2009 SUSTAINABILITY REPORT

Changing world: Sustained values

Bringing it all together for a better world
Assurance

We used the Global Reporting Initiative’s (GRI) G3 Sustainability Reporting Guidelines and Pilot Telecommunications Sector Supplement when preparing this report. We assess that the report meets application level A+ and have provided a GRI Index with links to our coverage of each indicator.

We also applied AccountAbility’s three Principles of inclusivity, materiality and responsiveness.

- Inclusivity: The participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.
- Materiality: Determining the relevance and significance of an issue to an organisation and its stakeholders.
- Responsiveness: An organisation’s response to stakeholder issues that affect its sustainability performance and is realised through decisions, actions and performance, as well as communication with stakeholders.

Lloyd’s Register Quality Assurance Limited (LRQA) is contracted by BT to assure this report against the AA1000 AS (2008) and the GRI guidelines. LRQA’s statement explains the assurance process and provides their conclusions.

BT’s external Leadership Panel also provides a statement on the progress we have made toward becoming a more sustainable business in 2009 financial year.
Terms of Engagement

Lloyd’s Register Quality Assurance Limited (LRQA) was commissioned by BT Group plc (BT) to assure both its Changing World: Sustained Values 2009 printed report and its web-based Sustainability Report 2009 (note 1) (the Reports) for the financial year ending 31 March 2009.

The assurance engagement was undertaken against:

- AA1000 Assurance Standard 2008 (AA1000), where the scope was a Type 2 engagement at a high level of assurance. The exception to this scope was for non-UK environmental data which was verified at a moderate level of assurance.

Note: The scope of the assurance did not extend to data and information accessed through links that take the reader out of these Reports. Where BT presented data and information from a second party, LRQA corroborated only that data and information was transcribed accurately or the correct reference was provided.

The objectives of the assurance engagement were to review adherence to the AA1000 Accountability Principles of Inclusivity, Materiality and Responsiveness; and to evaluate the reliability of the specified sustainability performance information.

Both of the Reports have been prepared and approved by BT, who was also responsible for the collection and presentation of information within it. LRQA’s responsibility was to carry out an assurance engagement on these Reports, in accordance with our contract with BT. LRQA does not accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance any such third party may place on these Reports is entirely at its own risk.

Our Approach

In order to form our conclusions we have obtained sufficient evidence that we consider necessary for us to give the levels of assurance stated in the terms of engagement. Our assurance approach was risk-based and undertaken as a sampling exercise of the data and information disclosed in the Reports. It covered the following activities:

- Reviewing BT’s stakeholder engagement process and information collected from the various stakeholder forums
- Evaluating BT’s material issues against our own independent analysis of stakeholder issues
- Carrying out a benchmarking exercise of high-level material issues by reviewing sustainability reports written by BT’s peers
- Understanding how BT determine, respond and report on their material issues. This included participating in a BT Leadership Panel meeting, by teleconference, to hear the discussions on material issues, BT’s CR strategy and the contents of these Reports.
- Interviewing senior management to understand BT’s reporting processes and use of sustainability performance data within their business decision-making processes
- Interviewing key personnel to understand BT’s processes for setting performance indicators and for monitoring progress made during the reporting period. With the exception of selected telephone interviews with personnel in UK offices, our work was limited to activities at BT’s headquarters. We did not visit any international locations.
Verifying BT’s data and information management systems
Validating BT’s self-declaration, in ‘about our report’, for GRI G3’s application level A+.

We also use BT’s Internal Audit & Regulatory Compliance Division (IARCD)’s audit work to review the validity of data and information reported in our people, our communities, our customers (availability, affordability and accessibility) and Economics sections.

Our Conclusions (note 2) and Findings

Based on the terms of engagement, LRQA’s conclusions for adherence to the AA1000 Accountability Principles and GRI Guidelines are:

Inclusivity

We found nothing that would cause us to believe that BT is not committed to being accountable to its stakeholders. BT’s processes for engaging with stakeholders are well established: they have identified their stakeholder groups and then actively encourage them to participate in the determination of material issues and setting of performance indicators. BT therefore has developed a comprehensive and balanced business response, in the form of strategies, plans and actions, for addressing their sustainability issues.

Materiality

We are not aware of any material issues concerning BT’s sustainability performance that have been excluded from the Reports. BT’s process for determining materiality is robust, dynamic and the evaluation criteria are aligned with both business and stakeholder needs.

Responsiveness

We are not aware of any additional issues of stakeholder interest that are not currently being managed by BT whether that is through inclusion in these Reports or via other communication channels.

Reliability of specified sustainability performance information

We found nothing that would cause us to believe that the specified sustainability performance is not reliable and that information has been mis-stated. BT’s sustainability performance information is complete and accurate with the exception of international waste data.

Note: this conclusion is based on the verification performed for the stated levels of assurance. A high level assurance verified the systems, processes and conducted some detailed sampling of source data whilst the moderate level of assurance verified the systems, processes and corporate aggregated data.

Global Reporting Initiative

BT’s self declaration of A+ application level is fairly stated.

The web-based Sustainability Report 2009 is in accordance with the requirements of GRI G3 and the Telecommunications Sector Supplement.

LRQA’s recommended improvements.

BT should continue to develop the systems and processes for collecting, checking and reporting non-UK environmental data. In particular BT should:
• Provide further guidance on how waste data is measured as LRQA found numerous errors with the application of the international convention for decimalisation.
• Cultivate better relationships with providers of utility data to ensure reported data is complete.
• Improve the programme of data verification on material non-UK environmental data.

S M Fletcher  G Farmer

For and on behalf of LRQA, UK
This Assurance Statement is valid for one calendar year from the date of issue.

Note 1: This excludes BT’s Regulatory Compliance Report for 2008/9 and the Equality of Access Board Summary Report 2009
Note 2: Conclusions given are based upon full disclosure by BT of all relevant data and information

Third party liability

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

LRQA’s Competence and Independence

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

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

Independence of LRQA from BT

LRQA is BT’s ISO9001, ISO14001, BS15000-1 and BS7799-2 certification body. We also provide BT with a range of training services primarily related to Quality Management Systems.

The assurance and certification assessments, together with the training are the only work undertaken by LRQA for BT.

Conflict of interest

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

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

**Independence of BT’s Internal Audit Department**

IAD is an independent, objective, review function for the BT Group. It is designed to add value and improve and provide assurance over operations. The Director of IAD retains the right to report to the Board Audit Committee instances where the department’s independence or objectivity is impaired by the activity or behaviour of audit clients.

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**2009 statement from BT’s CR Leadership Panel**

**The Panel’s remit**

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

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

In this statement, which has been prepared for inclusion in BT’s 2009 Sustainability Report, we comment on the level of progress made during the 2009 financial year (2009) by BT on sustainable development and CR. The statement covers all areas of CR strategy and performance (i.e. not just reporting) and includes our consideration of the main challenges ahead.

During the course of the last year, we have met four times and have made supplementary inputs outside the meetings. We have led independent discussions outside the meetings to review the significant changes made by BT in their approach to the governance of CR and sustainable development issues. This statement covers our work as a Panel up to the on-line publication of the report in May 2009. Previous statements of the Panel are available in the archive section of this site.

Panel meetings are conducted with frankness, constructive criticism and fresh thinking. Divergent views around the table reflect the varied backgrounds and experience of the Panel members.

**Principal areas of engagement**

Every company undergoes eras of significant change, and with the appointment over the past two
years of both the Chairman and Chief Executive, coinciding with a very challenging external business environment, this is such a period for BT. We see it as our role to track these changes critically but constructively. For example, the change in priorities created by the new CR strategy inevitably creates losers as well as winners, and the Panel has insisted that BT should be transparent in showing the full impact of the decisions it has made.

Moreover, there is a new urgency about this whole agenda. To maintain BT’s unrivalled excellence will require consistent and inspired leadership from the Board.

Unlocking talent

As the company seeks to embed the concepts of sustainable and responsible business across its operations, it is encouraging to see the positive engagement of the Human Resources team. We contributed to a set of leadership capabilities on sustainability and look forward to these being embedded in BT’s training, performance and recognition systems. We also interrogated the company’s ambition to increase the amount of employee volunteering.

Sustainable product design

Over a number of years we have been involved in the development of a set of sustainability criteria which BT is now incorporating into the development and marketing processes for its products and services. This is very encouraging progress.

Base of the Pyramid

Finding a way of engaging in a ‘base of the pyramid’ business model has not been easy for BT as they don’t have a direct interface to consumers in emerging economies. Some good progress has been made on identifying areas worthy of further exploration but it is disappointing that this work is currently on hold.

London 2012 Olympic and Paralympic Games

Although it is still three years away, we were pleased to be able to discuss of BT’s early activities surrounding its sustainability partner status in the London 2012 Olympic and Paralympic Games. There is a lot of work still to be done on this.

Sustainability reporting

We continue to take an interest in BT’s Sustainability Report. We reviewed last year’s innovative application of The Prince of Wales’s Accounting for Sustainability guidelines. We welcome the incorporation of the first non-financial KPI table in the Annual Report and Form 20-F 2009. We are active participants in BT’s materiality determination process [link].
BT has done well in meeting its targets, but progress on some of the more strategically significant KPIs (on Sustainable Economic Growth, for instance) has been much slower than expected.

**Carbon reporting**

We continue to support BT’s approach to carbon reporting, taking account of energy efficiency, generating their own renewable electricity and the purchase of green tariffs. The unhelpful changes to the UK Government’s approach to carbon accounting may now constrain BT’s options and it would be very disappointing if this led to a reduced ambition on the part of BT.

**Tax**

Following a review of BT’s CR Risk register, we had a more in depth discussion on the company’s approach to tax payments. We have urged BT to be more transparent in the way it reports on tax policy.

**Challenges for the future –**

The Chairman wants a far higher proportion of people in the company to feel pride in BT’s corporate responsibility agenda, and we welcome this. We also welcome the embedding of sustainability into the company’s product development processes.

However, the potential downside to the proposed ‘mainstreaming’ of the CR agenda is that BT might lose some of the pioneering and risk-taking spirit that has kept it absolutely at the forefront of progressive companies over the last decade or more. We look forward to working with the new Committee for Responsible and Sustainable Business to ensure that this ‘cutting edge’ is retained and indeed strengthened.

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

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

Jonathon Porritt, Mark Goyder, Elisabeth Lavelle, Jorgen Randers, Nick Robins
The Advisory Panel members acted in a personal capacity – the organisational affiliations below are listed for identification purposes only.

Jonathon Porritt chairs the Panel. He is one of the UK’s leading environmentalists, founded Forum for the Future in 1996, together with fellow Founder Directors Sara Parkin and Paul Ekins. He is closely involved in the Forum’s Business Programme, in addition to involvement in a wide range of other Forum activities. He is also Chairman of the UK Sustainable Development Commission, a non-executive Director of Wessex Water and Willmott Dixon, and is Co-Director of The Prince of Wales’s Business and Environment Programme.

Mark Goyder is Founder director of Tomorrow’s Company a business think-tank which was established in 1996 following the RSA’s Inquiry, “Tomorrow’s Company; the role of business in a changing world”. He is the author of Living Tomorrow’s Company in which he sets out the philosophy behind Tomorrow’s Company and is a regular contributor to newspapers such as the Financial Times and the Times. He was a member of the DTI Working Party on Materiality for the Operating and Financial Review.

Elisabeth Laville is one of Europe’s leading experts on corporate, social and environmental responsibility. She created the leading French sustainability strategies consultancy and think-tank, Utopies, in 1993, working for an extensive range of corporate clients in France and abroad. Elisabeth Laville was given several awards for her work and vision, including the Synopsis Prize for the Best French Business Book in 2002 and the HEC au Féminin Prize in 2007. She was also included in L’Express Magazine’s list of “100 French people who will shape 2003”, as well as in L’Usine Nouvelle’s magazine list of “50 visionaries who are changing industry” in 2006. She is also the author of several books, including the French bestseller "L’entreprise verte - le développement durable change l’entreprise pour changer le monde” in 2002.

Jorgen Randers is professor of policy analysis at the Norwegian School of Management. He currently chairs the Norwegian Government Commission on Climate Gas Reduction. He is non-executive director of a number of corporate boards. He was formerly Deputy Director General of WWF International (World Wide Fund for Nature) in Switzerland (1994-1999). He is co-author of many books, including “The Limits to Growth” (1972) and “Limits to Growth - The 30 Year Update” (2004).

Nick Robins is Head of the Climate Change Centre of Excellence at HSBC in London. Prior to joining HSBC in October 2007, Nick was Head of SRI Funds at Henderson Global Investors, designing the strategy for its Industries of the Future portfolio fund and launching the world’s first carbon audit of an investment fund. Nick has extensive experience of the financial, business and policy dimensions of corporate responsibility and sustainable development, working for the Business Council for Sustainable Development, the European Commission and the International Institute for Environment and Development. He is author of numerous reports and articles, including a recent history of the East India Company, The Corporation that Changed the World – How the East India Company Shaped the Modern Multinational (2006) as well as co-editor of Sustainable Investing – The Financial Challenge of the 21st Century (2008).
Thanks for reading what we have to say – now we want to listen to you. Email us at yourviews@bt.com and tell us what you think of this report and sustainability at BT.