

Economics



let's make a
better
world

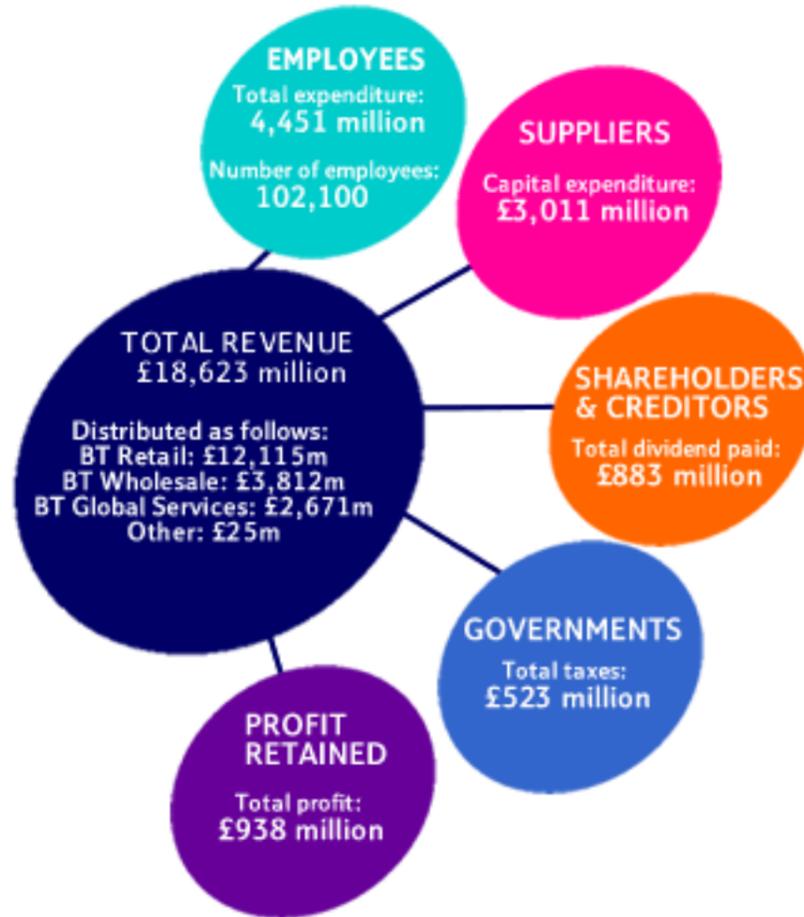
Economics

BT is one of the world's largest telecommunications companies and a significant economic force in its own right.

We employ 102,100 people, provide services and products that improve economic efficiency, and buy goods and services worth billions of pounds a year.

This section describes our main economic impacts and summarises our financial performance. See the Sustainability section for a discussion on the dilemmas that economic growth can create.

Distributing wealth BT's direct economic impacts



Direct economic impacts

Direct economic impacts are those that involve the inflow or outflow of money as a direct result of our business activities - most are measured with traditional financial indicators, such as turnover, dividends and wages paid.

These indicators show our impact on some stakeholders in the 2005 financial year.

Customers

BT turnover of £18,623 million, distributed as follows:

BT Retail:	£12,115 million
BT Wholesale:	£3,812 million
BT Global Services:	£2,671 million
Other:	£25 million

Total turnover is boosted to £19,031 million when our share of associates' and joint ventures' turnover (£408 million) is added.

Find more details in the BT profit and loss account on page 75 of the 2005 Annual Report and Form 20-F.

Employees

- BT employs 102,100 people around the world, including 90,800 in the UK.

• Total expenditure on employees:	
Wages and salaries	£3,656 million
Social security costs	£319 million
Pension costs	£465 million
Employee share ownership	£11 million
Total	£4,451 million

Suppliers

- Total spend with suppliers: approximately £4 billion. See more detail on operating costs on page 34 of the 2005 Annual Report and Form 20-F.

- Total capital expenditure: £3,011 million. See more detail on expenditure on page 34 of the 2005 Annual Report and Form 20-F.

Shareholders and creditors

- Total dividend paid to shareholders: £883 million.
- Net debt reduced from £8,425 million to £7,786 million.
- Net interest payable £801 million.
- Total amount falling due to creditors within one year: £12,461 million.

See more details on page 80 of the 2005 Annual Report and Form 20-F.

Governments

- Total taxes paid to governments were £523 million, comprising £539 million on the profit before taxation, goodwill amortisation and exceptional items, offset by tax relief of £16 million on certain exceptional charges.

More details of our total taxes paid are available on page 36 of the 2005 Annual Report and Form 20-F.

Breakdown by geography and market share

- **UK** £16,967 million (91%)
- **Europe** (excluding UK) £1,396 million (7%)
- **Americas** £190 million (1%)
- **Asia and Pacific** £70 million (<1%)

- BT's share of the UK residential fixed-voice call market, as measured by volume of fixed-to-fixed voice minutes is 64%.

- BT's share of the business sector fixed-voice call market is 42%.

Profit and re-investment

- Profit retained was £938 million.
- Return before goodwill amortisation and exceptional items on the average capital employed was 16%, compared with 15.3% in 2004.



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Indirect economic impacts

Our indirect economic impacts include the ways our activities enhance the ability of others to create economic value. This happens in two ways:

- First, through our own expenditure which injects several billion pounds into the economies where we operate
- Second, through our sale of ICT goods and services, which stimulate economic growth and productivity.

Indirect employment and contracting income and employment

Our expenditure in the UK injects over £2.6 billion into the UK economy every year. This indirectly supports the employment of almost 135,600 people.

Indirect income and employment created in BT suppliers

	Income £ million	Employment
From capital expenditure	918.7	47,600
From revenue expenditure	1,697.4	87,950
Total	2,616.1	135,550

Source: DTZ Piedad Consulting. Based on the following 2003 financial year figures for BT:

- Total Supplier Expenditure: £3.7 billion
- Total Capital Investment: £2 billion

Induced impact

Further indirect (or 'induced') impact is created when income created directly and indirectly by BT is spent. This encourages further employment.

DTZ Piedad Consulting estimates induced impacts produce £3.4 billion of income and support 173,780 jobs.

Total impact

BT's total economic impact (income generation and employment) is calculated by adding the direct, indirect and induced impacts.

Total Income and Employment Impact of BT in the UK

	Income £ million	Employment
Direct	2.974	122,423
Indirect	2.616	135,550
Induced	3.354	173,780
Total	8.944	431,753

Source: DTZ Piedad Consulting, February 2004

BT's activities provide almost 1.7 per cent of all jobs in the UK.

Notes

- These figures take account of 'leakages' of expenditure from the local economy in the form of non-UK purchases, savings and national taxes. They are calculated using 'input-output' tables showing the flows of expenditure between sectors of the economy and allow the impact of a given level of expenditure on income and employment to be calculated. Indirect impacts are not restricted to the 'first round' effect of purchases by BT. Suppliers to BT will purchase some of their inputs from other suppliers in the UK and so on.
- The study is based on BT employing 122,423 people in the UK, either directly by BT or as contractors.

A global information society

The growth in communications technology has enabled business, personal and cultural connections between billions of people. These connections help to enable further development, both regionally and globally.

Developments in communications technology mean a better business environment globally. Information exchange takes place far more rapidly than at any point in history, allowing ideas, goods and services to be delivered more effectively, virtually anywhere on the planet.

The 1999 United Nations Human Development Report focused on the theme of globalisation. It explored the potential of the Internet to drive efficiency improvements, but also to empower small businesses and organisations, and to provide remote communities and poorer countries with cheap and easy access to information.

However, these potential impacts - while desirable and possible - will not necessarily benefit those who need them most, as improved access is likely to be of most immediate benefit to the relatively wealthier in societies, whose skills, education and opportunities allow them to take immediate advantage of them. Furthermore, globalisation, made easier by telecommunications, puts communities of all sorts into direct competition with one another for jobs and investments.

The ICT sector's contribution to growth and productivity

We contribute to economic growth by helping to improve the productivity of enterprises, industrial sectors and the wider economy.

The character of these impacts can be best understood using data for the UK Information and Communications Technology (ICT) sector.

There are two main types of impact: 1. The ICT sector - its size and technological progress - has a direct impact on national-level growth and productivity figures.

2. The use of ICT by companies to improve their own efficiency and productivity has a significant impact on national-level growth and productivity.

However, we recognize that economic growth in itself may entail trade-offs for society and the environment; not all growth is necessarily 'good'. We explore some of these trade-offs in depth in our [Sustainability](#) section.

1. The ICT Sector

Information available from the UK Office of National Statistics enables an assessment of the impact of ICT activity on the UK economy.

The rapid growth in both ICT production and investment was an important contributor to UK economic growth and productivity growth throughout the 1990s.

In 2001 (the most recent data available), the contribution of ICT to UK Gross Value Added (GVA) was £63.5 billion of a total of £880.9 billion - 7.2 per cent.

The contribution of the telecommunications portion of the ICT sector grew from around £12.1 billion in 1992 to around £21 billion in 2002.

GVA for the ICT sector grew by 109.8 per cent between 1992 and 2001, compared with growth of GVA for the whole economy of 61.2 per cent over the same period.

This money has been distributed to various stakeholders:

- Employees (67.3%; £42.8 billion) - highly labour-intensive
- Operating Surplus (31.1%; £19.8 billion)
- Government - taxes on production (1.5%; £1 billion).

Contribution of ICT capital investment to GDP growth 1995-2002

France	Over 0.3%
Germany	Over 0.35%
Italy	Over 0.4%
Japan	0.5%
Spain	Under 0.45%
UK	Over 0.7%

Source: Organisation for Economic Co-operation and Development (OECD)

2. The use of ICT by others

Some characteristics of ICT - such as increased bandwidth and processing power and the plummeting cost of communications - enable organisations and economies to become more efficient and productive.

In [Getting the Measure of the New Economy](#), a report from the Work Foundation's iSociety project, Diane Coyle and Danny Quah argue that it will take time, indeed decades, for ICT to filter through into the whole economy. We are only beginning to see the wholesale restructuring of business, industrial and organisational models made possible by the diffusion of ICT.

As the OECD highlights, the diffusion of new technologies can be slow and companies can take a long time to adjust while they change operational arrangements, re-skill people and implement new business processes. Other factors, such as the regulatory environment, the availability of skills and organisational change, affect the ability of firms to seize the benefits of ICT.

The OECD concludes that it is too early to tell for certain how the role of ICT growth and productivity performance will develop, but some general trends are emerging to suggest that ICT will continue to drive growth.

For example, the OECD cites evidence that those sectors that have invested most in ICT - such as financial services, health, retail, business services, wholesale trade - have experienced more rapid growth in productivity than those that have not. ICT is more appropriate for some sectors than others and is not suited to all business models. Agriculture, mining, manufacturing, construction have benefited less from the ICT revolution.

This is supported by the OECD's figures for the contribution of various sectors to aggregate productivity growth in the UK between 1996 and 2002:

- ICT manufacturing: >0.1%.
- ICT producing services (for example, telecommunications): <0.25%.
- ICT using services (e.g. financial services, retail, etc): >0.8%.



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Competitiveness

The European Union established a strategic goal in Lisbon in 2000 to become ‘the most competitive and dynamic knowledge-based economy in the world... regaining the conditions for full employment and to strengthen social cohesion.’

This ‘Lisbon Strategy’ sets out a number of strategic aims to improve the competitiveness and dynamism of the European economy, including:

- Investing in research and development
- Boosting innovation
- Adaptable workforce
- More and better skills.

The interim review of implementation of the Lisbon Strategy, released in November 2004, notes that improving performance on attaining a ‘knowledge society’ - and encouraging the further use of ICT - is a critical element in meeting the strategy’s aspirations.

We believe that ICT has much to offer society in terms of improving economies and enabling improvements in peoples’ lives; however, these improvements must not come at the cost of potentially negative consequences of economic activity for society and the environment. The European Union’s Lisbon Strategy - while a substantial and important piece of work - may in the long run undermine the EU’s commitment to sustainable development (via the ‘Gothenburg Strategy’), and we urge decision-makers to join up their thinking. We explore the Gothenburg Strategy and BT’s contribution to sustainable development in the [Sustainability](#) section.

