



Bringing it all together

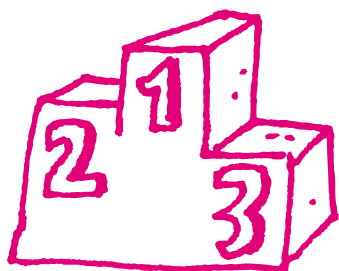
Changing world: Sustained values 2007

BT's sustainability opportunities, challenges and performance



let's make a
better
world

Introduction



2007 Performance summary

3%	increase in customer satisfaction
65%	employee engagement index
84%	ethics performance measure
60%	reduction in UK CO ₂ emissions since 1996
42%	of UK waste recycled
413	risk assessments carried out with suppliers
£21.8m	community investment

Enhanced communications – enabled by advanced technology – are supporting rapid globalisation and economic growth. Virtual markets, electronic commerce, broadband and mobile telecommunications are transforming the way companies and people communicate and do business.

Commercial relationships are now conducted on an increasingly global scale where the significance of time and place is diminished.

This is taking place in the context of a new world order. The power of emerging markets – especially the rise of China and India as industrial powerhouses – is redefining the global economic map. Regional conflicts continue to flare and destabilise world security. Sub-Saharan Africa is ravaged by the pandemic of AIDS, further undermining its ability to compete in global markets. And the natural environment endures unprecedented stress from human development, in the form of climate change and loss of biodiversity.

As one of the world's oldest communications companies, and an increasingly global operator, we see opportunities to maximise our positive contribution to society and in this way build the foundations for long-term business success. This attitude is at the core of our corporate social responsibility (CSR) strategy. Our ultimate goal is to use enhanced communications and technology to help create a better, more sustainable world.

Our CSR strategy is to build on the strong foundations we have established for responsible business and to help meet the challenge of three pressing global issues: climate change; promoting a more inclusive society; and enabling sustainable economic growth. The following pages show how we are implementing our strategy.

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About this report

Last year we began to tell the story of how BT is transforming its business to take advantage of rapid technological change. We showed how we manage the social and environmental implications of this transformation. This report reflects our sharpening focus on the economic implications of sustainable development, hence our decision to call this a Sustainability Report.

Focusing on issues

On the following pages we look in greater depth at the opportunities generated by change, while exploring some of the many challenges we face. We explain our strategy to maximise BT's positive contribution to society – through the way we operate and our products and services – and how this will support BT's longer term business success.

We concentrate on the issues that are most significant and relevant to BT and our stakeholders. These have been identified through a formal process that analyses stakeholder and societal interest as well as BT's policy position and the financial implications of each issue for BT, see page 14. This report is not intended to be a complete account of our performance in 2006/07 – our full Sustainability Report is available at www.bt.com/betterworld

Leadership Panel

Our CSR Leadership Panel – a group of external experts – advises on our strategy and scrutinises our performance. We have included views from panel members in this report.

Our sustainability initiatives are not managed in isolation but increasingly integrated into the heart of our commercial business. This report includes perspectives from key people in our business who discuss our plans to capitalise on opportunities and respond to new challenges.

Assurance

This report has been assured by Lloyd's Register Quality Assurance (LRQA) against the AA1000 Assurance Standard. On page 17 we include extracts from LRQA's assurance statement and an independent comment from BT's CSR Leadership Panel.

Regulatory compliance

In the 2006 financial year, significant regulatory changes came into force following the UK communications industry regulator Ofcom's strategic review of telecommunications and its acceptance of BT's volunteered legally binding Undertakings. BT established the Equality of Access Board (EAB), a Board committee with a majority of independent members, responsible for monitoring and reporting on compliance with the Undertakings. The EAB has published its second annual report, which forms a distinct part of BT's regulatory compliance report. This is available on our website.



Our values

- Trustworthy
- Helpful
- Inspiring
- Straightforward
- Heart

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

Our full Sustainability Report is available at

www.bt.com/betterworld



The business case for sustainability

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

Sir Christopher Bland
Chairman



JP: If you look back over your time as Chairman, which of the many sustainable development actions by BT are you particularly proud of?

SCB: There are two. We have topped the Dow Jones Sustainability Index for six successive years among telecommunications companies. That is an external measure of sustainability I am really proud of. The second thing is that we negotiated what was then the world's biggest green energy contract in 2004 and we have just renewed that until 2010. That was a pioneering act at the time.

JP: Where do you think the sustainable development agenda is going? Some business people see it as having been quite a steep curve and now plateauing; others think that it is a permanently rising curve in terms of expectation and legislation.

SCB: I think it is a permanently rising curve in expectation, not necessarily legislation. Certainly, our customers and our staff expect more of the company today than they did 20 years ago. Ten years ago it was not that

Our customers and our staff expect more of the company today than they did 20 years ago

high up the agenda of most companies – now everyone knows what you are talking about. Not only that, but I think the days of paying lip service to it are over. Pressure to perform, both internally generated and external, will increase.

JP: Do you think the BT Board sees this as a rising curve and is constantly thinking about its own role in the company? Do you think it is always looking to the next six months, the next year out?

SCB: Yes, I think it is. Sustainable development is not the only thing that the Board thinks about and it is not on every single agenda, but it is high on its list of priorities.

There is a growing business imperative about sustainable development

I think the other thing that is happening is that there is a growing business imperative about sustainable development, for two reasons: customers expect it and companies that do not pay attention to what their customers expect will suffer. Secondly, there are business opportunities out there for BT which mean that we can both do good and be profitable. I think our work on teleconferencing is an example of where something that accelerates sustainable development is also one of our fastest growing businesses. That changes and accelerates the interest of even the most commercially minded of boards.

Jonathon Porritt
Chair of BT's CSR Leadership Panel



Determined to make a difference

Our business is changing. Rapidly. Technology and the information and communications technology (ICT) industry are playing a pivotal role in globalisation, bringing people closer together, providing ever-greater access to information and enabling businesses to operate in radically different ways.

BT is now a global company, serving customers wherever they are. We source products, services and expertise world-wide to make sure that we tap into the best practice available anywhere. Encouraging diversity of talent, cultures and ideas is critical to our success. We are accelerating the transformation of our company to become more agile and responsive to customer needs.

Today there is an increased focus on the role of business in society. Stakeholders (including customers, governments and employees) want to know what companies are doing to tackle big global challenges such as climate change.

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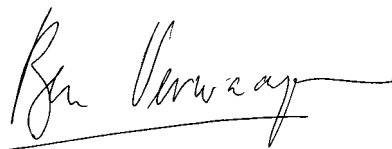
I am convinced that we get a business advantage from our hard won reputation on corporate social responsibility. It differentiates us from the competition and reveals new business opportunities, while helping us manage risk and cut costs. We were original signatories to the UN Global Compact and I'm delighted that we have now been No. 1 in our sector of the Dow Jones Sustainability Index for the past six years. In the 2007 financial year, we were named as the world's leading corporate sustainability reporter in the benchmarking survey by SustainAbility, the United Nations Environment Programme and Standard & Poor's.

We have a dual focus for the future. First, we will build on the foundations of our long-standing commitment to be a responsible business. This includes continuing to make a positive contribution to the communities where we operate through our community investment; prioritising the health and safety of our employees; and ensuring our business activities around the world are conducted with the highest integrity.

We remain determined to make a difference – globally, locally, personally, corporately

Second, we are stepping up our actions to help tackle three pressing global challenges where our industry can make a difference: climate change; promoting a more inclusive society; and enabling sustainable economic growth. As part of my personal commitment to our CSR activities, it is my privilege to lead the Confederation of British Industry's Task Force on Climate Change, which will report later this year.

We remain determined to make a difference – globally, locally, personally, corporately. In this way we will create an even better business to bring greater benefits to all our stakeholders and make a contribution to a better world.



Ben Verwaayen
Chief Executive
17 May 2007

Ben Verwaayen
Chief Executive



Who is BT?

We trace our history back to the UK's Electric Telegraph Company established in 1846. Today we are transforming our company to create a new generation of communications services and to take advantage of new global business opportunities.

We operate in 170 countries, employ over 106,000 people, and serve around 18 million customers around the world.

Our business strategy

1 Pursue profitable growth in new wave markets

The convergence of telecommunications, IT, the internet and television is transforming the way we communicate. BT is now a major provider of new wave communications services including broadband, mobility and networked IT services. Our products enable customers to communicate at home, at work and when out and about.

2 Maximise the return from our traditional business

Revenues from our traditional telephony business have declined because of regulation, increased competition and changing customer buying patterns. We are responding by providing customers with

high specification new wave products and introducing new pricing packages that add value for our customers.

3 Transform our networks, systems and services for the 21st century

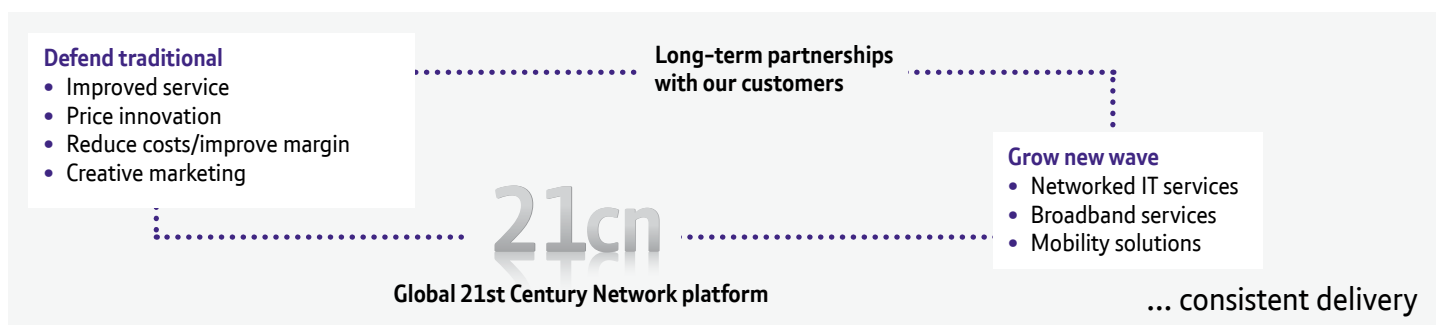
Our strategy is to build networks that will be a platform for the delivery of new services, transform the customer experience and enable us to operate more cost effectively.

Our 21st Century Network is a next generation internet protocol network which will bring new voice, data, broadband and multimedia services to business and homes more quickly and more cheaply. We have launched 21C Global Venture, a new business that sells our expertise in next-generation networks to other communication providers across the globe.

4 Create long-term partnerships with our customers

Our relationship with our customers is key to our success, particularly in a market undergoing major transformation. By putting customers at the heart of what we do we can encourage them to move from short-term contracts based on individual transactions to longer-term arrangements under which they sign up for packages of services. In April 2007 we announced a restructure of our business as part of our transformation from a 20th century hardware-based company to a 21st century software-based services company. This will enable us to bring new services to customers more quickly and cost effectively.

BT Group Strategy



Building a global workforce

Growth by region (excluding the UK, where the number of employees remained substantially the same)



106,200 Employees worldwide including the UK

Where do we operate?

BT now serves customers across 170 countries. We are growing our global business through acquisition and joint ventures. For example, in 2006 we established BT Telecom Pvt Ltd, a joint venture company that will serve our corporate customers in India – one of the world's fastest growing IT and outsourcing markets. We also purchased Counterpane, a US internet security company that will give us a new skills base. CSR is one of the elements in our due diligence process for business acquisitions, see page 12.

Profit before tax and specific items

£2.5bn

+15%

Revenue

£20.2bn

+4%

New wave revenue

£7.4bn

+17%

Our customers

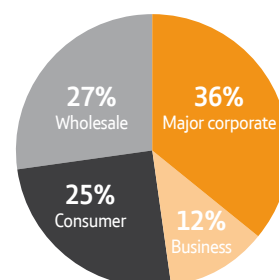
We serve:

- Consumer and small and medium sized enterprise (SME) customers in the UK and Ireland through BT Retail
- Business and public sector customers worldwide through BT Global Services
- UK communications providers through Openreach and BT Wholesale.

We operate Openreach as part of our regulatory agreement with Ofcom, the UK communications industry regulator. Openreach works for all UK communications providers to give them equivalent connectivity through the UK's network. It's a key link in enabling them to provide their customers with everything from analogue telephone lines and call packages, to high-speed broadband connections and complex networked IT solutions.

Revenue mix by customer segment

Year ended 31 March 2007



Our major business and public sector customers

We provide communications services for multinational companies throughout their global operations. This is driving our global expansion.

Our business customers now include 40% of the top 50 Fortune 500 companies and 80% of the UK FTSE 100, 90% of UK headquartered financial institutions and 25% of the world's financial market traders across 51 countries.

We also serve public sector customers, primarily in the UK. The UK government is our single largest customer.

Our products and services in brief

- Networked IT services for major business and public sector customers
- Fixed-line telephone services for business and UK and Ireland residential customers
- Higher-value broadband and internet products and services, including:
 - Business and consumer broadband packages
 - **BT Vision** – our next generation television service, made possible by the convergence of digital broadcast and broadband technology

- **BT Home Hub** – a device that wirelessly connects PCs and other broadband devices
- **BT Fusion** – an intelligent mobile service that switches calls to a BT broadband line when the user is at home or near a compatible WiFi network
- Network services to other communications companies through Openreach and BT Wholesale.



Services for business and public sector customers

We provide major corporate and public sector customers with a range of networked IT services tailored to their needs.

Services include:

- Integrated networks for voice, data and internet access, enabling global organisations such as PepsiCo, Reuters, Unilever and Visa to communicate and collaborate efficiently across multiple sites

- Innovative IT solutions such as the systems we are developing for the UK National Health Service, enabling online patient records, appointment bookings, prescription transfer and patient records
- IT systems including server hosting and data storage
- Security including firewall protection, remote access, disaster recovery, risk resilience, compliance and business services

- Industry specific solutions such as electronic trading systems for the financial sector and advanced communications services for the oil and gas sector
- Customer relationship management helping companies build stronger and more productive relationships with their customers
- Global outsourcing, out-tasking (a form of outsourcing) and professionally managed services.

Change: opportunities and challenges

This section explores our approach to the sustainability impacts of our business. It shows how we respond to opportunities and challenges created by changes in society, technology and BT. We highlight our efforts to take up new opportunities, for example by providing services that increase communication while reducing the need to travel. We show how we apply our values to all aspects of our business. The focus is on the most material (significant and relevant) issues for BT (see page 14).

Customer satisfaction

1 How does change affect our customers?

Our products and services help customers communicate more efficiently and effectively. We know that our customers want more than great products at good prices – they demand excellent customer service and to be treated honestly and fairly. Customer satisfaction and customer service are essential to our business. Increasing customer satisfaction remains a significant challenge for us. Customers have said they want us to: be easy to contact; keep them informed; take ownership of their issues; and deliver on our commitments to them.



Pricing



Our Value Check service enables consumers to compare BT's prices with those of our competitors.

3%

increase in customer satisfaction

Understanding customer satisfaction

In the 2007 financial year, the average score for customers who were “very” and/or “extremely” satisfied was 3% higher than in the 2006 financial year – our target was 5%. Levels of dissatisfaction remained the same.

Feedback from residential customers this year shows that changes in our product portfolio and take-up of converged services can affect customer satisfaction. For example, a fault on your home telephone line is inconvenient. But it can cause more serious disruption if you are also using broadband to access the internet, work from home, watch television or use online banking and VOIP services.

We are improving our fault reporting systems so that customers only have to report a fault once. We have also recruited additional call centre staff to improve our repair and call-handling performances.

In the 2008 financial year we are introducing two new measures of customer service: ‘Right First Time’ (keeping our promises) and ‘Cycle Time’ (the speed at which we deliver service). This measure of customer service forms part of our corporate scorecard which is overseen by the Board remuneration committee. The weighting between customer service and the two other measures of free cash flow and earnings per share has been changed this year to give greater weighting to the customer service measure.

Clear pricing and marketing

Rapid changes in technology and product offerings can make it difficult for customers to understand the price of new services.

We aim to make our prices clear so that customers know what they will pay to use our services. We have simplified our pricing structures for consumers with a range of call packages and broadband services. In the 2007 financial year we reduced the price of the inclusive minutes in our BT Together Option 2 and 3 price plans by almost a third. Our Value Check service enables consumers to compare BT's prices with those of our competitors.

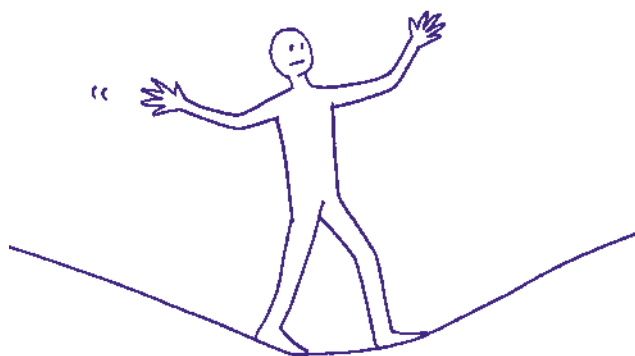
It is more difficult to simplify prices for some services, such as international calls or calls to mobiles, because each operator charges BT a different amount.

We package some products together. This allows customers to buy several products at once, which can result in a better deal for the customer. We try to ensure that customers don't end up paying more or buying services they don't need.

This year we increased the monthly price paid by non-Direct Debit customers relative to those paying by Direct Debit by 50p to £1.50. This change preserves BT's market-leading competitive position as the operator with the most customer friendly payment policies, offering the most ways to pay. The leading competitors either do not accept customers paying by non-Direct Debit or charge them a much heavier premium (up to £4 a month). Non-Direct Debit payments cost BT substantially more to process on average and there is a much higher risk that customers will either pay late or forget to pay a bill if they do not have a Direct Debit. BT's payment processing fee for non-Direct Debit customers is not being applied to customers on special ‘social’ packages for those on low incomes.

2 Preventing misuse of new technology

New technology is transforming the products we offer. Our customers can now use the same device to communicate from almost anywhere. But new technologies create new risks. Identity theft (using someone else's personal details to open bank accounts or obtain state benefits) is one high-profile example. We need to be alert to the potential drawbacks of change and be prepared to tackle them. This is essential to maintaining customer trust.



Privacy and data security

Technological advances mean personal data is captured, stored and transferred more frequently than ever before. BT holds customers' personal and financial data, our servers and networks are a conduit for information controlled by others, and we manage data for many of our large customers. We have robust data protection standards but need to keep these under continual review – as new challenges emerge.

For example, several major companies have recently been criticised (and in some cases are the subject of civil legal action) for disclosing customer information to law enforcement agencies. Often such co-operation – for example sharing of phone records – is a legal requirement and makes a vital contribution to criminal investigations. But there is a danger that this information may be misused and that companies could be implicated in human rights abuses.

We are exploring the implications of these issues for BT in the context of our global expansion. We need to understand what to do in case we are caught between potentially competing legal requirements such as data protection laws and requests from law enforcement agencies.

Content standards

BT is now a content provider, for example through BT Vision – our broadband television service. As well as mainstream entertainment channels, BT Vision may provide customers with a portal to gambling and adult content. These services are profitable, legal and meet the expectations of many of our customers. But they bring important new responsibilities – in particular we need to help parents protect their children from viewing adult content.

We have revised and updated our taste and decency guidelines to reflect these changes. The new guidelines were informed by research into public attitudes, a benchmark of telecommunications and media companies, and investor feedback. We found that views on this subject tend to be strongly held and vary widely from the very liberal to the very restrictive. Our approach does not set BT up as a censor or arbiter of standards but gives parents the tools to prevent children viewing 18-rated content by choice or inadvertently.

Any gambling activities accessible through BT Vision must be accredited by Gamcare, an independent charity

We want to do more than the legal minimum and our guidelines exceed UK law in several areas. For example, any gambling activities accessible through BT Vision must be accredited by Gamcare, an independent charity. All relevant new products and services must be approved by the Group Director of Communications and compliance will be assessed by the Internal Audit department.

Child safety

BT's CleanFeed software filtering system blocks access to child abuse websites blacklisted by the Internet Watch Foundation.



Content standards

BT Vision, our broadband television service gives customers access to a wide range of movies and TV shows.



For more information go to
www.bt.com/betterworld



3 Is climate change a business risk or opportunity?

Climate change is one of the biggest challenges of our age. We want to be part of the solution to climate change and aim to be a recognised leader in this field. Climate change is a risk to our business but also presents numerous opportunities for us to strengthen our relationships with customers, employees and regulators. Our response to this issue will help determine our long-term business success.



Reducing our carbon footprint



	04	05	06	07
Total CO ₂ emissions (UK only) million tonnes	0.94	0.76	0.64	0.64
% below 1996 levels	42	53	60	60
Tonnes per £1m turnover	50	41	33	31

Calculate your footprint

You can now calculate your own carbon footprint on the BT website at www.btplc.com/climatechange



Influencing our customers and suppliers



We have tightened the environmental criteria in our procurement principles

Communications technology can reduce carbon dioxide emissions. For example, by enabling easier remote working, phone and video conferencing that reduce the need to travel. However, we believe the technology's full potential is not yet being realised. We need to do more to provide our customers with new products and services that help them to reduce their CO₂ emissions.

BT currently uses over 0.7% of the UK's electricity consumption so reducing our own footprint is also important. We realise that our electricity consumption could increase as we upgrade our network and provide new services such as data management for our large customers. But there is a lot

We have already reduced our UK CO₂ emissions by 60% since 1996

we can do to prevent this. This year we audited energy consumption at ten of our data centres to assess how we can boost energy efficiency. We have also identified unused and underused equipment and have decommissioned or consolidated around 3,000 servers. We expect this to save 23GWh of electricity per year resulting in significant cost savings and reducing CO₂ emissions by 3,300 tonnes.

We launched a new climate change programme this year to further reduce our own carbon footprint, and help employees, consumers and other businesses to cut carbon emissions by making better use of ICT.

Our climate change programme in brief

1 Reduce our own CO₂

We have already reduced our UK CO₂ emissions by 60% since 1996. Our target is to reduce CO₂ emissions by 80% (against our 1996 baseline) by 2016. We will do this by further improving energy efficiency and using green electricity.

We buy nearly all of BT's UK electricity from low-carbon sources, including renewables and combined heat and power.

2 Influence our customers

We are a major provider of energy-consuming products. We aim to create new products and services that use less energy and help customers reduce CO₂ emissions from their homes and businesses.

3 Influence our suppliers

We have tightened the environmental criteria in our procurement principles. These cover the energy consumption and environmental impacts of products and services, from manufacture to usage and disposal.

4 Engage our employees

We are finding ways to encourage employees to behave in a more energy efficient way at home and at work. In March 2007, we had around 10,400 people working from home.

COMMENT: Bruce Stanford
BT Environment Champion

Climate change is significant to BT because we are a major energy consumer. We have a hard earned reputation for environmental excellence that we want to maintain.

Climate change will affect our consumer and enterprise customers. We are in a privileged position because our products can make a contribution to reducing customer dependence on fossil fuels.

Our products can
make a contribution
to reducing customer
dependence on
fossil fuels

We're looking to take new solutions to our customers that will help them reduce their energy needs and to drive improvements across the industry by demanding more energy efficient equipment from our suppliers. If we're successful it will have benefits for our reputation, reduce costs for BT and our customers and contribute to business growth.

We won't deliver our plans by adopting a command and control approach. We need to take our employees and leaders with us. We've already recruited a network of employee champions across the business and a taskforce of senior executives who meet monthly.

There is a vast amount to do and we know the next five years will be a steep learning curve. But given our track record I'm very confident we can make an important contribution.

COMMENT: Jorgen Randers
The Norwegian School of Management, Oslo

BT is one of the early movers in this area and their track record is excellent. BT is one of very few companies to have reduced its overall emissions while growing the business. They have adopted a positive approach and are looking for solutions for themselves and for customers. If everyone was doing what BT is doing, we'd be on our way to solving the climate problem.

Over the next five years climate change will become increasingly visible to ordinary citizens and voters. It will be easier to get support for political measures, and new markets will develop for climate friendly products and services.

The challenge for BT is to find the goods and services that help solve the climate challenge, sell easily and help people change their behaviour. BT is already doing this to a certain extent with their video and teleconferencing products. But these aren't yet being sold at the volumes needed to have a real impact on global CO₂ emissions. BT is going in the right direction but has not yet reached the final goal.

Environment Champion



We're looking to take new solutions to our customers that will help them reduce their energy needs and to drive improvements across the industry by demanding more energy efficient equipment from our suppliers.

Bruce Stanford
BT Environment
Champion



CSR Leadership Panel



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Jorgen Randers
Professor, The Norwegian
School of Management,
Oslo



For more information go to
www.bt.com/betterworld



4 How we contribute to a more inclusive society

Technological change and globalisation are stimulating economic growth and increasing global prosperity on an unprecedented scale. But the benefits of these changes are unevenly distributed. Many people are excluded by factors such as poverty, lack of education or prejudice. We want enhanced communication and technology to help give everyone a fair chance.



Inclusive Society Champion



ICT is a great enabler – it provides access to information and education that can change people's circumstances and transform their world and prospects.

Clive Ansell
Group Strategy Director,
BT



99%

of UK households now have access to a broadband connection

CSR Leadership Panel



There is huge – and as yet unrealised – potential for communications technologies to reduce social exclusion.

Nick Robins
Head of SRI Funds,
Henderson Global
Investors



We want to contribute to a more inclusive society, where everyone has the opportunity to thrive and prosper. We believe that such inclusion is essential to social stability and long-term economic growth – two important foundations for profitable business.

Our inclusive society programme focuses on two areas – increasing access to technology and making BT an inclusive company.

Lacking the opportunity or skills to use ICT can reduce access to employment and information. Currently 36% of people in the UK are considered digitally excluded. We have set a target through consultation with the UK government to reduce this number to 32.4% (a 10% reduction) over three years.

Our inclusive society programme in brief

1. Increasing access to the benefits of ICT

Our approach to digital inclusion has three elements:

- Connectivity – giving more people access to communications technology
 - Content – developing online content that benefits communities and small businesses
 - Capability – helping groups and individuals develop skills and use technology.
- For example, we offer services and advice to help older people and people with disabilities benefit from modern communication services.

2. Creating an inclusive culture in our workforce

Diversity contributes to creativity and helps us meet the needs of all our customers. We aim to create an inclusive culture at BT where people's differences are valued. We are implementing flexible working policies that, for example, help people with disabilities make a full contribution.

COMMENT: Clive Ansell Group Strategy Director, BT

ICT is a great enabler – it provides access to information and education that can change people's circumstances and transform their world and prospects. Making technology more accessible can open real windows into the world for people with disabilities.

There is a strong business case behind our inclusive society programme. Creating an inclusive culture within BT's workforce helps us generate products that serve diverse communities and opens up new markets, such as the growing market for more accessible products in the UK's ageing population. It gives us the diversity of viewpoints all successful companies must have. We need people who are willing to speak up and express different views. Financially it's good for us because when the economy does well, we do well. Anything that makes people more economically engaged is worth pursuing.

The challenge is to keep up with rapid technological change and create a strong dialogue with communities to make sure our products, services and programmes reflect their needs and reach the right people.

COMMENT: Nick Robins Head of SRI Funds, Henderson Global Investors

There is huge – and as yet unrealised – potential for communications technologies to reduce social exclusion.

BT has a long track record in dealing with issues of disability among its customers, as well as promoting diversity internally. The challenge now is to systematically integrate the inclusion agenda into BT's strategies for research and product design. Just as eco-design is well established, BT needs to give similar emphasis to 'inclusive design'. Looking afresh at these unmet needs could reveal important business opportunities: 40% of Britain's population suffers from a disability in some way, for example.

Beyond the generation of new services that can help close the digital divide in terms of age, disability, gender, income or race, the prize is to look creatively at the way in which BT's skills and capabilities can promote wellness. This is particularly significant given the burgeoning chronic illnesses which threaten to bankrupt established health systems. To do this effectively, BT will have to develop new social partnerships – to see the potential of telecoms through their eyes.

5 Finding skills, products and services worldwide

BT operates in a highly competitive industry. This is characterised by changing business models, rapid innovation (by both customers and the industry) and reduced revenues from traditional fixed-line telephony.

The need for flexibility, global expansion and cost competitiveness means the way we source skills, products and services is changing. Our approach to finding these around the world is called global sourcing and includes insourcing, outsourcing and offshoring.

Insourcing is where our business customers outsource their IT services to us, and often some of their IT department become BT employees. This helps customers meet their business objectives and often enhances our own skills.

Outsourcing is when we transfer our non-core activities to suppliers. For example, Xansa and Accenture run many of our payroll, finance and accounting activities.

In a UK context, offshoring is where services previously delivered from within the UK are now provided from other countries. For example, BT has two call centres in India that serve BT Retail customers.

Much of our global sourcing has been focused on India. We have a long standing joint venture with Tech Mahindra, and recently expanded our activities in India from customer support and software development, to include market intelligence and legal support. We are also extending our global sourcing activities to new countries, for example Brazil, which is a centre of excellence for billing; and Hungary and China which are providing IT services for BT Global Services. Other countries that are being considered for future global sourcing are Mexico and South Africa.

Supply chain

We have integrated social and environmental criteria into our purchasing decisions. We carry out assessments with high risk suppliers and participate in the Global e-Sustainability Initiative to achieve consistent standards across our sector.

Key statistics in the 2007 financial year

- £6.8 billion spent with suppliers
- 413 risk assessments carried out with suppliers, we followed up with 100% of medium and high risk suppliers within three months (risk assessments based on completed questionnaires)
- 1,385 suppliers have completed our Sourcing with Human Dignity and environmental questionnaires.

COMMENT: Mark Goyder

Founder Director, Tomorrow's Company

Technology has made global sourcing easier but it is also making the social and ethical dimensions of this change more significant and more visible. For instance, unethical practices discovered far down the supply chain can have a big impact on the end brand.

Business can shift location more easily but it still has obligations to the local community, wherever 'local' happens to be. Global companies can make a massive difference to communities by the way they choose to do business. And often the choices are tough – exit or engagement; low wages or no wages in a struggling community.

Three areas are important – people, values and accountability. First, BT's leadership has to set the right priorities, talk the right language and empower its people to find imaginative and sustainable solutions. Secondly, they need values which don't collapse when put to the test. Finally, accountability and transparency are critical – they need to be alert to new issues and open themselves up to the critics who will identify them early. I think BT is already performing well on these issues – the challenge is to keep the momentum going.



CSR Leadership Panel



Business can shift location more easily but it still has obligations to the local community, wherever 'local' happens to be. Global companies can make a massive difference by the way they choose to do business.

Mark Goyder
Founder Director,
Tomorrow's Company



413

risk assessments carried out with suppliers

1,385

suppliers have completed our Sourcing with Human Dignity and environmental questionnaires

For more information go to
www.bt.com/betterworld



6 Getting the foundations right

We have a long-standing commitment to responsible business and well-established policies and programmes in key areas. We will only be in a position to benefit from new CSR opportunities if we continue to get the basics right. We must maintain momentum – managing these issues well, looking for opportunities to enhance our performance and implementing best practice. This is a key element of our CSR strategy.

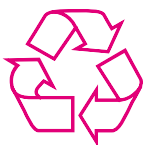


Community investment

£21.8m

1% of UK pre-tax profits

Waste and recycling



42% of BT's UK waste was recycled in the 2007 financial year

Charitable partnerships

unicef 



We work with Childline and UNICEF as part of our Better World campaign

Community investment

We use our community investment to help everyone benefit from enhanced communication, increase digital inclusion and support education. Our Better World campaign aims to give every young person a voice. It includes our new global development partnership with UNICEF that will benefit disadvantaged children in South Africa, Brazil and China. Our new community investment effectiveness measure is an independent assessment of our community programme. Our score this year was 70% and our target for next year is 75%.

Health and safety

Keeping our employees safe is one of our most fundamental responsibilities. Our lost time injury rate is a key performance indicator. In 2007 it was 0.238 cases per 100,000 working hours, compared with 0.281 the previous year. We often go beyond the fundamentals to help our people adopt healthy lifestyles.

Pensions

Expectations of lower investment returns in the future and longer life expectancy are challenging for company pension schemes. BT stands fully behind its pension obligations. Our closed defined benefits scheme is run by independent trustees and has about £38 billion of assets. To eliminate a deficit valuation based on prudent actuarial assumptions BT is making contributions of £280 million a year for 10 years, on top of normal employer contributions. Our defined contributions scheme for employees joining after April 2001, offers matching contribution by the company up to 10% of salary.

Environmental management

Good environmental management saves money and improves business efficiency. BT's environmental management system (EMS) complies with ISO 14001:2004, an international standard which requires continual improvement. This is underpinned by our company-wide ISO 9001 certification. We are extending our EMS to our international operations.

Waste and recycling

We try hard to avoid making waste. But when we do, we attempt to re-use or recycle it. In the 2007 financial year, we produced 94,928 tonnes of waste in the UK, of which 40,007 tonnes (42%) were recycled.

Growing our workforce

We need to attract, select and retain the best people. During the 2007 financial year, our workforce in our Americas region grew by 54% and in Asia Pacific it grew by 29%.

Training

We invest in learning and education for our people. For example, BT Route2Learn (R2L), is our new online learning portal available to all BT employees globally and to contractors. R2L helps people acquire job-related skills and take advantage of future career opportunities in our changing industry.

Embedding our values

We work hard to embed our values across BT. All employees receive training on our values and business principles. Our Statement of Business Practice – The Way We Work, applies to all employees, agents and contractors. Our confidential 24-hour helpline enables employees and contractors to get confidential advice or to report suspected cases of misconduct. 120 people were dismissed for unethical conduct in the 2007 financial year. Our Ethics Performance Measure (EPM) is one of our key performance indicators. Our EPM score was 84% this year and our target for the 2008 financial year is 86%.

Having a strong ethical culture at BT is becoming even more important as we buy new businesses and extend our operations in countries where there is a higher risk of unethical or corrupt practices occurring. We assess these risks before deciding whether to tender for new business or establish operations in new countries. Our Countries at Risk website gives employees information on the risks associated with doing business in 158 countries. We include human rights questions in our due diligence process for business acquisitions. If a decision is taken to proceed in a country with a high risk rating these tools help us put appropriate systems in place to manage and reduce these risks.

7 How can we contribute to sustainable economic growth?

For much of the last two decades our approach to sustainability has focused on reducing the negative social and environmental impacts of our business. We now want to adopt a more holistic approach and to extend our focus from risks and impacts to look more closely at opportunities. We believe that ICT technology has great potential to contribute towards sustainability – by enabling economic growth that benefits society within environmental limits.

To ensure we embrace these opportunities we have launched a sustainable economic growth programme – a key strand of our CSR strategy. We will focus on integrating sustainability into our business development processes, creating new products and services with sustainability benefits and encouraging new business models. As one of the world's largest companies, ranking 162nd in Fortune's Global 500 we believe we can make an important contribution.

We have already started to identify new ways in which our technology and operations can have broader benefits for BT and society. For example, we are developing a Carbon Audit service to help customers understand the carbon footprint of their ICT systems and use technology to reduce their overall emissions.

Our sustainable economic growth programme in brief

- 1 Integrating sustainability into business development processes.** We will take account of sustainability factors in our product development processes.
- 2 Identifying products and services with sustainability benefits.** For example, ICT solutions that enable home-working or better management of chronic disease.
- 3 Exploring obsolescence in the ICT industry.** ICT has environmental drawbacks as well as benefits. For example, the relatively short life span for much ICT equipment contributes to wasted resources.
- 4 Measuring our progress.** We will establish indicators to drive progress.

Contributing to the economy

Our sustainable economic growth programme will build on strong foundations. We make a significant direct economic contribution by employing 106,204 people and buying goods and services worth billions of pounds a year.

As an ICT company we also have an indirect economic impact through our technology. The products and services provided by BT are used by others to raise their productivity and ability to compete.

COMMENT: Andy Green

CEO Group Strategy and Operations, BT

We are committed to sustainable development because it matters to society and our customers. It reflects the ethos of our company and is a natural extension of our long history of engagement in environmental issues. We're convinced that economic growth is a good thing if it is achieved in a sustainable way that helps people worldwide to raise their standard of living.

Our industry has great potential to stimulate economic growth in a way that benefits society, reduces inequalities and prevents environmental degradation. Travel substitution is one example. By facilitating remote working, ICT can stimulate the growth of virtual global enterprises that bring people into the workforce and contribute to sustainable local communities. But this potential won't be realised automatically – it requires creative thinking.

We have had a positive response to this initiative internally – now we have to channel this energy and embed it into our product development process. This has to be part of our day-to-day business.

COMMENT: Elisabeth Laville

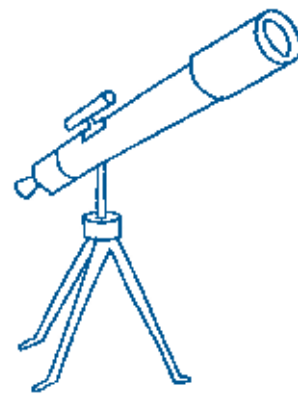
Founder & Director, Utopies

BT's sustainable economic growth programme puts them among the leading companies in this area. Up to now most companies have focused on risk management and pollution prevention. Now the leaders are thinking about how to make a positive contribution through their everyday business activities.

I'm interested in their idea of a carbon audit service. If BT can sell ICT and carbon reduction to their clients this will be a profound shift towards a more sustainable business model.

We shouldn't assume that ICT solutions by themselves will always have a beneficial environmental impact. Installing a video conference system won't necessarily reduce business travel. You have to communicate intensively and create incentives for people to adopt sustainable solutions. I think BT understands these challenges.

BT's programme is very relevant but it is in its early stages. I would like them to set targets and embed this work in their business. If they really see opportunities in this area they must make it part of their core business strategy and communicate it externally.



Sustainable Economic Growth Champion



We're convinced that economic growth is a good thing if it can be achieved in a sustainable way that helps people around the world to raise their standard of living.

Andy Green

CEO Group Strategy and Operations, BT



CSR Leadership Panel



If BT can sell ICT and carbon reduction to their clients this will be a profound shift towards a more sustainable business model.

Elisabeth Laville

Founder & Director, Utopies



£20,223m revenue

£2.5bn profit before tax and specific items

£5,223m in employee expenditure

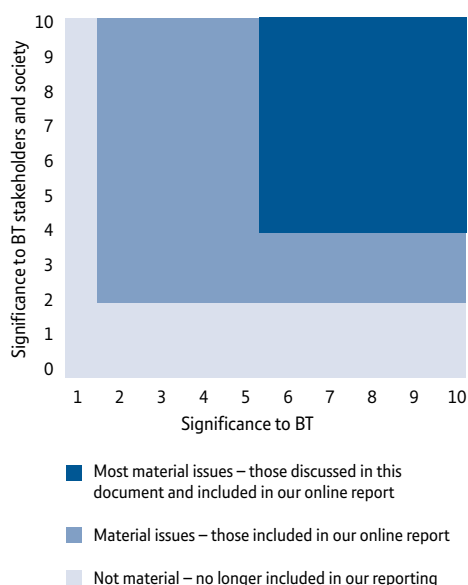
£3,247m in capital expenditure

£611m in taxes to government in 2007

Identifying the most significant and relevant issues

This report focuses on our most material sustainability issues – the subjects that are most significant and relevant for BT. For the last two years these have been identified through a formal materiality determination process.

Identifying our material issues



Sustainability encompasses a very broad range of subjects. We want our reporting to be comprehensive so it gives stakeholders the information they need to make a balanced assessment of our performance. However it shouldn't be so wide-ranging that we fail to communicate our priorities and focus areas.

In 2005 we developed a materiality process to help us identify the issues we should include in our report.

How it works

We assess each issue using four questions:

- 1 Does BT have a policy on this issue?
- 2 What is the financial impact of this issue on BT?
- 3 Are stakeholders interested in this issue?
- 4 Is there societal interest in this issue?

For each issue, we determine whether BT has a policy, what part of the business that policy covers and whether it includes performance targets.

We assess financial impact by looking at the actual costs currently associated with each issue. We also assess potential costs that might be incurred by poor performance or failures in each area.

Stakeholder interest is assessed through research with customers, employees and suppliers. We ask them: what are the most important social and environmental issues that BT should be taking action on? We also analyse parliamentary questions and investor questionnaires.

We determine levels of societal interest through an extensive media review covering seven countries.

The issues identified as most material are included in this report and in our online report. Our online report also covers those subjects identified as less significant but still material to BT.

Resolving inconsistencies

Most issues that BT identifies as important are also rated highly by stakeholders and wider society. These issues are included in our reporting.

On some issues the materiality process produces less straightforward results. For example, some issues BT considers material were not identified in our stakeholder research or media review. Resolving these inconsistencies is a matter of judgement. We consult our CSR Leadership Panel of external experts and CSR Steering Group of senior BT managers to help us determine which of these issues should be included in our reporting.

For more about our stakeholder engagement, see our online report

www.bt.com/betterworld



Understanding the business case for CSR

Our CSR work is integral to our business strategy. We have a formal process in place to ensure we take account of significant CSR/sustainability risks to our business. We are now establishing a similar process to make sure we identify and capitalise on the opportunities presented by CSR.

CSR business case

CSR affects business performance in five key areas:

1 Risk management

We have seven key CSR risks, see below.

2 Reputation

Customers who believe that BT takes its responsibility to society and the community seriously are 49% more likely than other customers to be very or extremely satisfied with BT.

3 Cost reduction

We quantify financial savings linked to environmental improvements. For the 2007 financial year, we made £216.9 million in productivity gains; £12.2 million in capital and £0.2 million in profit and loss savings, making a total of £229.3 million.

4 Employee motivation

Our relationship with employees is crucial to business success. In a recent survey, we found that 62% of employees felt more proud to work for the company as a result of our CSR activities.

5 Marketplace innovation

The quality of our CSR performance differentiates us from our competitors. This is important when bidding for major contracts in both the public and private sector. We supported bids worth potentially £1.8 billion to BT in the 2007 financial year. Sustainability trends also create new market opportunities, see right.

CSR risks

Our Board takes regular account of significant social, environmental and ethical risks to BT's business.

The most significant CSR risks are quantified in a risk register. The risk register is updated twice a year and reviewed by the Board annually.

In the 2007 financial year we identified no social, environmental or ethical risks that would have a material financial impact on our business.

Our key CSR risks are:

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

CSR opportunities

CSR presents many opportunities for BT and not just as a means to strengthen our brand and reputation. New technological solutions are required to help companies, governments and individuals find more sustainable ways of communicating, working and living. We are well placed to respond to these commercial opportunities.

We are developing a CSR opportunities map, to build our understanding and knowledge of the different opportunities that exist around our business.

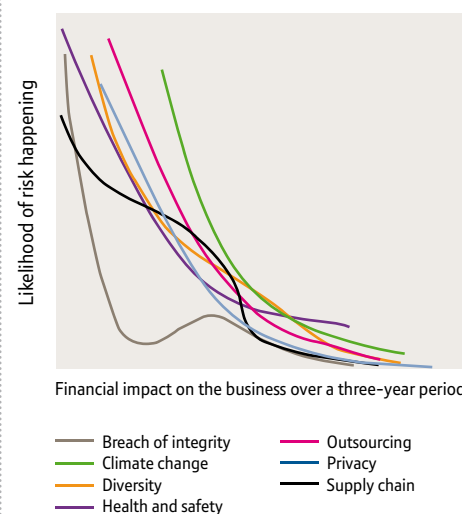
CSR governance

Management of CSR and sustainability issues is integrated into our governance processes.

A full description of our CSR governance processes is available in our online report. Key elements include:

- BT's Board discusses our CSR strategy, performance and risks at least once a year (and health and safety issues more regularly) and signs off this report
- The Operating Committee, a Board committee chaired by the CEO, agrees group-wide CSR policies
- The CSR Steering Group, made up of senior employees from across BT, oversees policy implementation and assesses CSR risks
- The Community Support Committee, a Board committee, chaired by BT's Chairman, oversees community investment.

CSR key risks



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



How we performed this year

Category	Indicator	2005	2006	2007	Target 2008
Customers	Customer Service A measure of success across BT's entire customer base ^a	23% compound reduction in dissatisfaction	3% increase in satisfaction	3% increase in satisfaction	To improve customer service in line with the corporate scorecard target as overseen by Board remuneration committee ^b
	Employee Engagement Index A measure of the overall success of BT's relationship with employees	65%	65%	65%	To achieve an Employee Engagement Index of at least 65% ^c
Employees	Diversity A measure of the diversity of the BT workforce	New Measure in 2007 ^d	New Measure in 2007 ^d	BT is in the top 10 placement in 3 out of the 4 main UK Diversity Benchmarks The Schneider Ross Benchmark will be run for the first time next year	BT will achieve a top 10 placement in 3 of the 4 main UK Diversity Benchmarks BT will benchmark its global performance via the Schneider Ross Global Diversity Network
	H&S: Lost Time Injury Rate Rate of Lost Time Injury Incidents expressed as a rate per 100,000 hours worked on a 12 month rolling average	0.468 cases per 100,000 working hours	0.281 cases per 100,000 working hours	0.238 cases per 100,000 working hours	Reduce to 0.235 cases per 100,000 working hours
	H&S: Sickness Absence Rate Percentage of calendar days lost to sickness absence expressed as a 12 month rolling average	2.53% calendar days lost to sickness absence	2.35% calendar days lost to sickness absence	2.43% calendar days lost to sickness absence	Reduce to 2.4% calendar days lost due to sickness absence
	Supplier Relationships A measure of the overall success of BT's relationship with suppliers	Measured bi-monthly	89%	Measured bi-annually	To repeat the Supplier Survey in 2007/8 and achieve 90% or more
Suppliers	Ethical Trading A measure of the application of BT's supply chain human rights standard ^e	240 risk assessments with 100% follow-up	230 risk assessments with 100% follow up	413 risk assessments with 100% follow up	To achieve 100% follow up within three months for all suppliers identified as high or medium risk
	Community Contribution A measure of our investment in society	£20.8m in funding and support in kind	£21.3m in funding and support in kind	£21.8m in funding and support in kind	Maintain a minimum investment of 1% of pre-tax profits
Community	Community Effectiveness Measure An independent evaluation of our community programme	New Measure in 2007	New Measure in 2007	70%	To achieve 75%
	Global Warming CO₂ Emissions A measure of BT's climate change impact (UK only)	53% below 1996 level 0.76 million tonnes	60% below 1996 level 0.64 million tonnes	60% below 1996 level 0.64 million tonnes	2016 CO ₂ emissions to be 80% below 1996 levels
Environment	Waste to Landfill and Recycling A measure of BT's use of resources (UK only)	73,201 tonnes to landfill (66%) 37,408 tonnes recycled (34%)	59,665 tonnes to landfill (58%) 42,340 tonnes recycled (42%)	54,921 tonnes to landfill (58%) 40,007 tonnes recycled (42%)	To reduce the tonnage of waste sent to landfill by 8% (excluding waste arising from the 21CN network programme)
	UK Internet Usage Addressable broadband market ^f % of UK population who have not used the internet in the past three months	95% UK households	99.7% UK households	99.8% UK households 36%	To reduce the percentage of people who are digitally excluded by 10% (ie to 32.4%) by 31 March 2010
Digital inclusion					
Integrity	Ethical Performance Measure A measure of our progress in acting with integrity	(70% old measure ^g)	(72% old measure ^g)	(74% old measure ^g) 84%	To increase to 86%

All targets have an end date of 31 March 2008 unless otherwise stated.

^a Revenue weighted.

^b Customer service is defined as 'Right First Time' (keeping our promises) and 'Cycle Time' (the speed at which we deliver service). In 2007/08 the Group target will be focused on Right First Time.

^c In 2007/08 the Employee Engagement Index will be based on an average of the mean results across four key questions.

^d See archived reports for earlier measures.

^e Risk assessments are based on completed questionnaires.

^f This target is no longer measured as we have reached more than 99%.

^g See our online report for an explanation of the changes to this measure.

Assurance

We aim to meet the key principles of the AA1000 Assurance Standard:

- | | |
|-----------------------|---|
| Materiality | The report must include information about our sustainability performance to help readers make informed judgements, decisions and actions. |
| Completeness | The report must include all material aspects. |
| Responsiveness | The report must demonstrate that BT has responded to stakeholder concerns, policies and relevant standards and adequately communicated these. |

Extract from LRQA assurance statement

Scope and criteria of the assurance

Lloyd's Register Quality Assurance Limited (LRQA) was commissioned by BT Group plc (BT) to assure both its Changing world: Sustained values 2007 printed report and its web-based Sustainability Report 2007¹ (the reports) for the financial year ending 31 March 2007. Both reports remain the responsibility of and have been approved by BT.

The assurance was undertaken against:

- AccountAbility's Assurance Standard AA1000 AS, 2003
- Global Reporting Initiative Sustainability Reporting Guidelines (GRI), 2002
- GRI Telecommunications Sector Supplement, July 2003.

LRQA's approach

The assurance was undertaken as a sampling exercise and included interviews, data and information analysis and reviewed BT's:

- Stakeholder engagement processes
- Understanding, response and reporting on material issues

- Output on materiality against our own independent analysis of stakeholder issues
- Use of sustainability performance data within their business decision-making processes
- Processes for setting performance indicators and for monitoring progress
- Data and information management systems
- Sustainability Report 2007 to establish that it is in accordance with the GRI Guidelines
- Reporting of performance in accordance with the GRI Guidelines.

LRQA's conclusions

Based on our review, our conclusions on the reports in relation to the AA1000 Assurance Standard and the GRI Guidelines are summarised below:

Materiality – The reports include information that is material to stakeholders and these issues are considered during strategic decision making. We are not aware of any material aspects concerning BT's sustainability performance that have been excluded from the report.

Completeness – The reports are complete in coverage of sustainability performance and there are processes in place for identifying, understanding and managing stakeholder issues and potential risks to the business;

Responsiveness – We are not aware of any additional issues of stakeholder interest that should be included in the reports.

Global Reporting Initiative – The content of the Sustainability Report 2007 is in accordance with the requirements of the GRI Guidelines including the Telecommunications Sector Supplement. Recommendations for improvement in reporting are included in the full Assurance Statement contained in the online BT Sustainability Report 2007 and in our report on the assurance provided to BT senior management.

¹ This excludes BT's Regulatory Compliance Report for 2006/7 and the Equality of Access Board Summary Report 2007.



CSR Leadership Panel statement

The Panel's remit

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

Performance and future challenges

The chronic mismatch between the impressive efforts of a global company like BT to act in ever more responsible ways, and a world that is on the verge of ecological collapse (primarily but not exclusively because of climate change) and in which around 60% of people live in countries where levels of inequity are getting worse

rather than better, encourages us to keep the pressure on BT never to get complacent about its achievements.

For instance, BT's continuing commitment to reducing inequities caused by uneven access to digital technologies is impressive – as is its objective of reducing 1996 levels of CO₂ emissions by 80% by 2016. Set against today's worsening global picture, these may look frail achievements – but made more substantial for us by the leadership values that BT brings to bear on these challenges, and the commitment to 'go the next mile' even in areas of sustainable development or corporate responsibility where others may fear to tread.

For us, that 'next mile' over the next few years is in part represented by BT deploying more of its own 'intellectual capital' to develop innovative new products and services that will

simultaneously meet shareholder expectation and help explicitly to build a more sustainable and equitable world. Beyond that, we have no doubt that tomorrow's challenges will require an even greater leadership commitment, effectively and urgently translated into new business models.

Jonathon Porritt Founder Director, Forum for the Future

Mark Goyder Founder Director, Tomorrow's Company

Elisabeth Laville Founder & Director, Utopies

Jorgen Randers Professor, the Norwegian School of Management, Oslo

Nick Robins Head of SRI Funds, Henderson Global Investors

The full statements are available online at

www.bt.com/betterworld



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.



let's make a
better
world



BT Group plc

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Her Majesty The Queen
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