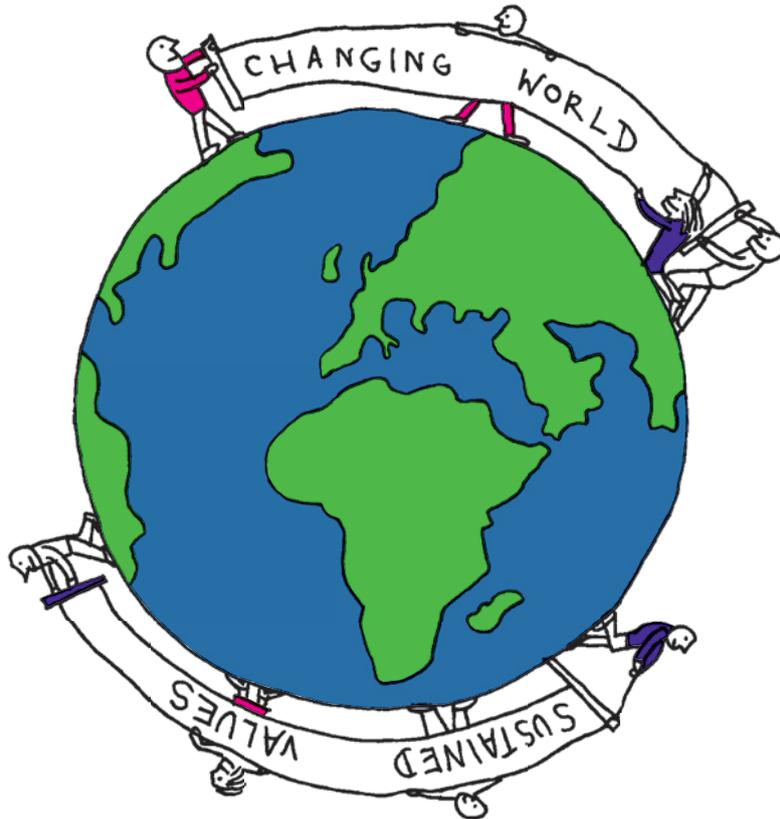


Changing world: Sustained values

OUR 2009 SUSTAINABILITY REVIEW



Bringing it all together
for a **better** world

Introduction

Welcome to our review of BT's sustainability performance for the 2009 financial year. This review is written for our people, customers, investors and analysts. It explains the steps we take to operate responsibly and make BT into a more sustainable business.

This year we explore two themes. We look first at the impact of the current downturn on BT and our relationships with our customers, people, suppliers and communities. We explain how we are reducing costs and helping our customers do the same, without compromising customer service and our commitment to responsible business practices.

The second part explains how we are preparing for longer-term sustainability risks and opportunities, such as climate change. It describes how we are transforming BT into a low-carbon company and developing products and services that will help our customers reduce their climate impact.

About our reporting

This review summarises the key elements of our approach to responsible and sustainable business and our performance during the 2009 financial year (1 April 2008 to 31 March 2009). It includes views from our Leadership Panel of external sustainability experts and has been assured by Lloyds Register Quality Assurance using the AA1000 (2008) Assurance Standard (see page 15). It will be available to download in six languages (Chinese, Dutch, French, German, Italian and Spanish) from our website www.bt.com/betterworld.

Our full online sustainability report includes more information, performance data and case studies. It is available at www.bt.com/betterworld. It follows the Global Reporting Initiative Guidelines and includes information relevant to the UN Global Compact.

We use a materiality determination process to help us identify the most relevant and significant (material) corporate responsibility (CR) issues for our business and stakeholders. This helps us focus our reporting in the right areas. Our most material issues are covered in this review. Other important but less significant issues are covered in our online report. The materiality process is explained online. @

Where you see this symbol @, there is more information available in our online report, www.bt.com/betterworld.

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This is BT

BT is one of the world's leading communications services companies. In the UK, we are the largest communications service provider to the residential and business markets. The BT brand is one of the most trusted in the UK. Around the world, we are a major supplier of networked IT to government departments and multinational companies. Our global customers include more than 25% of Fortune 500 companies.

About us

Our customers and our shareholders are at the heart of everything we do.

15m
customers

We have around 15 million customers, ranging from individual consumers with a single phone line, to government departments and some of the world's largest multinationals.

We have over **one million shareholders**, from individual private investors to major institutional investors.

17%

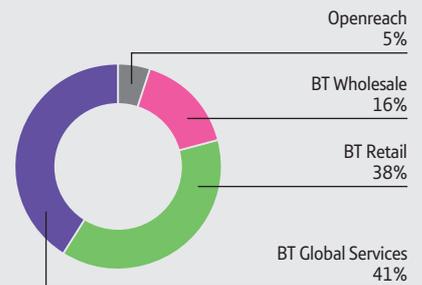
group-wide right first time performance increase in 2009

We aim to offer an excellent customer experience every time. Customer service is one of the key measures by which we determine the performance of our business. At the heart of the service we offer is a commitment to getting it right first time for our customers.

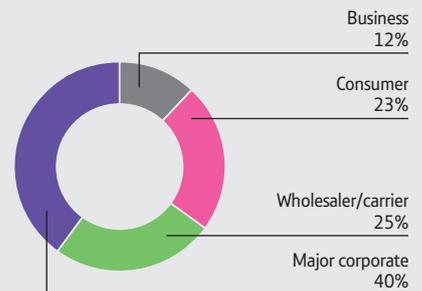
Our services range from:

- ▶ Providing a single residential phone line to delivering global networked IT services to major multinationals
- ▶ Developing phones for the elderly and disabled, to offering super-fast broadband speeds to millions of customers
- ▶ Developing innovative call packages for homes and businesses, to providing managed services that help our wholesale customers serve their customers
- ▶ Offering state-of-the-art video-conferencing and telepresence systems, to building the UK's largest on-demand TV service
- ▶ Facilitating online trading communities, to enabling Openzone customers to access wireless broadband around the world.

Revenue by line of business



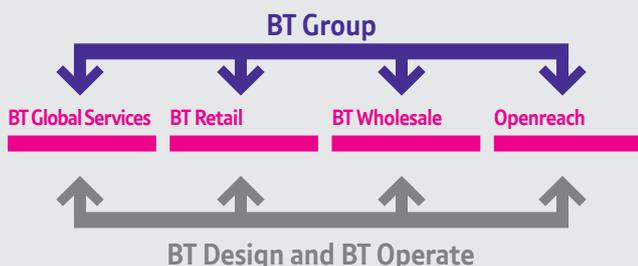
Revenue by customer segment



How we are structured

We meet the needs of our different customer groups through four customer-facing lines of business, supported by two internal functional units. BT Retail, BT Wholesale and Openreach operate mainly in the UK. BT Global Services provides services in more than 170 countries around the world.

We believe that the way we are structured brings us closer to our customers, helps us get it right first time and enhances the customer experience, at the same time as helping us reduce our costs and drive value for our shareholders.



Networks and innovation

128m km
copper wire

£1.1bn
invested in innovation

We have the most comprehensive fixed-line communications network in the UK, with more than 128m kilometres of copper wire and more than 11m kilometres of optical fibre.

We have announced plans to build a fibre-based, super-fast broadband network, which will be available to around 40% of the UK's homes and businesses by 2012.

We also have one of the most extensive Internet Protocol (IP)-enabled networks in the world, reaching from Europe to North and South America, the Middle East, Africa and the Asia Pacific region. Our multiple-protocol label switching (MPLS) network provides coverage and support in more than 170 countries.

In 2009, we invested £1.1bn in research and development (R&D) to support our drive for innovation. This covers everything from scientific research to the development of new products and services.

Chairman's message



“Over the next year our new volunteering strategy will help even more of our people get involved in our community work, extending the benefits for BT and our charity partners.”

BT has a long-standing commitment to responsible and sustainable business practices. We are well positioned to weather the current storm and we are determined to do this in ways that strengthen rather than undermine our values. Our commitment to help create a better, more sustainable world is as strong as ever.

There is much to be proud about this year, as this report demonstrates. From our efforts to create value for our customers and increase access to ICT, to our progress on reducing our environmental impact. Through our global partnership with UNICEF we are bringing education, ICT and communication skills to thousands of disadvantaged young people in Brazil, China and South Africa. Our goal is to adopt a global approach across more of our community work – reflecting our global presence and enabling more BT people around the world to collaborate and contribute.

I am pleased that our efforts were recognised externally too. BT was ranked sector leader in the Dow Jones Sustainability Index for the eighth consecutive year and awarded a prestigious Queen's Award for Enterprise in the sustainable development category. We have also been awarded the Carbon Trust Standard for our progress on measuring, managing and reducing our carbon footprint.

These awards reflect the hard work, imagination and commitment of people across the business. Their dedication is simply inspirational.

I'm delighted that I'm able to personally select the winners of the Chairman's Awards from hundreds of applications from BT people involved in community activities. I'm also proud of our long-term support for, and our people's commitment to, fundraising telethons and disaster appeals. Over the next year our new volunteering strategy will help even more of our people get involved in our community work, extending the benefits for BT and our charity partners.

In these uncertain times it is crucial that we help all our people maximise their potential. Initiatives like our apprentice scheme are designed to help achieve just that. Young people have a great deal to offer the economy and BT is wholly committed to equipping apprentices with the necessary tools to thrive in the innovation age. We are focussed too on helping our people acquire the new skills that will help us meet the changing needs of our customers.

We are committed to improving our reporting and increasing transparency. This year we included our non-financial key performance indicators in our Annual Report for the first time, and will make this review available in six languages. I hope these changes will raise the profile of our work among a wider global audience.

There is more we can do in some areas and I know there will be many challenges in the year ahead. But I am convinced that BT is making the right long-term decisions that will create value for our shareholders, and benefits for society and the environment.

Sir Michael Rake
Chairman

Responsible business – key milestones

Corporate responsibility isn't new to BT. We're proud of the progress we've made and are committed to maintaining this momentum in the years ahead.

1936

Launched the first telephone for the partially deaf.

1984

Created an Age and Disability Team to champion accessibility.

1986

We have supported Childline since its launch, providing fundraising support, office space and a memorable helpline number.

1991

Established our environmental management system, we now have ISO14001 accreditation in six countries.

Chief Executive's statement



This has been a tough year. The economic downturn has affected businesses and individuals worldwide and created an uncertain outlook for the coming months. But we must also look ahead at factors that will be influencing our customers and BT in five and ten years' time and prepare for those changes now, so that we can emerge from the current recession a stronger company.

Fortunately we don't have to choose between doing what's good for our business and what's right for society and the planet. The solutions to climate change will be complex, but our industry can play a key role. Cost savings and emissions reductions can be achieved by using communications technology to replace physical products and services with virtual equivalents and to help organisations monitor and reduce their energy consumption.

We already have a great range of products and services that help our customers live and work more sustainably, and cut costs: from next generation video-conferencing to our energy efficient home phones. Our sustainability practice is helping businesses use technology to reduce their carbon footprint right across their organisations.

There is a lot more potential in this area and we need to get everyone at BT thinking about it. Our sustainable business programme will help us do this by embedding environmental and social considerations in our product development processes. As always, we need to start by understanding what our customers need, and then develop the technology that will help them do this in cheaper, simpler, quicker and greener ways. Our continued broadband infrastructure will give us a real competitive advantage.

This subject isn't new to BT – we were thinking about our own carbon footprint long before it became popular or fashionable. For more than a decade we've been taking steps to reduce our energy use, to invest in low-carbon energy supplies, and to involve our people and suppliers. This has seen our UK carbon footprint fall by 58% since 1997 and prevented over 27,000 tonnes of CO₂ from being emitted last year. Now we have the opportunity to share what we've learnt with our customers and help them reap the benefits.

Our achievements and ambition should give confidence to our people, customers and shareholders that, even in these difficult times, BT is well prepared for the future.

Ian Livingston
Chief Executive

“Fortunately we don't have to choose between doing what's good for our business and what's right for society and the planet. The solutions to climate change will be complex, but our industry can play a key role.”

“We already have a great range of products and services that help our customers live and work more sustainably, and cut costs: from next generation video-conferencing to our energy efficient home phones.”

1992

Set our first CO₂ reduction target. We have reduced our UK carbon footprint by 58% since 1997.

1998

Accredited to the Investors in People training standard, we have maintained our accreditation every year since then.

2004

Signed what was then the world's largest green energy contract.

2009

Ranked top of our sector in the Dow Jones Sustainability Index for the eighth successive year.

Our strategy

Communications services have transformed global commerce and the way millions of people around the world live and work.

In the current economic downturn technology can play an important role in helping businesses reduce costs and increase productivity. There is great potential for communications technology to bring wider benefits by enabling more individuals and communities to participate in the global economy and by supporting efforts to tackle climate change. It is our job to bring together the best technology to create services that benefit our customers and support society and the environment. Communications technology also has environmental and social impacts and we have programmes in place to reduce these.

Our focus

We aim to make BT a better business and drive shareholder value by delivering on our current strategic priorities in better, faster and cheaper ways.

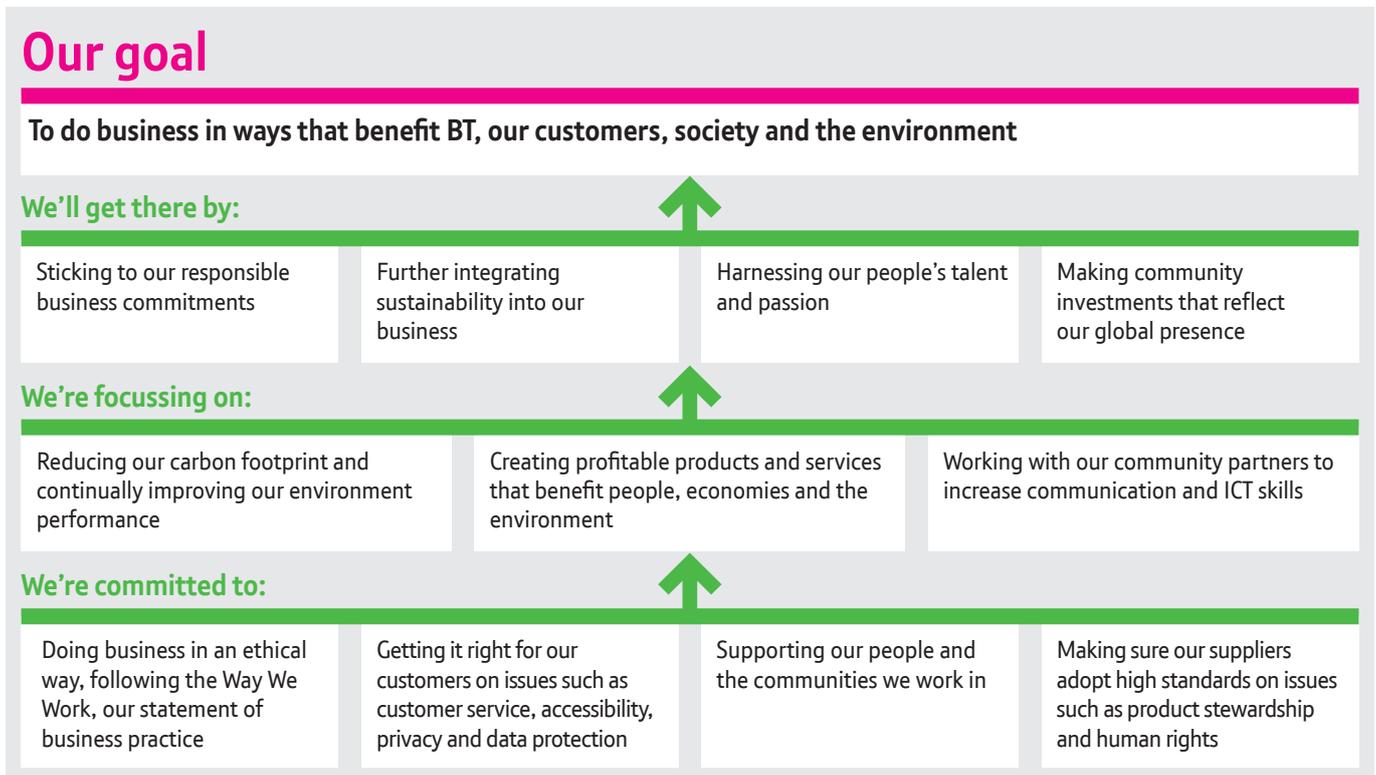
Our priorities are:

- ▶ Providing excellent customer service
- ▶ Building future networks
- ▶ Becoming more agile.

Our strategy for corporate responsibility

We reviewed our corporate responsibility strategy this year to make sure it reflects current business goals and the needs of our customers, people, shareholders and communities.

This reconfirmed our commitment to responsible and sustainable business practices, and strengthened our focus on three priorities. Our strategy is outlined in the table below.



Managing risks and opportunities

We quantify the most significant social, environmental and ethical risks to BT in our CR risk register. This is updated twice a year and reviewed annually by our Board. In 2009 we identified no new CR risks that would have a material financial impact on our business.

Our key risks are:

- ▶ Breach of integrity leading to a loss of trust in BT
- ▶ The impacts of climate change (mitigation and adaptation)
- ▶ Effect of diversity on employee relations and customer service
- ▶ Health and safety risks to employees and the public exposed to BT operations
- ▶ Loss of trust caused by unintended release of private customer data
- ▶ Unacceptable supply chain working conditions.

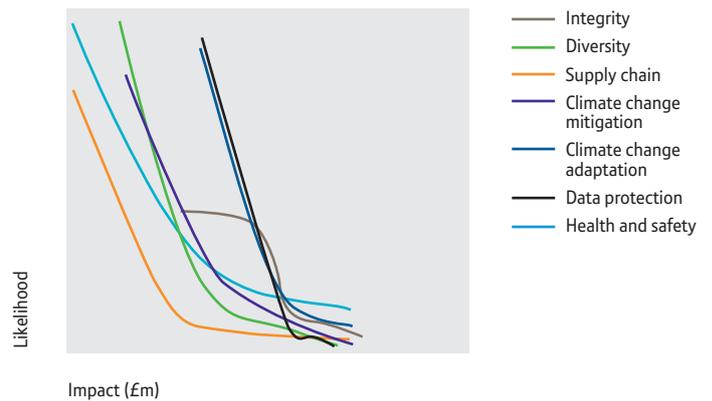
We constantly review our CR risks and our mitigation and control measures. None of our CR risks are considered material enough to be included on our group risk register. @

We use an opportunities map to show some of our existing and potential products and services that have sustainability benefits, and their market attractiveness. This year we have focussed specifically on opportunities for a low-carbon economy.

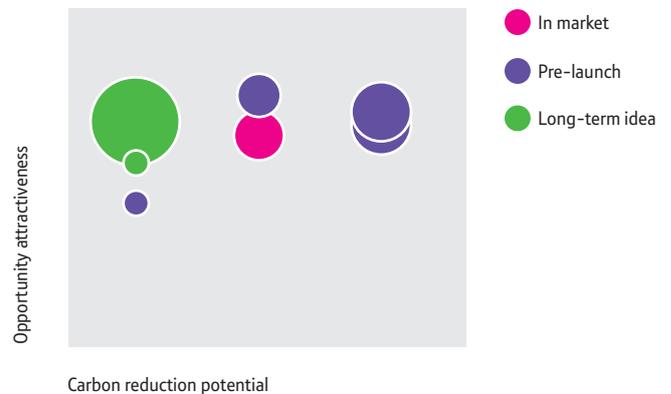
How we manage corporate responsibility

We have made a number of changes to the way we manage CR and now have four leadership teams, and an independent advisory panel. Our Committee for Responsible and Sustainable Business is a board committee chaired by Sir Michael Rake, which sets our corporate responsibility strategy. It includes three non-executive directors and three independent members, as well as key executives. The other three leadership teams are chaired by Gavin Patterson, CEO BT Retail; Mike Galvin, Managing Director, 21st Century Customer Experience; and John Petter, Managing Director of our Consumer business. To ensure expert challenge, scrutiny, advice and thought inform our CR strategy and operations, BT has had in place for years an independent leadership panel, chaired by Jonathon Porritt. Its views are summarised on page 14 of this review. @

Key CR risks



BT low-carbon economy opportunity map



Responsible business during a downturn

This has been a tough year. The credit crunch, banking crisis and resulting global recession have impacted businesses around the globe. The outlook remains uncertain.

Strong values

Our Statement of Business Practice, the Way We Work, defines our expectations of, and commitment to, our customers, employees, shareholders, partners, suppliers and local communities. All our people are trained on our values and business principles. They can report suspected ethical breaches using a confidential telephone and email helpline. This year we have developed and communicated policies for anti-corruption and bribery, and gifts and hospitality.

We have delivered significant improvements to our customer service during the year. However, the level of profitability in BT Global Services fell significantly, caused by a combination of higher costs, the slow delivery of cost reduction initiatives and worsening economic conditions. This led our Board to conclude that previous estimates of profitability for some of our major contracts were no longer likely to be achieved. We are taking steps to address the cost base, to bring greater focus to the profitability of new contract wins and to reduce shortfalls in delivery performance on existing contracts.

We are a major employer, customer, and supplier. More than a million investors hold shares in BT. It is our responsibility to remain in business, and to do this as profitably as possible. Across the group we are focussing on reducing our costs and improving our efficiency.

We know that our reputation is essential to our long-term success. We must make sure that changes we make are handled sensitively and in a way that strengthens rather than undermines our values. We are also using our creativity and innovation to find new solutions that will make a positive difference for our customers, people and communities. If we get this right we will emerge from the current recession stronger.

Responsible financial management

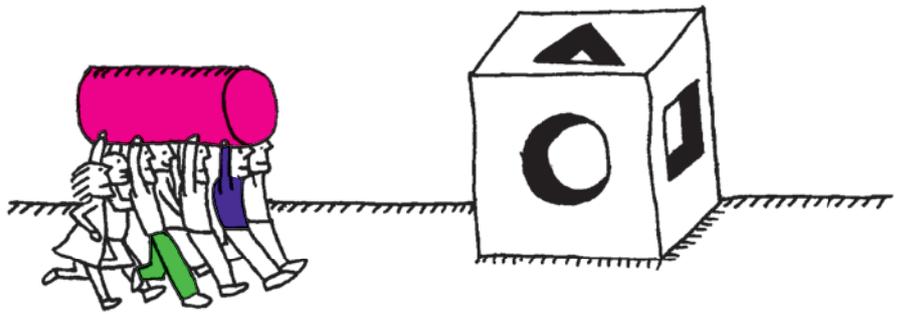


The crisis in the financial sector has highlighted the importance of strong governance and responsible financial management. We have taken steps during 2009 to:

- ▶ Provide a clearer view of the performance of our different lines of business and improve accountability
- ▶ Responsibly reduce our total labour resource, including contractors and BT employees, see page 8
- ▶ Following a review of salaries, market conditions and discussions with our trades unions, there will be no increases to salary this year for employees, including our executive team.

Managing our pension funds

Defined benefit pension funds are facing funding shortfalls due principally to people living longer in retirement, the performance of global stock markets, falling interest rates and the cost of increased regulation. We reviewed our UK pension arrangements this year and have consulted our recognised trade unions, our people and the BT Pension Scheme (BTPS) Trustee over a range of changes. We hope these will make our pension schemes more sustainable while providing flexibility and choice to employees. See our Annual Report for more details. The funding of the BTPS is reviewed on a regular basis and in the event of a shortfall, a schedule of contributions is agreed with the Trustee with the aim of, over time, meeting employee pensions as they fall due. @



Getting it right for our customers

The recession is affecting BT customers of all types – from consumers to small businesses, large corporations and governments. We aim to support our customers during this period by:

- ▶ Being number one for customer service and getting it right first time
- ▶ Providing innovative products and services, including those that help our customers reduce their costs
- ▶ Being clear on our prices and adding value for our customers.

Getting it right for our customers also means addressing a range of responsible business issues such as privacy, content standards and accessibility.

Our commitment to customer service

By improving efficiency, we can reduce mistakes, cut costs and improve customer satisfaction. We measure customer satisfaction across our businesses using Right First Time and set a group-wide target to increase our score by 24% in 2009. We achieved an increase of 17%, following the 9% improvement we achieved last year. We are aiming for further improvements next year.

In BT Retail, customer satisfaction with our advisors increased by 32% during 2009. Customer service advisor training has reduced the time taken to resolve customer enquiries by over 60%. We know there is much more to do and we are investing in intelligent monitoring and diagnostics systems which help us identify and resolve any problems, reducing the need for customers to contact us.

Ideas in action

We are launching new products and services that help our customers manage their costs and operate more flexibly. Recent examples include:

- ▶ **Intelligent Virtual Private Network (iVPN)** – launched in March 2009 in over 170 countries. This service allows global organisations to better manage and improve the performance of their IT network and business applications, reducing technical and operational costs.
- ▶ **BT Fon** – Our customers can share their home Wi-Fi and in turn get free access to Wi-Fi of other Fon community members and BT Openzone Wi-Fi hotspots. Between them, BT Openzone and BT Fon offer our customers the chance to get online at more than 130,000 locations in the UK and Ireland and at more than 50,000 worldwide through roaming partners.
- ▶ **Homeshoring** – enabling organisations to run virtual contact centres, where employees work from their own homes. This helps to reduce costs, absenteeism and employee turnover. We use the service in our own US conferencing business, where it allows employees to choose their own schedules and helps BT to match staffing levels more closely to actual call volumes. @

Investing for the future

Information and communications technology plays an important role in global economic activity, productivity and quality of life. We are sustaining our investment in technology, to make sure our customers continue to access the products and services they need.

We are planning next generation super-fast broadband, which will cover 10 million UK homes by spring 2012. We plan to invest £1.5bn in this programme, which will benefit BT, our customers and the UK economy. This is subject to our ability to make a proper return. Super-fast broadband will run on our 21st Century Network, our next generation global platform. BT invested around £1.1bn in R&D during 2009. @

Being clear on pricing

Clear, transparent pricing helps customers manage their costs. We have made a number of improvements in this area during the year.

For example, our consumer customers now benefit from free calls to 0870 and 0845 numbers within their call plans. A phone line can be essential and we are committed to providing access for people on low incomes. BT Basic, our package for consumers who otherwise would not be able to afford a telephone, is now used by 200,000 people across the UK.

For our small business customers we reduced the price of our business broadband packages, by up to 35%, and introduced savings of up to 34% on our BT Talk Time Mobile package.

Prices for BT Wholesale and Openreach customers are published on their websites. @

Protecting customer privacy

Privacy and data protection are increasingly important issues for customers of all sizes. Our comprehensive privacy policy is available on our website. Everyone at BT from the Chief Executive to temporary employees is required to pass data protection training every three years.

We provide products and services that help our customers protect their data and privacy. From the security features in all our BT Broadband packages, the PC Security Check and our Internet Security Pack for business customers to fully managed Security Services for our largest customers.

Child safety online is another important issue for BT and our customers. We are working with industry and government on a number of initiatives in this area, including the UK Council for Child Internet Safety (www.dcsf.gov.uk/ukccis). @



Supporting our people

We employ around 105,000 people directly and a further 42,000 indirectly including agency and sub-contractors – giving us a total labour resource of around 147,000 people.

The steps we are taking to improve efficiency and get things right first time mean we need less people in some areas of our business. Changes in technology, ways of working and the types of products and services we provide are also affecting the skills and expertise that we need. As a result, we have reduced our total labour resource by around 15,000. We anticipate further reductions of a similar level in 2010.

We aim to keep job losses among BT employees to a minimum. Our Transition Centre helps BT people affected by these changes access retraining and find new jobs within BT or elsewhere. Much of the reduction in our total labour resource has been achieved by replacing contractors and agency staff with people from our Transition Centre.

Our Career Corridors programme offers training and support to help employees assess their skills and job options, and improve their interview techniques through workshops, one-to-one coaching and web-based tools. We also work with a recruitment agency to help employees find work outside BT, by helping develop their skills.

We aim to engage more BT people in our work with charities and other voluntary and community organisations. This benefits the organisation and helps employees gain new experiences and skills.

Change and uncertainty can affect morale. Our employee engagement index measures the success of BT's relationship with its employees, based on the results of our employee survey. We scored 3.61 out of five this year compared to 3.60 last year. This year we began conducting surveys every three months involving a quarter of employees, rather than an annual survey for all employees. We are pleased that despite significant business change there has been a marginal improvement in the index score. We will work hard to bring further improvements in the year ahead.

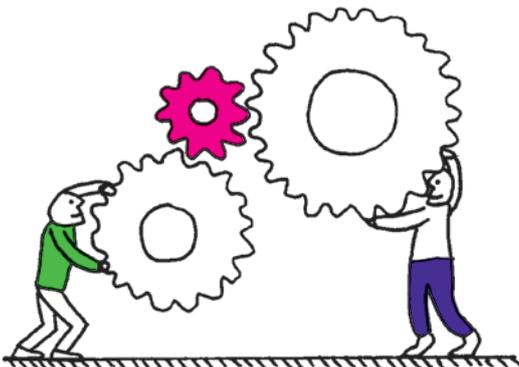
Diversity and inclusion

Our customer base is global and diverse. To serve their needs we need to recruit the best people from around the world and create an inclusive workplace where all employees can give their best. We have long-standing policies on equal opportunities, fair pay and anti-bullying, and initiatives to increase diversity such as our mentoring programme for graduate recruits. In 2009, 22% of our workforce was female and 21% of our top 400 leadership positions were held by women. Our flexible working policies and communications services enable a wider range of people to work for BT, including parents, carers and people with disabilities. We are pleased that 96% of women return to work at BT after maternity leave.

Health and safety

The health and safety of our employees is a key responsibility. In 2009, there were 0.160 lost time injuries per 100,000 working hours, compared with 0.188 the previous year and a target of 0.186. We lost 2.17% of calendar days to sickness, against a target of 2.2%.

Working with our suppliers



BT buys from thousands of suppliers, many in emerging economies. We aim for all our suppliers to meet high standards on human rights, employment and environmental practices. We have a long-established supply chain management programme to assess potential suppliers, monitor their performance and work with them to improve standards.

In 2009, we conducted 27 onsite assessments of our high or medium-risk suppliers. The most common, significant issues found during assessments of medium and high CR risk suppliers related to health and safety, the welfare of employees and working hours. We discussed assessment findings with suppliers and are monitoring their progress through follow-up reports, review meetings, and, in some cases, return visits.

We are working with suppliers to embed energy efficiency in our buying decisions and assessed 63 suppliers on their climate change actions.

Investing in our communities

In 2009, we gave £25m in time, cash and in-kind contributions to activities which support society. More than 3,000 employees volunteered for schools, charities and other community organisations. The time, expertise and money that we give, support our CR strategy to increase skills and use of technology, motivate our people and enhance our reputation. The quality of our community investment programme is independently evaluated. We achieved a score of 91% this year, against our target of 82% due to improved programme management, and better alignment with our CR goals.

We aim to continue investing at least 1% – in cash, time and in-kind support – of underlying pre-tax profits in community and environmental programmes despite the current economic environment. Our strategy is to enable more BT people to get involved in helping the communities where we operate. This will increase the proportion of our community investment given in time.

Our charity partners during the year included Childline, Comic Relief, Disasters Emergency Committee (Gaza appeal), and the British Red Cross. We also support a number of education projects and provide resources on our website for people working with children. Around 45,000 have registered on our site so far and our latest resource, the Communication Cookbook is being used in nearly 5,000 schools. BT has supported Katha, a charity that educates children in Delhi’s poorest areas, since 2001. Nearly 15,000 children now have ICT skills and over 13,000 have related jobs. We provide support and guidance on Katha’s expansion and will host a UK reception for the charity in 2009, led by non-executive director Patricia Hewitt MP and Sir Michael Rake.

Many of our community investment programmes help increase skills and access to communications. For example, our Inspiring Young Minds partnership with UNICEF now provides education, technology and communications skills for disadvantaged children in South Africa, Brazil and China. Our new Communicating for Success partnership with the Football Foundation, will use sport to help reduce digital exclusion and improve communication skills in the UK. BT and the Football Foundation have each invested £500,000 in the scheme.

We have decided that retaining a UK market focussed digital inclusion KPI is no longer appropriate for us. BT has made a significant investment, along with government, industry and community organisations in delivering nearly universal UK broadband availability and ICT skills.

We will continue to set targets for our digital inclusion programmes with partner organisations that help communities to acquire and increase their skills, and access communications technology, both in the UK and globally, and we will encourage our people to get involved in delivering these programmes and will report on our progress.

Contingency planning

In an emergency or disaster situation, telecommunications are critical to delivering essential services. We have contingency plans to make sure that our customers, including governments, public organisations and emergency services, are able to communicate, even in extreme circumstances. These include emergency mobile telephone exchanges which can restore communications services within hours of an incident affecting the network.

 **3.61 out of 5**

Employee engagement score

Our score is based on regular employee surveys

 **£25m**

Our community investment

Our time, cash and in-kind support is equivalent to 1% of pre-tax profits

 **0.160**

Our lost time injury rate

An improvement on 0.188 last year



Sustainable opportunities for BT

In the coming decades, social and environmental changes will shape the way we live and work. Globalisation, climate change, poverty, ageing populations and the rise of emerging markets will be particularly significant. The impact on businesses and communities is likely to be much greater than that of the current recession.

The science and understanding of climate change is developing rapidly. Efforts to create a low-carbon economy will bring increased costs, taxes, and legislation that affect businesses worldwide. But new commercial opportunities will emerge for those who can provide low-carbon products and services.

The communications sector can play an important role in meeting new social and business needs and supporting global efforts to tackle climate change. But the sector must also address its own climate impact, currently around 2% of global CO₂ emissions. In 2008 we were a co-editor of the SMART 2020 report published by the Global e-Sustainability Initiative (GeSI) and The Climate Group, which found that smarter use of ICT could help reduce global CO₂ emissions by 15% by 2020.

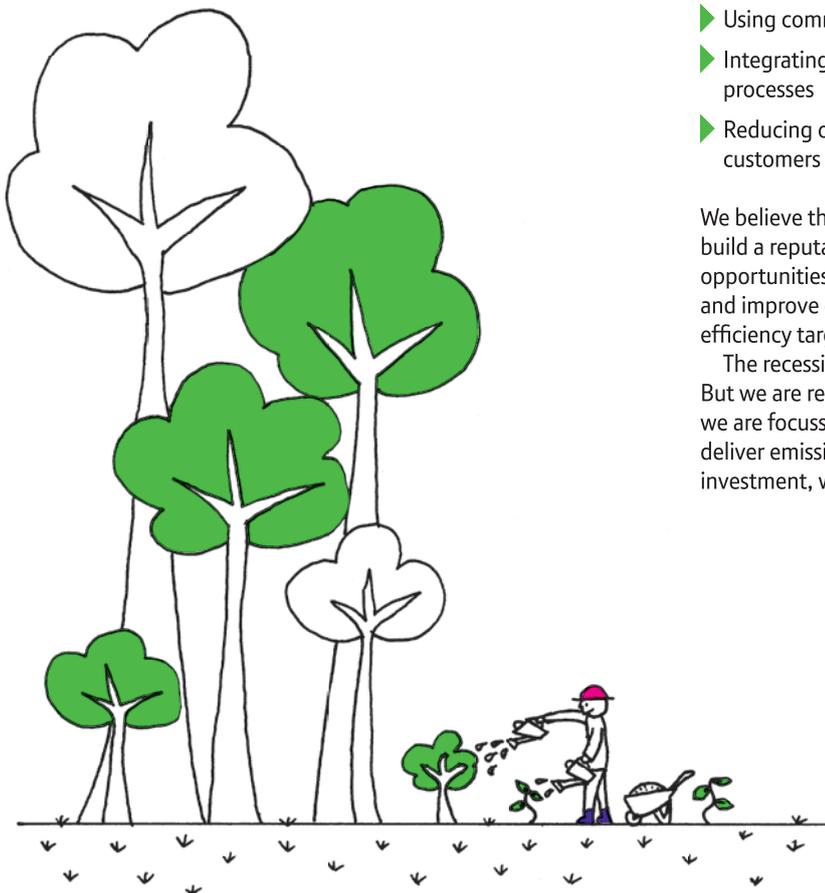
Investment is needed to reduce the carbon footprint of existing products and services, and to develop new ICT solutions that help organisations and individuals use less energy.

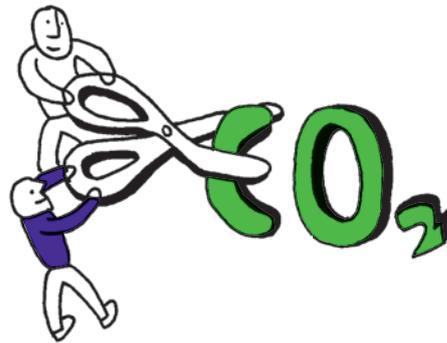
We are preparing for these changes now, by:

- ▶ Developing new products and services that help our customers cut CO₂
- ▶ Using communications technology to address social needs
- ▶ Integrating into our core business and product development processes
- ▶ Reducing our own carbon footprint and influencing our people, customers and suppliers to do the same.

We believe that by being a leader we will gain valuable experience, build a reputation for excellence, and make sure we profit from new opportunities as they arise. Our commitment to use less energy and improve eco-efficiency will also help us meet our financial efficiency targets.

The recession has not affected our long-term commitment. But we are restricting our expenditure in some areas. For example, we are focussing our energy efficiency efforts on those projects that deliver emission reductions, without requiring significant capital investment, which in turn helps us to be a more sustainable business.





Helping customers cut CO₂

We are improving the energy efficiency of our existing products and introducing new services that help customers reduce their CO₂ emissions.

We have committed to improve the energy efficiency of our entire home-phone range. We estimate that this will result in an overall reduction in CO₂ emissions, for our customers, of around 50,000 tonnes annually.

Our Global Services Sustainability Practice helps corporate and public sector customers reduce their carbon footprint by using communications services. By using its Carbon Impact Assessment service customers are able to calculate their CO₂ emissions and identify reduction opportunities through data centre consolidation, collaborative and remote working tools and other networked IT services. This year we made a sustainability impact assessment tool available to our BT Wholesale customers and BT Retail launched an online tool for our small and medium-sized business customers.

Future opportunities being explored include thin client services (computer systems that use less energy by locating software and processing capacity on a central server, rather than individual PCs) and energy management.

Product profile

Our conferencing services helped BT avoid travel related costs of £47m last year and avoided nearly 9,000 tonnes of CO₂ emissions. Our customers are benefiting too. For example, Tesco used BT's conferencing services to reduce carbon emissions by 2,446 tonnes a year, cut travel costs by more than £14m a year and enhance staff productivity by 18%. We expect even more customers to benefit as take up of our new video-conferencing solution increases.

Conferencing services are a major commercial opportunity for BT. We are now the world's largest operator of video-conferencing services and one of the largest tele-conferencing providers, supplying 68% of the FTSE 100 companies.

Addressing social needs

We are exploring new uses for technology that address other social and sustainability trends. For example, there may be opportunities to use technology in the health sector to assist with patient care. BT and Liverpool Direct Ltd (LDL) have been working with Liverpool City Council and Liverpool Primary Care Trust to improve support for elderly and frail people in the community. An activity and home monitoring service has been developed that provides real-time intelligent alarms for situations such as falls, fires, floods, carbon monoxide or gas leaks, burglaries or bogus callers. Special sensors are used to detect potential problems, and alert staff at a 24-hour response centre who can organise appropriate assistance such as calling a carer or the emergency services.

We have collaborated with AccountAbility to explore how communications services can contribute to the development of emerging markets, by enabling business-to-business activity. The report is available at www.accountability21.net.

Accessibility

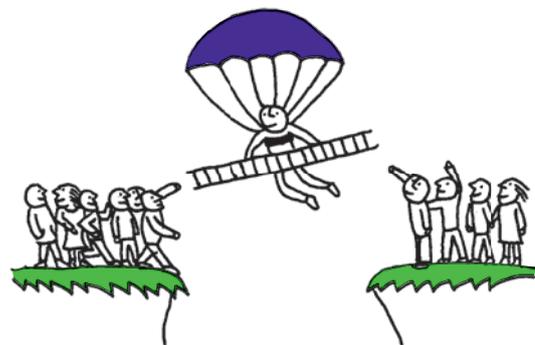
Our Centre of Excellence for Inclusive Design works closely with product designers to incorporate accessibility features across our product range. This helps more people benefit from communications technology and helps us extend our customer base. This year we launched a new text communications website (www.textrelay.org) for deaf, hard of hearing and speech impaired people, providing information about the different types of text communication in an accessible format. Our Inclusive Design Toolkit, developed in partnership with the Engineering Design Centre of Cambridge University, is now incorporated within design courses in many universities around the world.

Product profile

Our Freestyle 710 and 750 cordless phones, launched in October 2008 incorporate inclusive design features such as big well spaced buttons, clearly visible volume controls, comfortable shaped handsets and easy to read lettering. They are made from lightweight materials and are energy efficient, cutting running costs by up to half.

The phones are competitively priced and have been judged a 'best buy' by 'Which?' magazine and described as 'the most accessible domestic phone' by 'Disability Now' magazine. They were developed using the BT Inclusive Design Toolkit and tested with a range of users, including our employee user panel.

The Freestyle phones are available at our Try Before You Buy centres for older and disabled customers. These centres enable customers to try out telephones and accessories and get advice from trained staff in a friendly, non-sales environment. (www.bt.com/inclusion)



Integrating sustainability



We want all our products and services to reflect our commitment to sustainability. Our product teams will play a key role in helping us achieve this goal, and we have created a number of tools for them to use.

For example, our sustainability framework helps us assess the potential economic, social and environmental impacts of new products and those in our development pipeline. They cover five areas:

1. Medium to long-term economic viability of our customers
2. Contribution to wellbeing
3. Materials use and waste
4. Energy use and CO₂ emissions
5. Community impacts from re-use of a product or service.

We are also developing a methodology to measure the whole-life carbon footprint of our products and services. One of the first uses for this tool will be to assess the environmental impact of the products and services we will supply to the London 2012 Olympic and Paralympic Games.

Our opportunities map helps us prioritise and communicate commercial sustainability opportunities to people throughout the business. We are currently focussing on products and services that support a low-carbon economy. See page 5.

We are developing a key performance indicator to help us assess and report our progress on integrating sustainability into our business processes, and hope to publish this in our next Sustainability Report.

The business case for CR

Good management of CR issues supports our business performance in five ways:

1. Risk management and mitigation

Reducing significant social, environmental and ethical risks to BT, including those relating to breach of integrity, climate change, diversity, health and safety, privacy and supply chain working conditions.

2. Our reputation

Our consumer customers who believe that BT takes its responsibility to society seriously are 49% more likely to be very or extremely satisfied with BT.

3. Reducing costs

Our programmes to reduce the environmental impacts of energy use, waste and business travel have saved us over £400m since 2005.

4. Motivating our people

Our annual employee survey showed that this year 69% of employees felt proud to work for BT as a result of our CR activities.

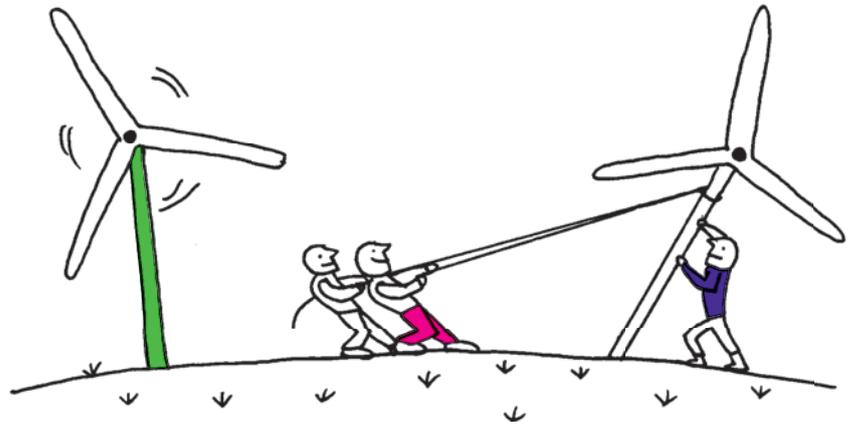
5. Marketplace opportunities

Our CR credentials supported bids worth a potential £1.9bn to BT in 2009. Climate change is creating new commercial opportunities. We are developing new products and services that help our customers live and work more sustainably.

Our view on carbon reporting

This year the UK government changed the way it recommends businesses to voluntarily report on their carbon footprint from renewable electricity. It now recommends that companies do not claim CO₂ reductions from the purchase of electricity from renewable sources or from own generated renewable electricity where a financial subsidy has been received. In general, we believe that carbon should be attributed on a legal basis where it is emitted and on a reporting basis to drive behaviour change. We are engaging with the government on this issue and the treatment of subsidies and carbon reporting for investment in renewable energy generation.

This year we continue to report renewable electricity (purchased and self-generated) as zero carbon. Depending on the outcome of the discussions with the UK government we may need to revise our approach to reporting, our approach to renewable electricity and our CO₂ targets.



Creating a low-carbon BT

By using less energy and reducing our CO₂ emissions we can cut costs, gain valuable expertise to share with our customers, and prepare for changes in legislation and taxation. Our sustainability performance is of growing interest to our customers, and supported bids worth a potential £1.9bn in 2009. Since 2005 our environmental programmes have saved BT over £400m.

Our target is to reduce our group worldwide CO₂e emissions per unit of BT's contribution to GDP (our carbon intensity) by 80% from 1997 levels by 2020. In 2009 we achieved a 43% intensity reduction (a 44% CO₂e reduction) by becoming more energy efficient and increasing our use of renewable energy. In the UK we have reduced our CO₂ emissions by 58% compared to 1997, with 41% of our energy coming from renewable sources.

Supplies of green electricity are limited in most countries – just 4.5% of total UK electricity production for example. We are working with partners to develop wind farms in the UK's biggest corporate wind power project outside the energy sector. This should produce up to 25% of our UK electricity consumption by 2016. Currently, we have identified 20 prospective sites for a range of generating capacities from 3MW to 32MW and expect to start generating energy by 2012. Our office complex at El Segundo in California is now part powered by photovoltaic panels that deliver around 500kW of renewable electricity. We have installed a tri-generation plant that produces 2MW of electrical power and 2MW of heating and cooling on our research facility at Adastral Park.

Motivating our employees to save energy will help us reduce emissions and bring cost savings, without requiring significant expenditure. We now have over 120 Carbon Clubs with over 400 members. We launched an energy saving campaign to save 75,000 tonnes of CO₂ and £15m by March 2011. Employees will be encouraged to save 30% of this by adopting five energy saving actions:

1. Turn off electrical equipment
2. Use the stairs rather than the lift/elevator if possible
3. Help building heating/cooling to work efficiently by keeping windows closed
4. Consider energy efficiency when buying or operating equipment
5. Reduce the amount of printing (print double-sided and black and white).

BT is also doing its bit by auditing energy use, decommissioning unnecessary servers in our data centres, adjusting cooling and heating systems, installing energy-efficient lighting, reducing energy use in unused office space, and switching off unused network equipment. The projects implemented so far have reduced energy use by 53GWh and cut CO₂ emissions by over 20,000 tonnes a year. The campaign will continue for another two years and we aim to significantly increase the savings made.

We are testing energy monitoring equipment that enables home workers to measure and reduce their energy use. We will use the findings to develop guidelines for all BT home workers.

We are actively involved in initiatives that encourage businesses, governments and individuals to tackle climate change, such as the Confederation of British Industry's (CBI) work on climate change and the Global e-Sustainability Initiative (GeSI), an ICT sector initiative promoting technology that fosters sustainable development.

We are working with trade associations, companies and standards organisations to improve the international standards that govern the design and manufacture of ICT equipment, for example to incorporate energy efficiency measures, and identify new ways that communications technology can support global efforts to tackle climate change.

We made progress in reducing our environmental footprint in a number of other areas this year. For example, we encourage employees to choose lower-emission cars and have reduced the average CO₂ emissions of our company cars by 28% in nine years. This year we reduced the distance travelled by our commercial fleet by 9.5% and by our company car fleet by 22.5% compared with last year. We recycled 35,926 tonnes of waste in the UK, which represents 50% of our total waste. This is an improvement of 4% on the previous year. We sent 35,338 tonnes of waste to landfill, 17% less than in 2008.

We extended our ISO14001 certification to Germany and the Netherlands this year and are now reporting on our environmental performance for our operations in 19 countries around the world.

 **58% reduction**
UK CO₂ emissions from our 1997 base year

 **80% reduction**
Our global carbon intensity target

We will reduce our CO₂e emissions per unit of BT's contribution to GDP by 80% by 2020

 **50%**
Recycling
We recycled half our waste this year

What others think

External views help us to refine and improve our approach to responsible and sustainable business. Our Leadership Panel of external sustainability experts meets four times a year. They give advice and guidance to help us improve and encourage BT to strive for leadership in sustainability and comment on this Sustainability Review. Lloyd's Register Quality Assurance Limited (LRQA) assures this review and our online database against the AA1000 Assurance Standard (2008).

A view from our 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 strategy and performance
- ▶ Making sure that BT doesn't dodge difficult or uncomfortable issues
- ▶ Bringing independent scrutiny to bear on BT's understanding of critical societal issues
- ▶ Advising on new or significantly altered social and environmental report content.

In the course of the last year we have met four times, and have held 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.

Principal areas of engagement:

The new strategy

Every company undergoes eras of significant change, and with the appointment over the last 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 practice 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 have also interrogated the company's ambition to increase the amount of employee volunteering.

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.

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 in 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.

Jonathon Porritt

Chair of the Panel and co-founder and programme director of Forum for the Future, a UK sustainable development think tank



Mark Goyder

Founder director, Tomorrow's Company, a business think tank



Elisabeth Laville

Director of Utopies, a Paris based sustainability consultancy



Jørgen Randers

Professor of climate strategy at the Norwegian School of Management



Nick Robins

Head of Climate Change Centre of Excellence at HSBC in London



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.

The full statement is available online:

@ www.bt.com/betterworld

Assurance statement

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 (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.
- ▶ Global Reporting Initiative Sustainability Reporting Guidelines (GRI G3), 2006.
- ▶ GRI Telecommunications Sector Supplement, July 2003.

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.

LRQA's responsibility was to carry out an assurance engagement on these reports.

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.

See LRQA's full assurance statement for a detailed description of 'Our approach'.

Our response

We welcome the guidance, advice and critique that our Leadership Panel and LRQA bring. They are invaluable in helping us to identify, understand and respond to sustainability issues and concerns. We very much appreciate their inputs and will take full account of their findings, conclusions and recommendations relating to this report, and any issues raised during the year ahead.

Our conclusions and findings

Based on the terms of engagement, LRQA's conclusions are summarised below:

Inclusivity

We found nothing that would cause us to believe that BT is not committed to being accountable to its stakeholders.

Materiality

We are not aware of any material issues concerning BT's sustainability performance that have been excluded from the reports.

Responsiveness

We are not aware of any additional issues of stakeholder interest that are not currently being managed by BT.

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.

Global Reporting Initiative

BT's self declaration of A+ application level is fairly stated and the web-based Sustainability Report 2009 meets GRI requirements.

See LRQA's full assurance statement for further details on our conclusions for adherence to the AA1000 Accountability Principles and GRI Guidelines.

Recommendations identified by LRQA

Progress on improvements identified in 2008 and areas for further improvement are included in our full Assurance Statement. @

S M Fletcher **G Farmer**

For and on behalf of LRQA, UK



¹ LRQA's Assurance Statement is available in the web-based Sustainability Report 2009 at www.bt.com/betterworld. This provides a full description of our assurance approach, conclusions and recommendations.

² This excludes BT's Regulatory Compliance Report for 2008/9 and the Equality of Access Board Summary Report 2009.

³ 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.

How we performed this year

We measure progress towards our goals using our non-financial key performance indicators. We also report the direct costs to BT and the indirect impacts on society associated with the way we manage environmental and social issues. This follows the principles of the Connected Reporting Framework sponsored by HRH the Prince of Wales.

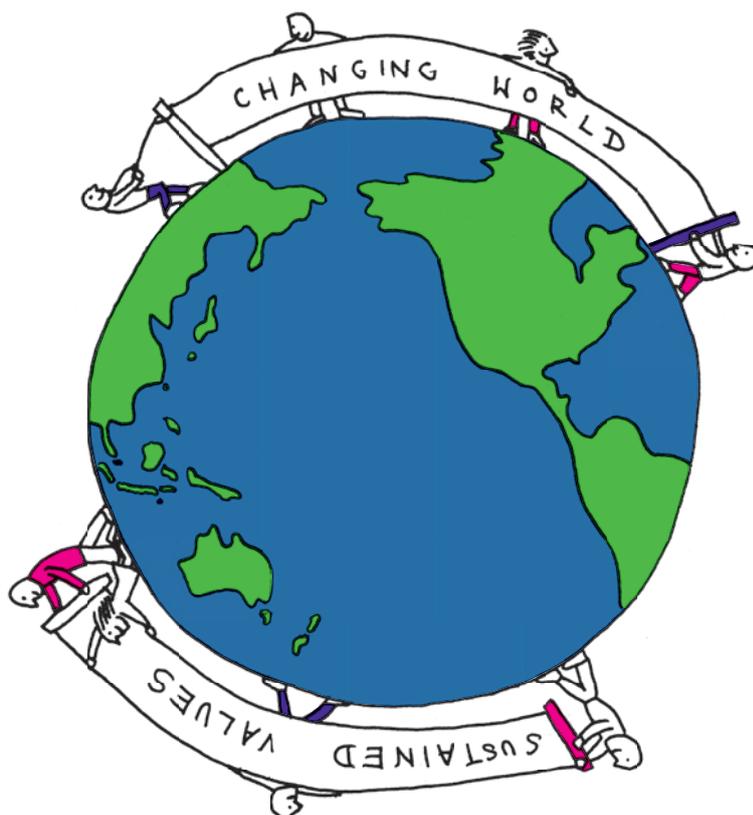
Key CR performance indicators

	Key performance indicators	Direct company impacts: Non-financial indicators			
		Target 2010	2009	2008	2007
Customers	Customer service A measure of success across BT's entire customer base	To improve customer service based on getting things right first time (RFT) in line with our corporate scorecard	17% improvement in RFT service from 2008	9% improvement in RFT service from 2007	3% increase in customer satisfaction (our previous measure)
	Employee engagement index A measure of the success of BT's relationship with employees, through its annual employee attitude survey	Maintain or improve the 2009 level of employee engagement. We moved to a five point scale (five being good) this year, and have restated previous scores	3.61	3.60	3.62
Employees	Diversity A measure of the diversity of the BT workforce	BT will maintain a top 10 placement in four of five major diversity benchmarks. Includes four UK benchmarks and the Schneider-Ross global diversity benchmark (from 2008)	BT is in the top 10 placement in four out of the five major diversity benchmarks	BT is in the top 10 placement in four out of the five major diversity benchmarks	BT is in the top 10 placement in three out of four main UK diversity benchmarks
	H&S: lost time injury rate Lost time injury cases expressed as a rate per 100,000 hours worked on a 12 month rolling average	Reduce to 0.157 cases	0.160 cases	0.188 cases	0.238 cases
	H&S: sickness absence rate Percentage of calendar days lost to sickness absence expressed as a 12 month rolling average	Reduce to 1.9% calendar days lost due to sickness	2.17%	2.43%	2.43%
Suppliers	Supplier relationships A measure of the overall success of BT's relationship with suppliers, based on our annual supplier survey	To achieve a rating of 80% or more, based on the question: 'How would you describe the quality of your company's relationship with BT?'	85%	78%	New measure in 2008
	Ethical trading A measure of the application of BT's supply chain human rights standard	To achieve 100% follow up within three months for all suppliers identified as high or medium risk, through our ethical standard questionnaires	78 risk assessments with 100% follow up	234 risk assessments with 100% follow up	413 risk assessments with 100% follow up
Improving society	Community effectiveness measure An independent evaluation of our community programme	Maintain evaluation score at over 90%	91%	79%	70%
	Investment to improve society	Maintain a minimum investment of 1% of underlying pre-tax profits	1.01%	1.02%	1.05%
Environment	CO₂ equivalent emissions A measure of BT's climate change impact	By December 2020, BT group will reduce its CO ₂ e emission intensity by 80% against 1997 levels. New target set in 2008	CO ₂ e 906,000 tonnes 44% reduction 43% intensity reduction	CO ₂ e 920,000 tonnes 43% reduction 52% intensity reduction	CO ₂ e 896,000 tonnes 45% reduction 52% intensity reduction
	Waste to landfill and recycling A measure of BT's use of resources	BT group will reduce the tonnage of waste sent to landfill by 8% from 2009	17% reduction in waste to landfill from 2008 (UK only)	22% reduction in waste to landfill from 2007 (UK only)	8% reduction in waste to landfill from 2006 (UK only)
Integrity	Business practices measure How our Statement of Business Practice is implemented. Measured through a regular employee survey	We plan to make this indicator more broad-ranging to include all relevant policies including our new anti-corruption and bribery, and gifts and hospitality policies	77%	83%	87%

All targets have an end date of 31 March 2010 unless otherwise indicated. This table is also published in our Annual Report and Form 20-F 2009 to help more people understand our performance on social and environmental issues.

Direct company impacts: Financial indicators				Indirect company impacts
	2009	2008	2007	
Total revenue	£21,390m	£20,704m	£20,223m	
Average revenue per (UK) consumer household	£287	£274	£262	
Employee costs	£5,506m	£5,358m	£5,223m	Employee engagement is a driver of customer satisfaction
Number of employees	107,021	111,858	106,200	
BT will develop a relevant financial indicator for diversity next year				Establishing a diverse workforce promotes social cohesion
Cost to the business arising from injuries resulting in time off work	£7m	New measure in 2009		Lowering lost days from injuries and sickness reduces societal health care costs and improves productivity
BT sick pay costs	£85.2m	£89.8m	£84.7m	
Total spend with suppliers	£8.9bn	£8.6bn	£6.8bn	Economic multiplier effect (e.g. employment) arising from BT's supply chain procurement
Value of procurement contracts where our suppliers agree that we work with them to improve sustainability impacts (extrapolated from a representative supplier survey)	£7.4bn (83% of supplier spend)	£5.7bn (66% of supplier spend)	First measure in 2008	Quality of life – especially working conditions in emerging economies
Community investment (time, cash and in-kind support)	£25.0m	£22.3m	£21.8m	BT's community programme focuses on improving communication and ICT skills. This helps improve people's employment prospects and increase social inclusion
Total energy costs (fleet fuel + gas + oil + diesel for back up generators etc; UK and Ireland only)	£227m	£194m	£185m	Indirect negative impacts occur in the manufacture of equipment and through energy consumption in customer premises. Positive impacts arise from application of ICT to support low-carbon economy
Income from recycling	£7.42m	£6.70m	£4.48m	Dealing with end of life products sold into the market place. Acting to reduce obsolescence
Landfill tax savings	£1.15m	£0.89m	£0.84m	
Waste costs	£(7.90m)	£(7.27m)	£(5.15m)	
Net waste savings/(cost)	£0.67m	£0.32m	£0.17m	
Revenue support (customer bids with a sustainability component)	£1.9bn	£2.2bn	£1.8bn	A responsible business culture, banning corrupt practices including facilitation payments, supports better international governance

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 review and sustainability at BT.



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