

Our 2011 Sustainability Review

Better Future

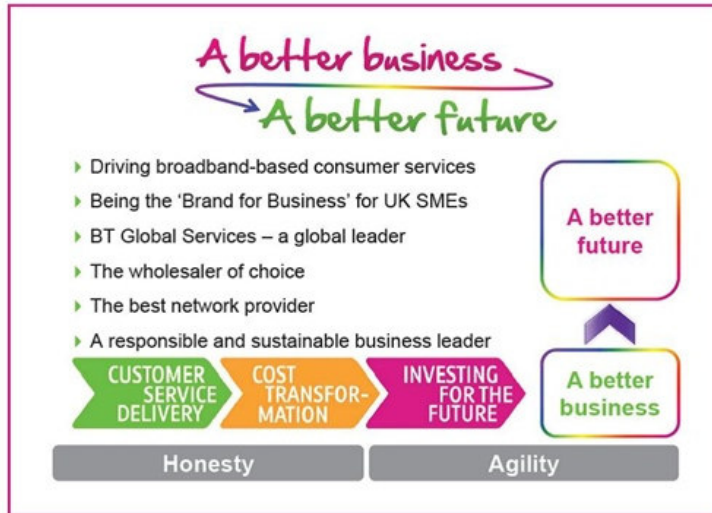


Our strategy and framework

We make many positive contributions to society, the economy and the environment through our products and services, employment practices, community involvement, and responsible resource use.

BT has worked hard to be a responsible and sustainable business for years. We can demonstrate this in many ways, including our consistently high ranking in the Dow Jones Sustainability Indexes for our sector and The Green Award we received at the 2010 World Communications Awards.

In early 2011, we decided to make being a responsible and sustainable business leader one of our top strategic priorities, underlining our belief that this is essential for BT to achieve long-term profitable growth.



Our CR Framework

Our Corporate Responsibility (CR) Framework sets out how we will become a responsible and sustainable business leader. This is continually evolving, as our operating environment and the opinions of our stakeholders will always change and we need to respond.

In 2011, we carried out a major internal review of our approach. The result is a simple framework consisting of three main pillars:

- [Behaving responsibly](#) towards our customers, employees and suppliers
- [Reducing carbon emissions and our impact on the environment](#) through our operations and products
- [Building stronger communities](#) through the power of our technology and people

Behaving responsibly

Behaving responsibly is vital for BT to build trust and maintain a good reputation in each market where we operate. We focus on doing the right thing and building long-lasting relationships with our customers, employees and suppliers.

- **Our customers** – Behaving responsibly starts with providing great customer service alongside ICT products and services that meet our customers' needs. This means keeping our promises, being easy to contact and deal with, and taking prompt action to put things right if customers have cause to complain. Our responsibilities to our customers also extend beyond this – to ensuring we do business in an ethical way and comply with regulation. We set clear policies for the issues relating to our business, so our people and partners are always clear about what we expect of them, and what they can expect from us.
- **Our people** – Behaving responsibly towards our employees means striving to make BT a place where people want to work, so we have a highly motivated workforce to support our business now and in the future. This encompasses everything from providing safe, healthy and diverse workplaces, to investing in the skills and development of our people through training, reskilling and apprenticeships.

- **Our suppliers** – Responsible behaviour towards our suppliers includes working in partnership with them to improve working conditions and environmental performance, and to ensure greater transparency about these issues across our supply chain.

Of course, a responsible business also helps to build **stronger communities** and works hard to limit its impact on **climate change and the environment**. These are the remaining two pillars of our Better Future strategy.

We operate in a highly competitive industry subject to rapid technological change, and in a world experiencing significant social, economic and environmental challenges. These factors mean the right choice is not always obvious, and it is more essential than ever that we have a clear strategy to guide our decisions.

Reducing carbon and our impact on the environment

As a major energy user and ICT services provider, we must both tackle our own environmental footprint and energy usage and help our customers reduce theirs. This helps to reduce costs, identify new market opportunities and differentiate our business from our competitors. Our strategic priorities in this area are:

- **Minimising the environmental footprint of our products** – so they consume less energy in use, use fewer materials and less packaging, and are easier to recycle.
- **Helping customers live and work more sustainably** – the move towards a low-carbon economy is creating greater opportunities for BT to grow its business by helping people and organisations to reduce the impact of the way they live and work. We do this principally through the ICT products and services we sell, including well-established services such as BT Conferencing, and new ventures such as SmartReach, a smart metering solution.
- **Reducing the direct impacts of our operations** – our focus is on cutting carbon dioxide emissions, and we also manage other environmental impacts such as waste, water use and emissions to air. Our 2011 carbon emissions statement is available as a [pdf](#).

Visit the [climate change and environment](#) section to learn more.

Building stronger communities

Stable, prosperous societies are built on strong communities. We aim to use our technology alongside the skills and creativity of our people to make a positive difference to economic and social development.

Our contribution is based on our investment in communications networks in each market we work in. Our networks connect people and organisations to each other, and to information. This can help stimulate growth and create new commercial opportunities for businesses. It also enables people to communicate with family, friends and colleagues, to save money, and to access the growing number of essential services delivered online.

In the UK alone, the economic benefit of getting everyone online is estimated at £22 billion ([The Economic Case for Digital Inclusion](#) – October 2009). Released in December 2010, our study [the Economic Impact of BT](#) showed that, in the UK, our business and activities support an estimated 267,000 jobs worth £37 billion.

In addition to the essential networks and economic contribution we provide, our strategy for building stronger communities focuses on three aspects:

- **Supporting charities.** We offer our capabilities to help charities thrive. We support major UK telethons by donating call centre support and handling online donations, and help charities and community groups to build their own websites and extend their good work online. Our newest initiative is [MyDonate](#) - our free online charitable fundraising service. a free online charitable fundraising service launched in April 2010
- **Employee volunteering.** We encourage employee volunteering. All our people worldwide can volunteer for up to three days a year during work time. In 2011, BT people spent over 49,000 days working in communities, at an estimated value of £13.8 million. Volunteering boosts our brand and employee morale, forms part of our employee development process, and improves our appreciation of the issues facing society.
- **Improving communications across all of society.** We want everyone to have access to communication skills, in all markets where we operate. We aim to develop products and services that everyone can use, and equip people at risk of getting left behind by the pace of technological change with the skills to use digital services. In October 2010, we launched Get IT Together, a flagship programme to address this issue in the UK, and we

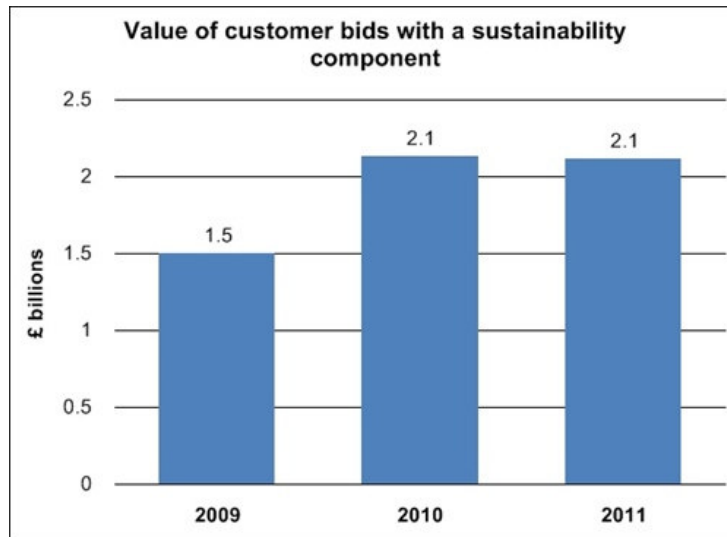
support digital inclusion initiatives in other markets too We also support the development of broader communications skills of young people through a range of educational programmes.

Our case for CR

Being a responsible and sustainable business is good for BT as well as our stakeholders and the planet. Corporate responsibility is integral to our business and improves our performance by helping us to:

- Create marketplace opportunities – for example see the [low-carbon economy](#) section
- Identify and manage CR risks
- Perform well in CR and sustainability ratings to positively impact on the perception of BT's brand
- Increase efficiency and avoid costs through good environmental management
- Motivate our people.

In addition, the ability to demonstrate that we have strategies in place to become a more sustainable company is now a basic requirement of doing business. The chart shows the total value of the contracts with large business and governmental customers we bid for in 2011 that requested information on sustainability.



Cost avoidance

Good environmental management can avoid costs and CO₂ emissions by improving efficiency and reducing waste.

We have been using a model developed with Forum for the Future for a number of years now to calculate the benefits from our programmes.

The climate change and environment section of this report cover our efficiency programmes in more detail.

Benefits from environmental programmes

Note 1: Fuel costs avoided - associated with reduced fuel consumption, stripping out effects of price changes

Note 2: Energy costs avoided - associated with reduced energy consumption, stripping out effects of price changes

Note 3: Waste handling costs avoided - associated with reduced volumes of waste, stripping out the effects of price changes

Avoidance from use of our solutions

We calculate avoided cost and carbon using employee studies conducted by independent organisations. These studies can be found in the [publication and report](#) section of our website. The most recent conferencing and home working studies were undertaken in 2008.

The following table shows; avoided travel costs associated with conference calls and energy and property costs avoided associated with home-working in BT. For home working we have calculated avoided energy and property costs associated with reduction in office space.

Travel/ carbon avoidance from our use of conferencing services.

For conference calls we derive the benefits using responses to the question 'did your last conference call definitely replace a face-to-face meeting'.

As conferencing become more 'the way we do business' the percentage of positive responses is reducing. From 60% in the first study we commissioned in 2000 this has steadily reduced with each study we have undertaken, we used a 20% figure in 2009. We want to reflect the genuine travel substitution effect so have used only 10% of the total number of conference calls that took place in the company last year to derive this year's results.

Other organisations where conferencing is less well established will see higher travel substitution effect in their early years of adoption.

Ratings and recognition

Being a responsible and sustainable business helps to enhance our reputation and build trust among our stakeholders. In 2011 our activities continued to achieve broad recognition.

BT's performance in sustainability ratings

Rater	Ratings	BT's 2011 Rating	BT's 2010 Rating	BT's 2009 Rating	Rating focus
SAM (Sustainability Asset Management)	Dow Jones Sustainability Index	85% SAM Gold Class	83% SAM Gold Class	85% SAM Gold Class Sector Leader for 8 years	All aspects of sustainability
Business in the Community	Corporate Responsibility Index	Platinum Plus and Sector leader	Platinum Plus and Sector leader	98% Platinum Band and Sector leader	All aspects of corporate responsibility
Carbon Disclosure Project	Carbon Disclosure/ Performance Leaders Indices (CDLI/CDPI)	89% CDLI Sector leader (Global 500 and FTSE 350) "A" rated CDPI Sector leader	65% CDLI member [Note: a transition scoring parity between carbon-intensive and non carbon-intensive sectors has meant all telecoms sector scores have dropped]	94 % (AA rating) CDLI member	Evaluation of risks and opportunities in the industry as well as company policies and strategies related to climate change
Ethical Investment Research Service (EIRIS)	FTSE4Good Index	Listed in FTSE4Good Index	Listed in FTSE4Good Index	Listed in FTSE4Good Index	Corporate governance, social aspects (including human rights) and environment
Gartner / WWF	Environmental Assessment	5 th out of 19 and the top Telecoms company.			

Recognition

November 2010

- Won the Green Award at the World Communication Awards.

- Won the award for carbon emissions performance at the Green Business Awards and were highly commended in the Transport category. The Green Business Awards celebrate excellence in green practice, strategy and products.
- Won the Edie Environmental Excellence award for Sustainable Transport. These awards recognise individuals and organisations that take action to improve the environment.
- Won the ProcureCon Sustainability & Green Sourcing Award for our performance in sustainable procurement.
- Shortlisted in the Energy Performance for Emissions Reduction category of the Environment Agency's inaugural Environmental Pioneer Awards.

October 2010

- Jointly topped our sector in the Carbon Disclosure Project's Global 500 and FTSE 350 Carbon Disclosure Leadership and Performance Indices.

September 2010

- Achieved consistently high performance in the Dow Jones Sustainability Index for 10th year in a row. We led the fixed telecommunications sector for eight years from 2001 to 2008 and were Gold Class recipients in 2009 and 2010.

June 2010

- Came 2nd in the FTSE CDP Carbon Strategy 350 Index, which weights companies' carbon risk and performance based on their CDP disclosures. This was the first such index.

April 2010

- Retained "platinum plus recognition" from Business in the Community (BiTC) for our impact on society. Only companies that rank highest in BiTC's annual corporate responsibility index are eligible for platinum plus status.
- Retained our BiTC Climate Change Big Tick award.

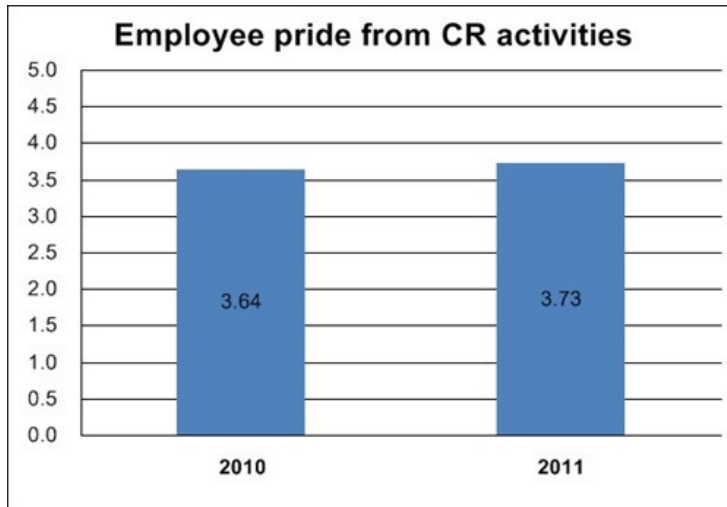
Employee motivation

Employee motivation is critical to the success of our business. Corporate responsibility (CR) helps to engage employees with BT and their work.

Throughout this report you will find examples of our people getting involved to help BT become a better business. Examples include:

- Helping the communities we live and work in through [employee volunteering](#)
- The Team BT 2012 Challenge – an internal programme to help everyone in the company focus on the future. The challenge is a simple one – to make BT a better business with a better future. See [Employee engagement](#)
- Reducing the climate impact of our business. [Employees and climate change](#)

Since 2010 we measure how important our CR activities are to our employees by including a question in our regular, group-wide employee survey rather than using an annual survey with a small group of our people.



Source: Employee CARE survey (score from 5)

Question: The work BT does to help society, the environment and other socially responsible activities make me proud to work here.

Our CR risks and opportunities

We quantify the most significant social, environmental and ethical risks to BT in our corporate responsibility (CR) risk register, part of our companywide risk management system. This is updated twice a year by our CR Risk Forum, which comprises experts from across our business, and reviewed annually by our Board and our external Leadership Advisory Panel. In 2011, we identified no new CR risks that would have a material financial impact on our business.

We currently have seven CR risks which we monitor and report on.

Climate change adaptation - The risk of not planning for increasing severe weather events. We site our facilities in areas of low risk and are making our networks more resilient.

Climate change mitigation - Our risk reflects damage to reputation should we not delivering our emissions reductions targets. We manage this through a comprehensive energy and carbon reduction strategy.

Diversity - Our risk is that our activities and their outcomes do not meet our legal or ethical standards for a diverse workforce. We continue to monitor our performance regularly.

Supply chain labour standards - We address this risk through supplier assessment and monitoring.

Health and safety - Our health and safety strategy has delivered significant reductions in our overall exposure to regulatory and business risk in this area. Small scale incidents remain relatively common and we continue to monitor and raise awareness of our policies and practices.

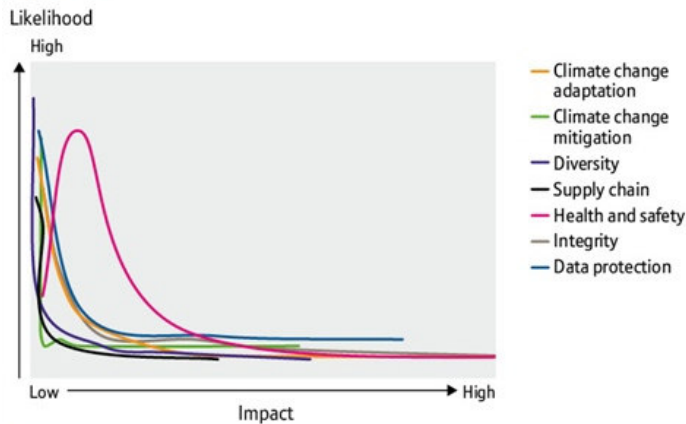
Business integrity and ethics - Our risk covers such vulnerabilities as bribery and corruption. We have an ethics policy outlined in The Way We Work, which raises awareness.

Privacy and data protection - The scale of our business and global nature of our operations means we manage significant volumes of personal and commercially sensitive information.

Of the seven CR risks described above, the last three are assessed to be significant enough to be included on the BT Group Risk Register. The most significant of these – privacy and data protection – is managed as part of our Group risks which is discussed in our Annual Report and Accounts (page 42).

We regularly review our CR risks and our mitigation and control measures. We present the results as risk frontier curves (see key CR risks chart) as there are a number of possible outcomes, each with a different impact and likelihood. Each curve is plotted from the most likely but low-impact risks, through each possible scenario to the least probable risks with the most severe outcomes.

Key CR risks



CR and sustainability opportunities

The most important contribution we make is through our investment in communications networks and services. Our networks connect people and organisations to each other, and to information. They support business growth, job creation and access to services.

We want to help give everyone the opportunity, skills and confidence to use digital services, including elderly, low income and disabled people, and we support efforts to increase [digital inclusion](#) programmes and help for customers..

Reducing global greenhouse gas emissions requires a transformation in the way business and society operates, to create a low-carbon economy. ICT will enable other sectors to become more efficient, by streamlining their processes and providing transparent data for managing energy use. See the [low carbon economy](#) section for more details.

BT already offers products and services that help customers to reduce their carbon footprint. Services which help reduce business travel, such as video- and audio and video-conferencing, are well-established parts of our portfolio. We are reducing the energy consumption of the ICT products we provide, including the Home Hub wireless network router, the BT Vision digital TV box, and our telephones. See the [product stewardship](#) section for more details.

Material issues

We use a formal process to identify the aspects of being a responsible and sustainable business that are most material (relevant and significant) to our business and stakeholders. This process is a key principal of the AA1000 AccountAbility Principles Standard 2008, which we use in our reporting.

We review peer companies' sustainability reports each year to assess important issues and reporting best practice in our sector. We also list the issues our various stakeholders said were important during the year and assess how significant they are to BT. This helps us focus our actions and reporting on the most strategically important issues

Our stakeholders are our customers, employees, shareholders, suppliers, governments and regulators, and the communities where we operate. In 2011, we assessed the issues important to each group as follows:

- Customers – we included two CR-related questions to our regular retail customer tracker surveys. We also monitor related queries from our larger customers, particularly during bid processes.
- Employees – we regularly ask for our people's views in various ways, including online surveys and the Chief Executive's regular online chats.
- Shareholders and investors – we analyse the questions asked by ratings agencies and investors in questionnaires and meetings.
- Suppliers – we ask suppliers where BT should take action in an annual questionnaire.
- Governments – we consider all relevant legislation as well as public policy issues that governments raise with our public affairs teams.

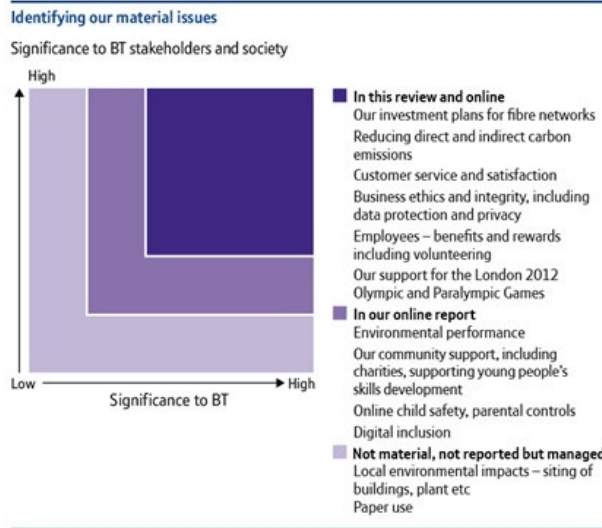
We review the outcome and consider any exceptions or surprises. Our internal CR Leadership teams and external Leadership Panel consider any surprises or exceptions and recommend amendments. LRQA, our external assurers,

attend these review meetings as observers.

Material issues in 2011

The issues of greatest interest to our stakeholders in 2011 were:

- Our plans for rolling out super-fast broadband in the UK. This was the strongest theme for all UK stakeholder groups
- Our carbon performance. This was raised by all stakeholder groups and their comments suggest increased understanding and concern
- Customer service
- Business ethics and integrity



Embedding sustainability

We continue our efforts to ensure we consider sustainability throughout our business. We do this by;

- Considering sustainability criteria during the design and manufacture of our products and services
- Educating and informing employees across BT about why sustainability matters to our customers and our business and what we are doing about it. See [embedding sustainable practices](#) for more details.

Product development

We have made it mandatory to conduct a sustainability impact assessment during our existing product development process. This process is governed by our internal Design Council, which ensures our activities and investments are aligned across the business to achieve the best outcome.

The assessment considers the direct environmental impacts of manufacturing a new product or service, as well as the indirect environmental impacts and social benefits arising from the way customers use them:

Direct impacts

- Waste produced and materials used
- Energy use and carbon dioxide emissions

Indirect impacts

- The financial viability of the product or service for our customers
- The social benefits the product or service provides, such as access to education and entertainment

- Wider social benefits such as enabling people to stay in touch with friends and family and save money through increased access to services
- How customers dispose of the product at the end of its life
- Customer energy use.

If a product or service does not adequately address the points in the checklist, we may redesign it or decide not to take it to the next stage of development. Our process also considers elements such as market demand for sustainable products and services, and how to communicate the benefits to customers.

Our procurement teams are using the results of our impact assessments to incorporate additional, more stringent sustainability criteria in supplier contracts. For example, we now include minimum requirements for power consumption, waste and carbon footprinting. Read more in the [Supply Chain](#) section.

We check that each line of business is applying our sustainability criteria during product development, and we raise any concerns with our Sustainability Leadership Team.

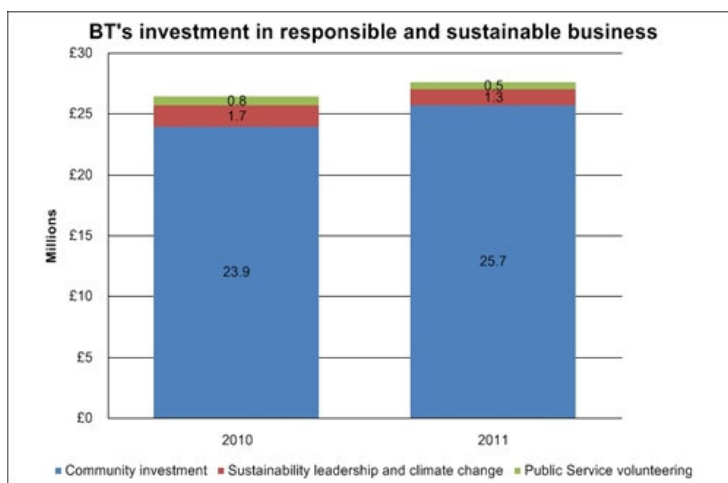
In 2011 we launched the first products developed since introducing mandatory sustainability criteria. This revealed that our lines of business are only partially applying them. As a result, we are:

- Developing our sustainability training materials for product development teams
- Holding additional sustainability workshops
- Simplifying and refining our product development process documentation
- Considering incentives and measures
- Sharing tools and techniques to improve the sustainability of our products.

Our investment in society

In the 2011 financial year (2011) we invested £27.6 million - in time, cash and in-kind contributions – to support responsible and sustainable business activities. Of this £25.7m was focused on community investment. The remainder consists of activities to engage with our people on climate change and some public service volunteering activities as the chart below illustrates.

Note that these figures exclude 'business as usual' activities such as the cost of environmental, ethical and safety management systems, and commercial investments (e.g. in sustainable products).

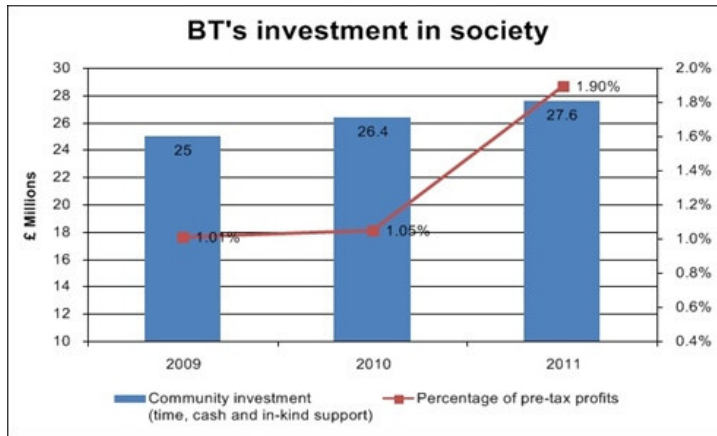


We aim to invest at least 1% of underlying pre-tax profits (in cash, time and in-kind support), in these activities in 2012. Our investment criterion focuses our programmes on areas that support the three pillars of our CR strategy;

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- Building stronger communities
- Reducing carbon emissions and our environmental impacts
- Behaving responsibly

During 2011 we invested 1.9% of underlying pre-tax profits in these activities, as the chart below illustrates.



From 2011 the base for calculation of our percentage contribution to society will be the previous year's pre-tax profits. This will create a stronger link to current performance than the historical base of pre-tax profits from two years prior. The Group Board agreed to increase investment from the minimum of 1% of pre-tax profits to at least £25m in 2011, to reflect the importance of these activities.

You will find updates on the areas that we invest in throughout this report, see: [communities](#), [community ICT and skills](#), [volunteering](#) and [employee awareness](#).

Thank you

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.

If you'd like more details about our corporate responsibility and sustainability activities and performance please visit our website where you can:

- Search our full sustainability report
- Download our free educational resources
- Check out our latest information
- Join in on our blogs

all at www.bt.com/betterfuture



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