and actively look for economic opportunities to extend. A new target will be developed for the 2008 financial year
INTEGRITY	Ethical Performance Measure – a measure of our progress in acting with integrity	Not available†	70%	72%	To maintain the Ethics Performance Measure at 72%

All targets have an end date of 31 March 2007 unless otherwise stated.

* revenue weighted

‡ this is a revenue-weighted measure and is combined with a target to limit the levels of dissatisfaction to March 2006 levels

† measure not used that year – see archived reports for earlier measures

▲ risk assessments are based on completed questionnaires

♦ changes in job classification have led to a different definition of the term senior

Assurance

Three specific principles must be met for the AA1000 Assurance Standard:

1

MATERIALITY

The report must include information about our sustainability performance to help readers make informed judgements, decisions and actions.

2

COMPLETENESS

The report must include all material aspects.

3

RESPONSIVENESS

The report must demonstrate that BT has responded to stakeholder concerns, policies and relevant standards and adequately communicated these.

EXTRACT FROM LRQA 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 Report¹ 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.

¹This excludes BT's Compliance Report for 2005/06 containing the EAB – Equality of Access Board Annual Report 2006

LRQA'S APPROACH

In order to form our conclusions we have: For AA1000 AS:

- reviewed BT's stakeholder engagement processes;
- 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 processes;
- reviewed the processes 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.

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.



LRQA

CSR LEADERSHIP PANEL STATEMENT

THE PANEL'S REMIT

Our purpose is to encourage innovation and leadership on sustainable development and corporate social responsibility in BT by providing independent guidance and expert advice on BT's activities. We meet four times a year, and have access to all the information we require to carry out specific tasks. Every year, we make a collective statement on BT's performance in that year. This is not an assurance or verification statement, but our considered, subjective judgment on performance and progress.

PERFORMANCE AND FUTURE CHALLENGES

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 on page 16, this has been (for the most part) another year of successful delivery, and this Report is in itself an innovative extension of standard CSR reporting.

As to future challenges, the Panel will be keen to see BT's pioneering work on 'becoming a carbon neutral company' converted into a formal climate change strategy for both the short and the long term. We are also looking forward to BT's review of its Community Investment Strategy, as we believe this should become more outcome-focused, as should any new initiatives around the challenge of digital

inclusion. Lastly, having identified the potential synergy between BT's huge innovation investments and the challenge of helping people lead more sustainable lives, we hope to see this feed through into more sustainable products and services as a key element in BT's commitment to sustainable wealth creation.

Jonathon Porritt Founder Director, Forum for the Future

Mark Goyder Director, Tomorrow's Company

Kate Fish Managing Director, Europe, BSR (Business for Social Responsibility)

Rob Lake Head of Corporate Engagement, Henderson Global Investors

Jorgen Randers Professor, the Norwegian School of Management, Oslo



The full statements are available online at www.bt.com/betterworld



Bringing it all together

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