

Our commitment to society

Investors are paying increasing attention to the ways in which companies manage social, environmental and ethical issues. One manifestation of that interest has been the introduction by the Association of British Insurers of disclosure guidelines covering social, environmental and ethical risks and opportunities.

BT's top-level response to those guidelines is provided in the section on **Corporate governance**, with further information provided here. More detailed disclosures on BT's implementation of social, ethical and environmental policies and procedures, including future objectives and targets, are available online through our fully independently verified social and environmental report at www.btplc.com/betterworld.

Corporate social responsibility governance

A Board committee – the *Community Support Committee* – oversees social investment expenditure and establishes the strategy for maximising our contribution to society. The committee, chaired by Sir Christopher Bland, is made up of representatives from BT businesses, two external independent members who have a reputation for excellence in this field and a non-executive director.

An internal committee known as the Corporate Social Responsibility (CSR) Steering Group oversees the implementation of our CSR programme. This includes risk assessment, performance measurement, public accountability, ISO14001 registration and objective setting and control. The group, which makes regular reports to the Board, is chaired by Chris Earnshaw, our Group Engineering Director and Chief Technology Officer.

In addition, social, ethical and environmental matters have been incorporated into the directors' induction programme.

We have important relationships with a wide range of different stakeholders, including employees, customers and suppliers. We engage with these stakeholders in a multiplicity of ways, such as through consumer liaison panels, an annual employee survey and a supplier relationship management programme.

We also employ a number of professional CSR experts who investigate long-term societal trends, identify potential issues that might affect the business and, when appropriate, support BT's commercial activities.

Business risks

BT's certification to ISO14001, the international standard for environmental management systems, includes an environmental risk assessment process. As a result, the bulk storage of diesel fuel for use in back-up generators at telephone exchanges has been identified as our only significant environmental risk.

Although there are a small number of BT sites where ground remediation is taking place, the cost is not material and so we declare no material contingent environmental liability in our financial statements. In order to minimise any future liability in this area, we are undertaking an £18 million programme to cover tank testing, enhanced maintenance

schedule and remedial works. To date we have spent £6.9 million testing 4,645 tanks, 3,627 of which have passed. Approximately 1,500 remedial jobs have been identified, 460 of which resulted in the decommissioning of the existing tank.

Currently, we identify no social or ethical risks that would have a material impact on our business. However, we have identified the issue of supply chain working conditions as posing a potential risk to our reputation. In order to address this potential risk, we have introduced *Sourcing with Human Dignity* – a collaborative undertaking requiring the active support of all our suppliers.

Objectives

The objectives of our CSR programme are to:

- maximise BT's positive impact on society;
- maximise BT's reputation for social responsibility; and
- support BT's business success.

Impact on society

Other parts of this report cover business integrity, corporate governance and employee issues, such as diversity and health and safety. This section concentrates on our community and environmental activities, and products for older and disabled customers.

We commit a minimum of 0.5% of our UK pre-tax profits to direct activities in support of society. This has grown from £10 million in 1987 to £15 million (including £1.2 million to charities) in the 2002 financial year. In the past financial year, BT operations also provided a further £11 million in funding and support-in-kind.

Our aim is to help create a better world by tackling big issues where better communication can make a real difference.

For example, more than 6,000 schools and nearly 1.5 million young people have had direct experience of the BT Education Programme, a drama-based campaign helping children to improve their communications skills. This activity is supported by a new volunteering programme, which recruited over 1,000 employees during the 2002 financial year.

BT's contribution to charitable causes is extensive and uses a range of communications tools, including our telephone network for disaster appeals and for telethons, such as Comic Relief, Children in Need and GMTV's Get Up and Give. Through our support, this enables the appeals to raise tens of millions of pounds each year. We also provide helplines such as Shelter Line and Parent Line.

In addition, during the 2002 financial year, BT people gave £1.8 million directly to charities through Give as you Earn, to which BT added a direct contribution of £1 million.

The Digital Divide is a key public policy issue and we are working together with the UK Government and the voluntary and NGO sectors to find effective ways to utilise communications technology in tackling social exclusion. In particular, we have developed a campaign approach to address issues at a community level in a number of pilot areas, aimed at discovering the main drivers that encourage

people to utilise information and communications technology in bringing about improvements to quality of life.

We will also be introducing web offerings to encourage local community groups and charities to come onto the internet. This will be accompanied by a measure-set to demonstrate the success of this method, allowing others in business and government to follow our lead.

Additionally, 1,700 internet-ready PCs have been awarded to individuals and groups through the BT Community Connections scheme and a similar number will be made available in the 2003 financial year.

In 2002, we will also launch a major communications issue campaign within the charity sector that will champion real social need.

In the 2002 financial year, we continued to focus on energy management and invested £1.2 million in our energy conservation programme. To date, this has resulted in savings of almost £0.6 million.

In addition, we have agreed supply contracts for the purchase of 93 GWh of new green energy and 1.1 TWh of low CO₂ energy. This will result in a further reduction in our CO₂ emissions of almost 200,000 tonnes.

In the 2002 financial year, we recycled 21% of our total waste. We received £3.13 million income from our recycling activities, offset against the £9.34 million we spent managing our waste contracts, recycling our waste and sending waste to landfill. The cost of sending 90,900 tonnes of waste to landfill sites was £1.13 million. However, during the year, we succeeded in reducing the amount of waste sent to landfill by 22.5%.

We use CFCs in a small number of refrigeration systems and halons for fire extinguishing. During the 2002 financial year, 47,367 kilograms of halon were recovered, of which 40,200 kilograms have been destroyed.

Our operational fleet of 37,624 vehicles, one of the largest in the UK, is now predominantly diesel fuelled. Over the past five years, the size of our fleet has reduced by 4% and fuel consumption has reduced by 13%.

Through our Age and Disability Action Team, we are committed to providing older and disabled customers access to a full range of products and services.

For hearing and speech-impaired people, our new textphone offers easy access to BT TextDirect – the service that enables textphone users to dial direct to other text or voice users. In addition, our mm215 Videophone has improved communications for people who rely on non-verbal communication, such as British Sign Language. Continuing the success of our Big Button phone, the range has been extended to include a cordless version.

We continue to offer services to protect the telephone lines of people who are vulnerable, free directory enquiries for those unable to use the printed directory, as well as the provision of billing, service and product information in a variety of formats, such as Braille and large print.

We are committed to increasing the accessibility of our internet pages and currently offer an alternative text version of the www.bt.com homepage. Our Age & Disability website, www.bt.com/age_disability, highlights features of

products and services that may be beneficial to older and disabled people and is continually updated to ensure that it can be accessed by all customers regardless of ability.

Reputation

Following a detailed statistical analysis of large amounts of customer opinion data going back up to 80 months and based on many tens of thousands of interviews, we have been able to show that a 1% improvement in the public's perception of our CSR activities effects a 0.1% increase in our retail customer satisfaction figures.

This is a critical correlation and shows how important it is not only to protect our reputation through appropriate risk management activities, but also to enhance it.

Reputation enhancement is achieved by appropriate marketing activities, opinion former engagement and submission to external recognition awards. During the 2002 financial year, BT was joint winner of the first ACCA UK Sustainability Reporting Award, was listed in the FTSE4Good index and was ranked as the top telecommunications company in the Dow Jones Sustainability Index.

Business success

We are continually seeking ways of supporting our commercial activities through our CSR activities.

Our support for the BBC Children in Need appeal led to 728,562 new customers for BT Answer 1571, our network-based answering service.

Increasingly, we are having to address social and environmental matters when bidding for business – especially for public sector contracts, which alone represent £1 billion of our business, growing at 10% a year.

Our internal expertise on environmental matters has helped win various contracts, and social inclusion issues are inextricably linked to matters of broadband rollout and the services we provide to local authorities for customer relationship management.

Longer-term sustainability trends are also creating market opportunities for us, such as the use of teleconferencing and flexible working to reduce the need to travel and provide more flexible work/ lifestyles, through the delivery of web-based environmental management systems and through online ethical screening of food items in commodity markets.

More detailed information on the business benefits accruing from our CSR activities can be found online at www.btplc.com/investorcentre.