

# Economics

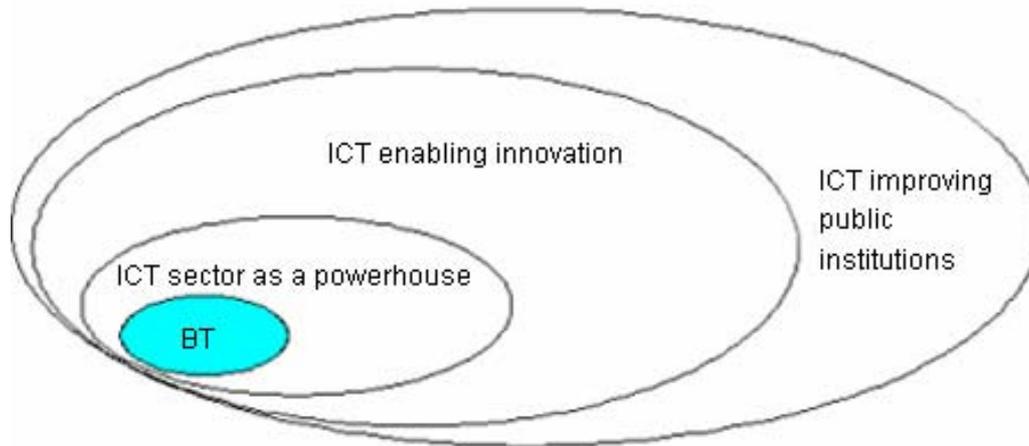
let's make a  
**better**  
world



## Economics

We are among the largest companies in the world, ranking 140<sup>th</sup> in Fortune magazine's Global 500. We make a considerable contribution to the world economy.

BT's value added – sales minus bought-in goods and services – is estimated at US\$18.6 billion. As an economic actor, this makes BT bigger than Côte d'Ivoire or Uzbekistan.



We have direct and indirect economic impacts, as shown in the diagram:

- Direct impacts: how our spending on jobs and services are distributed.
- Sector impacts: the contribution made by the information and communications technology sector, of which BT is a part. This can create competitive advantages over and above the individual ICT organization's competitiveness.
- Innovation: how the products and services provided by BT are used by others to raise their productivity and ability to compete.
- Public good: how ICT helps improve the effectiveness of public institutions.

These impacts are expanded in the following sections:

- Direct economic impacts
- ICT enabling business
- Improving the public sector
- Responsible competitiveness
- ICT sector

## Direct economic impacts

We pay for labour, goods and services, providing direct economic benefits to a wide range of stakeholders. Here are the figures for the 2006 financial year:

### BT sales

BT revenue of £19,514 million, distributed as follows:

BT Retail:	£8,452 million
BT Wholesale:	£9,232 million
BT Global Services:	£8,632 million
Other:	£18 million



Total revenue is boosted to £19,701 million when our share of associates' and joint ventures' revenue (£187 million) is added.

Find more details in the BT profit and loss account on page 91 of the [2006 Annual Report and Form 20-F](#).

## Employees

BT employs 104,362 people around the world, including 92,653 in the UK.

Total spend on employees:

Wages and salaries	£3,910 million
Social security costs	£377 million
Pension costs	£603 million
Share-based payments	£76 million
Total	£4,966 million

## Suppliers

- Total spend with suppliers: approximately £4 billion.
- Total capital expenditure: £3,142 million. See more detail on expenditure on page 34 of the [2006 Annual Report and Form 20-F](#).

## Shareholders and creditors

- Total dividend paid to shareholders: £912 million.
- Net debt reduced from £7,893 million to £7,534 million.
- Net finance expense payable £472 million.
- Total amount falling due to creditors within one year: £8,480 million.

## Breakdown by geography and market share

- UK £16,901 million (87%)
- Europe (excluding UK) £1,900 million (10%)
- Americas £627 million (3%)
- Asia and Pacific £86 million (<1%)
- BT's share of the UK residential fixed-voice call market, as measured by volume of fixed-to-fixed voice minutes is 58%.
- BT's share of the business sector fixed-voice call market is 41%.

## Profit and re-investment

- Profit before taxation and specific items of £2.2 billion
- Return on the average capital employed before specific items was 16.8%, compared with 16% in 2005.



## Tax

During the 2006 financial year, total taxes paid to governments were £533 million, comprising £492 million on the profit before taxation, goodwill amortisation and specific items, offset by tax relief of £41 million on certain exceptional charges.

More details of our total taxes paid are available on page 73 of the [2006 Annual Report and Form 20-F](#).

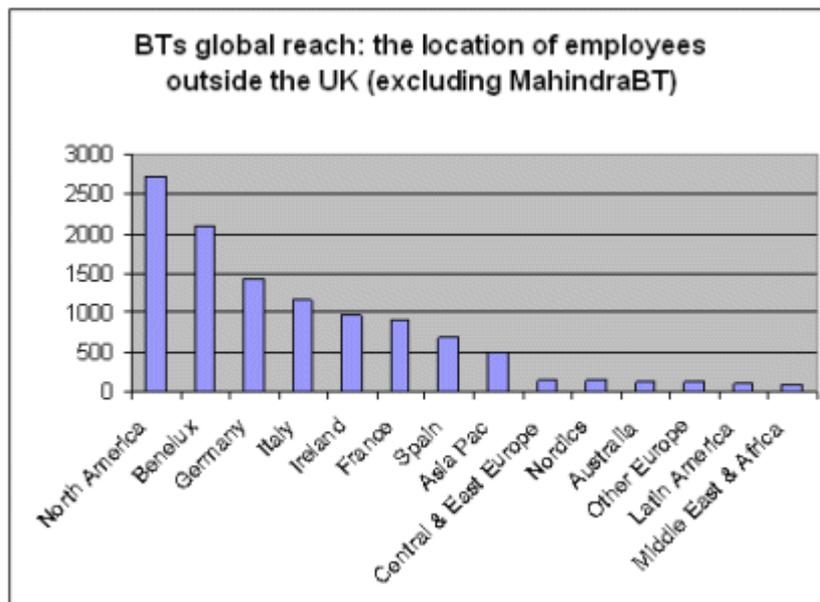
During the 2006 financial year, the BT Group board reviewed BT's tax policy and agreed that an appropriate level of tax planning is entirely consistent with the directors' responsibility of maximising returns to shareholders and is in line with our commitment to CSR.

## ICT sector

The ICT sector is a significant contributor to the world economy. BT's contribution to the sector is the greatest in the UK, where most of its employees are based. But as the company expands internationally, its economic impacts are becoming more pronounced in other regions, mainly Europe and India.

## Employees

- In the UK in 2003, an estimated 1.4 million people worked in the ICT sector. BT accounts for around 7% of the sector in terms of workforce
- In Europe in 2003, around 6 million people worked in ICT. BT constitutes roughly 1.7% of sector employment. (About 7,700 BT workers are located in continental Europe).
- Worldwide in 2003, around 32 million people worked in ICT. BT's share of global ICT sector is approximately 0.3%. (Some 3,600 staff are based outside Europe).
- Over 10,000 people are employed by MahindraBT in India (43% BT-owned).



## UK impact

BT's relatively small share of the UK ICT sector belies its economic importance. The sector's Gross Value Added (GVA) has been growing faster than the overall UK economy every year since 1992, according to the Office for National Statistics. Services, BT's main offering, have become much more important than manufacturing in delivering GVA (86% of the total in 2003).



## ICT enabling business

ICT has great potential to help all businesses improve efficiency and innovate by:

- Reducing the cost of storing and processing data
- Enabling new ways of working, such as teleworking and global sourcing
- Encouraging new types of enterprise, such as online businesses.

Economic benefits are particularly strong in retail (including internet-based shopping), and all companies when investment in ICT is supported by training and a flexible organisational structure.

According to the Office for National Statistics, the UK manufacturing growth in real terms during the 1990s was entirely due to rapid growth in ICT activity. Furthermore, for every additional 10% of employees using computers at UK manufacturing firms, productivity will increase by 2.2%. In newer firms, the same increase in access to computers can cause an increase in productivity of up to 4.4%.

ICT has transformed certain sectors of the economy across Europe, especially in services, pharmaceuticals, retail and automotive. Industries that have invested in ICT have experienced multi-factor productivity growth through improved networking, more rapid innovation and lower transaction costs.

### Networking

BT has made broadband available to 99.7% of the UK's homes and businesses. A 2004 study for BT found that the value of broadband innovation to consumers was in the order of £300 million, predicted to rise to £2 billion or 0.2% of UK output by 2010.

A BT-commissioned study in 2004 examined the company's UK economic 'multiplier effect'. This is a measure of the indirect and induced impacts of a company's payroll and purchasing on the broader economy. The study found that direct employment in the UK generated an employment multiplier of 250%.

### BT in India

Since 1995, BT has established eight key business locations across India to provide managed network services and outsourcing, and conferencing solutions. A study for BT carried out in February 2004 concluded that the companies BT works with in India are able to reach a globally competitive standard of ICT provision, and this standard sets a goal for smaller domestic companies. By 2009, the Indian ICT sector is expected to contribute 7% of GDP and employ 2.2 million directly and nearly twice as many indirectly. While foreign direct investment into the Indian ICT sector remains limited, investment in technology and expertise by companies like BT has enabled the sector to become globally important.

## Improving the public sector

Strong public institutions are a vital contributor to national and regional competitiveness. They ensure a healthy, skilled and creative workforce, empower sophisticated consumers, support an innovative research and development community and create a trustworthy, flexible regulatory climate for businesses.

ICT is increasingly being used to redefine the way that public services are delivered, and has the potential to improve their effectiveness and value for money. This frees up resources for alternative public investments.

While the performance of some early investments in public sector ICT has disappointed, the technology clearly has enormous potential to transform the delivery of public services, develop digital strategies for local authorities and expand the learning process. Other initiatives aim to improve internet safety, increase access for the digitally excluded, promote broadband content and improve take-up in the broadband market.



ICT can be used to increase innovation and productivity; provide better, more-responsive services; build skills, improve efficiency and reduce costs, as well as an effective tool to encourage economic development and regeneration.

The government now provides extensive public services electronically. Citizens can apply for a passport, buy a TV licence, renew library books and read everything from tax and health advice to guidance on how to avoid online dating scams. The Work Foundation claims that 96% of public services are now available on the internet, more than those offered by telephone.

## Responsible competitiveness

ICT is reshaping the behaviour of individuals, the customer-company relationship and how public services are delivered. From getting local communities online to streamlining the operations of global corporations, the impacts of ICT are being felt across the world. ICT can open up a wide range of possibilities to users: providing the technology and knowledge, the creativity and stability needed to build competitiveness. The full potential of the sector is only just becoming clear.

BT is a company with economic impacts well beyond its employment and turnover figures and an important player in the dynamic ICT market in the UK and across the world. Along with other ICT providers, BT's converging services are changing the way and the place that learning is provided, products are devised, people are governed, teams are managed, services are consumed and entertainment is delivered. By appropriately influencing its indirect economic impacts, BT can help build the responsible competitiveness of the host economies of the countries in which it operates, from the UK to the global village and from Brussels to Bangalore.

## ICT enabling business - Key Performance Indicators

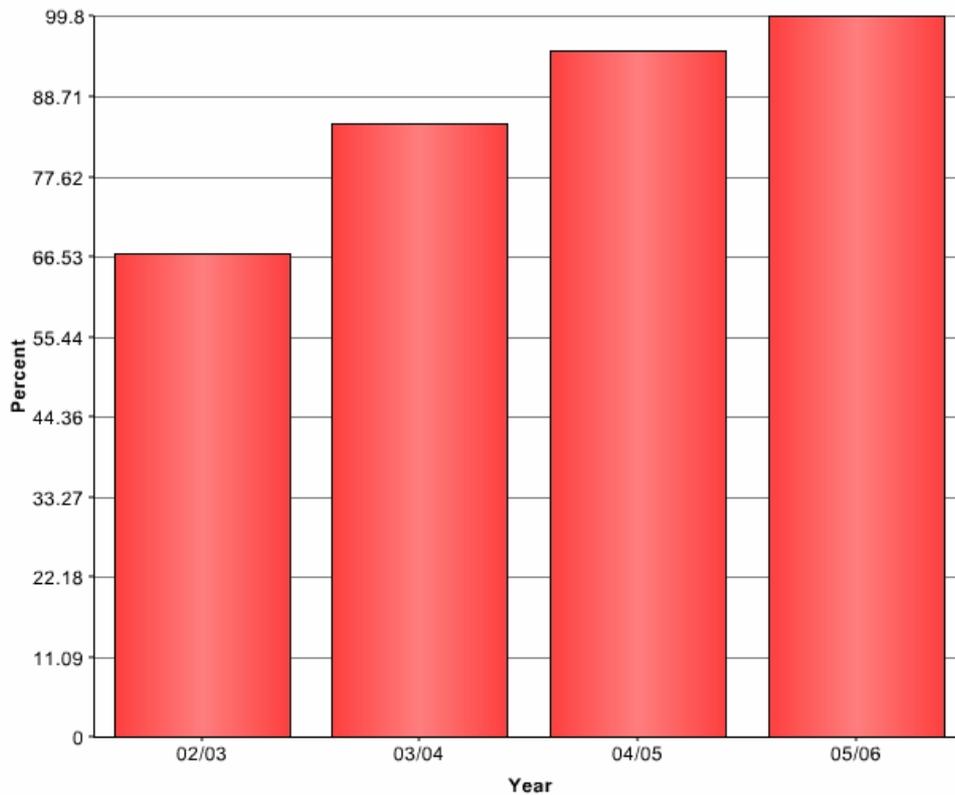
Indicator	Description	Measure	Target
<b>UK Addressable Broadband Market</b>	A measure of the geographical reach of broadband	99.7% of UK homes and businesses have access to broadband.	To maintain at 99.7% and actively look for economic opportunities to extend during the 2007 financial year. A new target will be developed for the 2008 financial year.

## ICT enabling business Targets

Start Date	End Date	Description	Update	Target Status
<b>April 2006</b>	<b>March 2007</b>	BT will maintain its Broadband coverage at 99.8% and actively look for economic opportunities to extend.		New
<b>April 2004</b>	<b>September 2005</b>	We will make Broadband available to exchanges serving over 99% of UK homes and businesses.	As of 30th September, there were 25,320,639 households in enabled exchanges out of a UK total of 25,376,239 (99.8%).	Completed



**Broadband coverage**



Case study

**SMEs reaping the benefits of broadband**

In 2002 Cornwall Enterprise with the support of BT set up **actnow** to promote economic development in Cornwall through the use of broadband technology and ICT. In 2005, 68% of the small and medium-sized enterprises surveyed reported highly positive business benefits from introducing broadband and ICT, for example:

- 93% had better access to information and 87% a more professional image
- 80% experienced lower telephone costs, 76% lower printing and mail costs
- 80% reported better customer relationships and 66% had extended their customer base.

Significantly, 45% of those that experienced highly positive impacts from broadband have been prompted to reorganize work practices to gain the full advantages of the technology.

Extrapolating from this study, the authors estimated that 3,000 jobs in Cornwall had been created or safeguarded as a result of the **actnow** project and that Cornwall’s income would have been boosted by £67 million.

**Improving the public sector - Key Performance Indicators**

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## Case study

### BT provides better healthcare records in London

The UK's National Health Service (NHS) is embracing ICT to improve efficiency, responsiveness and access to services. BT supports a range of services including NHS Direct and NHS 24, which enable patients to receive advice anytime during the day or night online or by telephone.

Incomplete and inaccurate patient information is a major cause of inefficiency - and potentially fatal errors - in the NHS. Over a quarter (27%) of errors derive from poor information and such errors lead to 1,200 deaths a year in England and Wales. The NHS aims to provide a single, up-to date, accessible electronic healthcare record for each patient in England by 2010: the NHS Care Records Service (CRS).

BT Capital Care Alliance are working with NHS Connecting Health so that everyone in London will have electronic patient care by 2010. The fully integrated system will allow authorised health professionals to access patient data 24 hours a day and enable organisations to record and exchange patient and care information electronically, eliminating duplication of patient files. The system will allow these organisations to deliver better quality, more responsive and co-ordinated patient care, as well as reducing costs and improving safety, confidentiality and efficiency.

