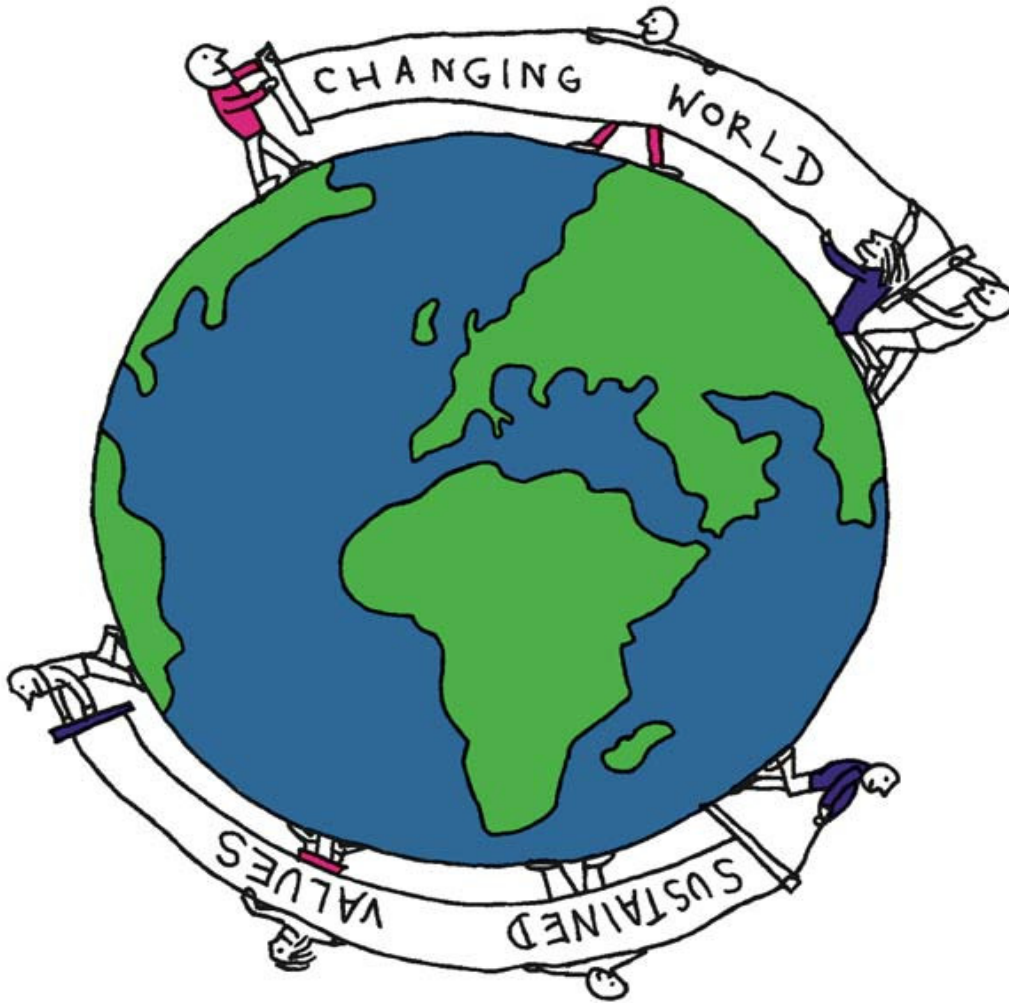


Changing world: Sustained values



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

Introduction

Welcome to BT's 2009 Sustainability Report. In it we explain our approach to responsible and sustainable business and explore in detail the related issues and opportunities for BT.

We describe our corporate responsibility (CR) strategy and how we govern and manage CR. There are sections on our relationships with our customers, people and communities, as well as a new section on running a responsible business. This explores issues relevant to many of our stakeholder groups, such as supply chain, human rights and privacy and data protection.

We also report in detail on the focus areas of our CR strategy: climate change and environment, sustainable economic growth, and community ICT and skills.

See using this report for more information about navigating and using this report. We also provide information about the scope of our reporting and how we decide what to include.

Our short, printed review, *Changing World: Sustained Values 2009*, focusses on responsible business in an economic downturn and what this means for BT and our customers, employees, suppliers and communities. We also explore the opportunities that societal and environmental changes present to BT. The review is available here as a PDF.

Using this report

This report contains a lot of information about our progress towards becoming a more responsible and sustainable business. We appreciate that everyone's interests differ and most people will only want to visit certain sections of the website. We have provided a number of different ways for you to navigate the report and help you find what you are looking for.

Left-hand menu

You can navigate around the report using the tree structure in the left-hand menu.

Search the report

This function enables you to search for specific words or phrases.

Indexes

We have provided four different indexes to help you find information:

- Alphabetical
- Global Reporting Initiative (GRI) – to find our responses to the indicators and disclosures of the G3 sustainability reporting guidelines
- Statement of Business Practice, The Way We Work – to show our performance against our business principles, aspirations and commitments
- Ten principles of the United Nations Global Compact

We also link to relevant parts of the GRI, The Way We Work and the UN Global Compact throughout the report. Look for the relevant icons in the list of links to the right of your screen.

Other links

There are charts showing our performance against key performance and other indicators at the bottom of pages throughout the report. Click on each chart for a full size version in a pop-up window.

Links to relevant case studies also appear at the side of the page.

Our sustainability performance from 1 April 2008 – 31 March 2009 has been audited by LRQA. Click on the LRQA logo at the right of your screen for more information about the audit process.

Accessibility

You can increase the text size on your screen using the letter A icons in the bottom left-hand corner. Click here for full details of the accessibility functions available on BT's website.

Additional resources

There is much more information about our efforts to become a more responsible and sustainable business on the wider Better World site, as well as resources to help others. This includes advice for businesses, such as our Carbon Impact Assessment, free educational resources for teachers, and Bigger Thinking, our website dedicated to thought leadership in sustainable business.

Chairman's message

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 of BT people involved in community activities. I'm also proud of our long term support for, and our people's commitment to, fund raising 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 focused 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 our short review – Changing world: Sustained values 2009 – 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

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 investment in our 21st Century Network and the UK's super-fast 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 1996 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

Scope of our report

This report describes our approach and performance on relevant and significant social, economic and environmental issues during the financial year ending 31st March 2009 (2009). Our previous report covered the year to 31st March 2008.

The report and data cover all wholly-owned activities in the UK and internationally, unless otherwise stated. In 2009, our UK operations accounted for approximately 78% of turnover and 86,521 of 107,021 employees.

Equality and diversity data are based on 'self-declaration' – the number of people who declare

themselves to be from a minority group or category. In some countries it is illegal to ask for or collect this data. We make it clear when data is country specific.

Our approach to materiality

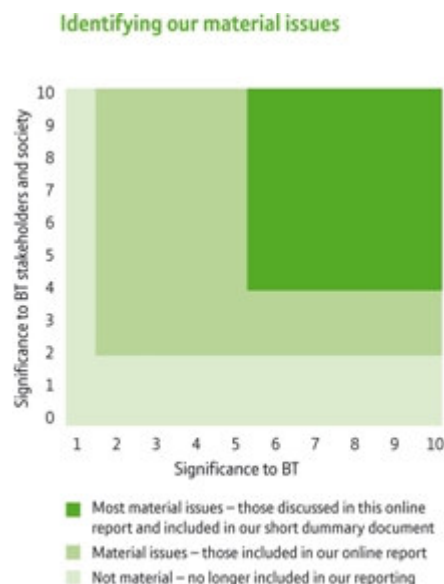
We use a materiality determination process to help us identify the most relevant and significant (material) corporate responsibility issues for our business and stakeholders. This helps us focus our reporting in the right areas.

Our materiality process

We look at significance as well as relevance when determining whether an issue is material for us. We do this by considering:

- BT's policy position on the issue
- The financial impact of the issue on BT
- The degree of stakeholder interest in the issue, assessed through research with customers, employees, opinion formers and suppliers. We ask them what they consider the most important social and environmental issues a company like BT should take action on. We also analyse investor questionnaires to understand the issues of most interest to them.
- The degree of wider societal interest in the issue, which we determine through an extensive media review covering seven countries.

The chart illustrates how issues are classified. In most cases, issues identified during this process in 2009 were defined as 'material' by both BT and our stakeholders and were included in our reporting. There were also some issues that BT considered important that were not identified as significant in our stakeholder research.



We consulted our Leadership Panel and internal CR reporting team on these issues and in some cases chose to include them in our report. We particularly look for advice on issues that may be more forward looking. Our external assurors, LRQA, attend the Leadership Panel meeting and are involved in these discussions.

The materiality process also led us to exclude some issues, including some GRI indicators. We have indicated these in the GRI index. We may have policies and procedures in place to manage excluded

issues, regardless of whether they are included in our public reporting.

Our Key Performance Indicators (KPIs) are consistent with the issues identified through our materiality review.

Our material issues

Our most material issues are covered in our sustainability review, Changing world: Sustained values 2009 as well as in this online report. These are listed below. Other important but less significant issues are covered online only.

In alphabetical order; the most material issues from our review are:-

- Our ability to minimise service disruption following a disaster, and/ or deploy communications technology & skills to assist others' response efforts
- The accessibility of products and services for people of all ages and abilities
- The environmental impacts of our business travel
- Consumer privacy and data protection
- Customer satisfaction
- Communications solutions which help work-life balance – our people and customers.
- Our energy use, climate change impacts and carbon reporting
- Environmental management
- Freedom of association and collective bargaining – our people and suppliers
- The health and safety of our people and contractors.
- Our investment in network and services
- Our approach to a positive working culture where all employees are treated fairly and without discrimination
- Providing fair and rewarding terms and conditions to our employees
- Support for local communities and charities
- Talent acquisition and retention
- The development and provision of services that enable customers to reduce their climate change impact
- The impacts of outsourcing and global sourcing on our people
- The impacts of the economic downturn on our customers
- Waste management

Contact Us

Corporate Responsibility and Sustainability

Thank you for reading what we have to say.

Your views on our Sustainability Report are important because they help us improve. Let us know what you think of our report and whether you found what you wanted by contacting us at yourviews@bt.com. Your feedback will be forwarded to one of our corporate responsibility and sustainability specialists.

Other enquiries

Using the right channel helps us to direct your comment, query or complaint to the correct department, follow it up and keep you informed.

If your feedback does not relate to BT's corporate responsibility and sustainability, please go to our BT contact information page.

Environmental queries

If you have feedback or questions (not complaints) relating to BT and the environment, please contact us:

By telephone:

Freephone: 0800 731 2403

International callers please use: +44 800 731 2403

By e-mail:

bt.environment@bt.com

By post:

BT Group plc

BT Centre,

81 Newgate Street,

London

EC1A 7AJ

Glossary

Accessibility – User-friendly products and information for people of all abilities.

ADSL – Asymmetric Digital Subscriber Line. ADSL transforms the existing twisted copper pairs between the local telephone exchange and the customer's telephone socket into a high-speed digital line.

Alternative energy – Energy produced from sources other than fossil fuels.

AsiaPac – The geographical and business region consisting of Asia Pacific and Japan.

Audio-conferencing – A telephone conference that a number of people can dial into.

BFRs – Brominated flame retardants. Additives containing bromine compounds used to prevent electronics, clothes and furniture from catching fire. Commonly used in circuit boards and cables.

Biodegradable materials – Materials from organic sources that decompose naturally under the correct conditions, such as composting.

Bioplastic – A form of plastic derived from plant sources rather than petroleum (as in other plastics).

BREEAM – Building Research Establishment Environmental Assessment Method.

Brown electricity – Electricity produced by burning fossil fuels.

Bunded fuel tank – An above-ground fuel tank with a protective wall to prevent leakage.

Carbon dioxide (CO₂) – A greenhouse gas emitted when fossil fuels such as coal, oil and gas are burned, and determined to be the most significant contributor to climate change.

Carbon Dioxide equivalent (CO₂e) – is an expression of other greenhouse gases such as methane, perfluorocarbons and nitrous oxide relative to CO₂.

Carbon footprint (or climate footprint) – A person, company or country's contribution to climate change. It is the total amount of greenhouse gases emitted, minus those offset by carbon emissions reductions elsewhere. Measured in units of carbon dioxide equivalents (CO₂e).

Cathode ray tube (CRT) monitors – A type of computer monitor which generates an electron beam and deflects it in a large glass vacuum tube onto a fluorescent screen, creating an image. Largely replaced by LCD and plasma screen technology.

CFCs – Chlorofluorocarbons. Gases formed of chlorine, fluorine and carbon used as refrigerants and propellants and which break down ozone in the atmosphere (see Ozone-depleting substances).

CHP – Combined heat and power, an efficient technology that captures and uses the heat generated

during electricity production. CHP typically reduces energy use by 35–40% compared with conventional power stations where this heat is wasted.

Climate change - Changes in the global climate attributed directly or indirectly to human activity and beyond natural variations over comparable time periods.

CO₂ - Carbon dioxide. A greenhouse gas emitted when fossil fuels such as coal, oil and gas are burned, and determined to be the most significant contributor to climate change.

Conferencing - A way to bring multiple people together on the telephone or via video to conduct virtual meetings

Convergence - The delivery of voice, data and the internet over the same broadband connection, reducing cost and administration

Corporate governance - Structures and standards designed to promote fair and transparent business.

Climate Stabilising Intensity (CSI) – The kilogramme CO₂ e per unit of the company's contribution to GDP (value add = EBITDA + employee costs)

Data centre - A building that houses a collection of servers to host websites and process network information. Some data centres may have hundreds of individual servers.

Data conferencing - A conference that enables users to book conferences over the internet, to share data or slides while in the conference, and to receive recordings or transcriptions after the conference call.

DEFRA - The Department for Environment, Food and Rural Affairs (UK).

Degree days - Degree days are a measure of the variation in outside temperature used to determine how the energy consumption of a building relates to the weather, and to monitor the effectiveness of energy-saving measures over time.

Dematerialization - A reduction in the quantity of materials used to achieve the same result.

DfE - Design for Environment. Designing products to reduce their environmental impact. Includes energy efficiency, material use and recyclability.

Digital divide – The gap between those with and without access to information and communication technology (ICT).

Diversity - Representation within an organisation of people from different groups and backgrounds, including gender, sexual orientation, colour, race, religion, national origin, age, and physical or mental disability.

Eco-label - A standard symbol or logo used to indicate products that meet pre-defined environmental criteria.

e-commerce - Buying and selling products and services over the internet.

EHS - Environment, Health and Safety.

EMEA - The geographical and business region consisting of Europe, the Middle East and Africa.

Emerging markets - Relatively fast-growing economies, primarily among developing countries.

Energy efficiency - Using less energy to provide the same outcome. Energy efficiency can reduce the financial and environmental impacts of product use.

Energy security - Access to energy supplies as availability decreases due to depleted resources, geopolitical factors and/ or market price increases and instability.

ENERGY STAR® - The U.S. Environmental Protection Agency's voluntary program that sets energy efficiency criteria for IT products.

Ergonomics - The science of matching jobs and work demands to people's physical capabilities.

ETNO - European Telecommunications Network Operators Association. It has produced an environmental charter, to which BT was a founder signatory.

e-waste - Electronic waste made up of discarded electronic devices.

Firewall - An electronic barrier that protects the computers hidden behind it by screening all incoming information to ensure it comes from a secure and trusted source.

Fossil fuels - Non-renewable hydro-carbon fuels such as coal, oil and natural gas, which are burned to create electricity, heat and vehicle fuel.

GeSI - Global e-sustainability Initiative: a global partnership of ICT companies that promotes

technologies for sustainable development.

Global warming - The gradual rise of the earth's surface temperature.

Green electricity - energy from a renewable source such as wind or solar power

Greenhouse gas (GHG) - A gas that contributes to the greenhouse effect. Greenhouse gases produced by human activity include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

GRI - Global Reporting Initiative. Develops guidelines for corporate reporting on economic, environmental and social issues.

GS13 - BT's environmental procurement standard for suppliers.

GS18 - BT's Sourcing with Human Dignity standard.

GS19 - BT's product stewardship standard.

Halons - A group of potent ozone-depleting chemicals related to CFCs and used in many fire extinguishers.

HCFCs - Hydrochlorofluorocarbons. Alternative to CFC refrigerants.

HFCs - Hydrofluorocarbons. Gases formed of hydrogen, fluorine and carbon. A group of gases used to replace ozone-depleting gases.

Home-worker - A person registered to work from home and provided with all the necessary furniture, equipment and communication links.

ICT - Information and communications technology. IT - Information technology.

Intranet - An internet-based technology that allows members of one organisation to share private information.

IP- Internet Protocol. The set of communication tools that enables computers to 'talk' to each other over the internet.

ISO 14001 - The International Organization for Standardization's standard for environmental management systems

ISP (Internet Service Provider) - A company offering access to the internet, typically over a dial-up modem or ISDN connection, broadband or leased line. ISPs often offer website hosting and other services, e.g. domain name management.

kWh - Kilowatt hour. A measure of energy. It represents the amount of energy expended by a one-thousand-watt load drawing power for one hour

Kyoto Protocol - A legally binding agreement signed in Japan in 1997 to reduce emissions of six greenhouse gases.

LAN (Local Area Network) - A network of computers and other devices (including routers and printers) that are in the same geographical location, for example, a simple office. Connections are typically made over Ethernet or using wireless technologies.

LBG - London Benchmarking Group. A group of over 100 companies working together to measure Corporate Community Investment.

Lost workday case rate - The number of employee work-related injuries or illnesses resulting in time away from work for every 100 employees working a full year.

Low-carbon economy - one which has successfully reduced its greenhouse gas emissions to the levels required to mitigate the effects of global warming.

Montreal Protocol - An international agreement to phase out the major chemicals that destroy ozone in the stratosphere.

NGO - Non-governmental organisation.

NO₂ - Nitrogen dioxide.

NO_x - Oxides of nitrogen.

OFCOM - Office of Communications (UK regulator for the communications industries).

OHSAS 18001 - International standard for occupational health and safety management systems.

Ozone-depleting substances - Manmade chemicals that deplete the ozone layer.

PBB and PBDE - Polybrominated biphenyl compounds and polybrominated diphenyl ethers. Flame Retardants that have been used to reduce flammability in electronics products.

PCNs - Polychlorinated Naphthalenes. Classified as hazardous substances.

PCBs - Polychlorinated Biphenyls. Classified as hazardous substances.

PFCs — Perfluorocarbons. A group of solvents used in the semiconductor industry for cleaning and etching and a greenhouse gas.

PM₁₀ particulate - Fine airborne particulate less than 10 microns in diameter.

PVC - Polyvinyl chloride. A widely-used plastic which is cheap and durable. Commonly used for cable and wire insulation. Releases harmful substances during manufacture and is hard to recycle or safely dispose of.

REACH - Registration, Evaluation, Authorisation and Restriction of Chemicals Regulation. A European Union directive developed in December 2006. Requires new and existing chemical substances to be registered and monitored.

Renewable energy - Energy produced using a naturally replenishing fuel source such as water, wind or the sun. These energy sources are not completely carbon-free as some carbon is emitted during construction, and they can have other impacts on the environment. However they are much less carbon intensive than fossil fuels.

RFID - Radio frequency identification technology. A wireless method used to automatically track items as they move from place to place, such as during delivery.

RoHS Directive - Restriction of Hazardous Substances Directive. A European Union directive that restricts the presence of certain substances in electrical and electronic products placed on the market in the European Union from July 2006 and beyond.

Router - The device which links computers and broadband lines and directs data traffic around the internet to ensure it arrives at its intended destination.

SF6 - Sulphur hexafluoride.

SO₂ - Sulphur dioxide.

Social investment - A company's contribution to social goals, including philanthropy, community engagement and business models that combine profit making with social goals.

SO_x - Oxides of sulphur.

SRI - Socially Responsible Investment. SRI investors include social, environmental and ethical criteria in their investment decisions.

Stakeholders - Individuals or groups that affect or are affected by a company's activities.

Street Works Notice - A requirement of the New Roads and Street Works Act is that the Street Authority must be informed of certain types of street works when BT issues a notice.

Sustainability - The ability to meet the needs of present generations without compromising the ability of future generations to meet their own needs.

Sustainable business - A business that can sustain its own needs environmentally, socially and economically.

Sustainable development - Development that allows us to meet the needs of our own generation, without compromising the ability of future generations to meet their needs.

SUSTEL (Sustainable Teleworking) - A two-year research project financed by the European Commission on the impacts of teleworking.

Teleworking - The use of information technology to work at home or otherwise away from a traditional office environment.

TRIAD - TRAnsmission Infrastructure And Demand charge. Agreements to use standby generators in order to manage electrical loads at times of peak demand.

UDHR - Universal Declaration of Human Rights - A voluntary declaration adopted by the UN in 1948, describing the human rights guaranteed to all people.

UK Packaging Regulations - These regulations require eligible businesses to recover and recycle packaging waste. Targets for individual businesses are based on the overall amount of packaging (on products) that they supply to their customers.

UNEP - United Nations Environment Programme.

Videoconferencing - A meeting where two or more people communicate through networked cameras

that relay pictures and sound to all of the participants.

VOCs - Volatile organic compounds, a widely used group of chemicals which when released into the atmosphere help to form damaging low-level ozone, harmful to human health and animal and plant life.

VoIP (Voice over Internet Protocol) - The technology that allows you to make voice calls over the web.

WAN (Wide Area Network) - A network connecting two or more local area networks that are geographically separate, for example, company offices in two different cities.

Web server - A computer permanently connected to the internet running software that allows information placed on it to be accessible on the web

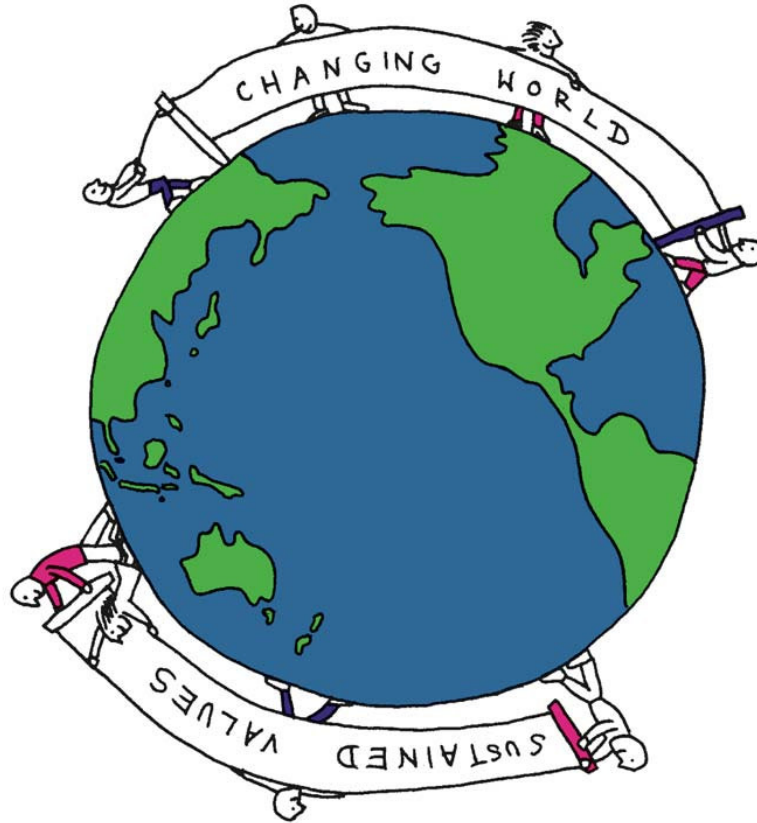
Webmail - The ability to access your email account via a secure web page.

WEEE Directive - Waste Electrical and Electronic Equipment Directive. A European Union directive that places certain responsibilities for recycling end-of-life electronics products on manufacturers, sellers, and distributors.

Whistleblowing - Anonymously and confidentially reporting concerns regarding the integrity of business practices, for example via BT's ethics telephone resource line.

Wi-Fi - Wireless internet access.

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.



BT Group plc

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