BT's Sustainability Report 2007

Economics

let's make a better world

Economics

BT is one of the largest companies in the world and makes a considerable contribution to the world economy. We have direct and indirect economic impacts through:

- Jobs we provide
- Products and services we buy
- Raising productivity (as a member of the ICT sector) in the private and public sectors, and helping the private sector become more competitive.

One of the key strands of our revised CSR strategy is enabling sustainable economic growth. This is growth that benefits society and remains within environmental limits. Our work is at an early stage and is focused on:

- Integrating sustainability into our product and proposition development
- Developing projects with a sustainable economic growth component
- Defining and developing the metrics for the whole programme
- Exploring obsolescence in the ICT industry.

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 2007 financial year:

BT sales

BT revenue of £20,223 million, distributed as follows:

BT Retail:	£8,414 million
BT Wholesale:	£7,584 million
BT Global Services:	£9,106 million
Openreach	£5,177 million
Other:	£17 million

Total revenue is boosted to £20,374 million when our share of associates' and joint ventures' revenue (£151 million) is added.

Find more details in the BT profit and loss account on page 106 of the 2007 Annual Report and Form 20-F.

Employees

Total spend on employees:

Wages and salaries	£4,099 million
Social security costs	£388 million
Pension costs	£643 million
Share-based payments	£93 million
Total	£5,223 million

Suppliers

- Total spend with suppliers: over £6.5 billion.
- Total capital expenditure: £3,247 million. See more detail on expenditure on page 45 of the 2007 Annual Report and Form 20-F.

Shareholders and creditors

- Total dividend paid to shareholders: £1,053 million.
- Net debt increased from £7,534 million to £7,914 million.
- Net finance expense payable £94 million.
- Total amount falling due to creditors within one year: £6,719 million.

Revenue breakdown by geography and market share

- UK £17,241million (85%)
- Europe (excluding UK) £2,174 million (11%)
- Americas £711 million (4%)
- Asia and Pacific £97 million (<1%)

Our reporting on our share of the fixed-voice call market has changed this year to reflect consistency with the external market and compliance with our equivalence obligations. The figures below are for the quarter ending 30 September 2006. See page 21 of the 2007 Annual Report and Form 20-F for more detail.

- BT's share of the UK residential fixed-voice call market, as measured by volume of fixed-to-fixed voice minutes is 53% compared with 58% for the quarter ending 30 September 2005.
- BT's share of the business sector fixed-voice call market is 38% compared with 39% for the quarter ending 30 September 2005.

Profit and re-investment

- Profit before taxation and specific items of £2.5 billion
- Return on the average capital employed before specific items was 17.6%, compared with 18.1% in 2006.

Tax

The tax benefit for the 2007 financial year was a net credit of £368 million and comprised a charge of £611 million on the profit before taxation and specific items, offset by tax relief of £41 million on certain specific items and a further tax credit of £938 million arising from the settlement of substantially all open tax matters relating to tax years up to and including 2004/5.

More details of our total taxes paid are available on page 42 of the 2007 Annual Report and Form 20-F.

BT’s tax policy was reviewed by the BT Group Board and it was 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.

BT’s wider impact

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 our employees are based. But as we expand internationally, our 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.
- Worldwide in 2003, around 32 million people worked in ICT. BT’s share of global ICT sector is approximately 0.3%.
- Over 18,000 people are employed by TechMahindra in India (in which BT has a 43% stake).

The ICT sector

ICT enabling business

ICT has great potential to help all businesses improve efficiency, productivity and innovation 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.

ICT provides particularly strong economic benefits when used in the retail sector (including internet-based shopping). But all companies can benefit when investment in ICT is supported by training and a flexible organisational structure.

According to the UK 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 made good investments in ICT have experienced multi-factor productivity growth through improved networking, faster innovation and lower transaction costs.

Improving the public sector

The UK Government now provides extensive public services electronically. The range of services include passport applications, TV licences, tax and health advice, and even guidance on how to avoid online dating scams. The Work Foundation, a UK think tank, claims that 96% of public services are now available on the internet, more than those offered by telephone.

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 provided, and has the potential to improve their effectiveness and value for money. When effectively applied, the use of ICT 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 improve the provision of public services and the role of local government.

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

This is especially true when ICT investments include initiatives that improve internet safety, increase access for the digitally excluded, promote broadband content and improve take-up in the broadband market.

Sustainable Economic Growth

The use of ICT boosts economic growth by improving productivity through greater efficiencies. To ensure that these benefits are sustainable, efforts must be made to avoid ICT creating social inequalities and encouraging unsustainable consumption.

“Advanced telecommunications services are one of the few achievements of our consumer society that could be accessible to, and used by every person on earth without exceeding sustainable limits on resource-use and environmental impact,” says Peter Johnston of the European Commission’s information society directorate.

BT’s Sustainable Economic Growth programme

We are exploring how society can benefit from economic growth within environmental limits, and what this may look like. Our work is at an early stage but this element of our revised CSR strategy is a new and exciting focus for us. We are looking to:

- Integrate sustainability into our business development processes, such as in our product development.
- Identify new products and services with sustainability benefits.
- Explore obsolescence in the ICT industry. The relatively short lifespan of much ICT equipment contributes to wasted resources. As a first step we are working with University College London to understand the subject better.
- Measure the programme’s success by establishing indictors to track our progress and to ensure rigour.

Why external policy frameworks are important

Suitable policy frameworks are needed to ensure that ICT brings the desired benefits. The Global e-Sustainability Initiative (GeSI), whose members are leading ICT companies (including BT), make these recommendations:

- Markets should be open to new technologies and new approaches
- Governments should aim for harmonisation of standards and stable regulatory frameworks
- Public-private partnerships should be encouraged to develop infrastructure and applications in areas where the market needs support, e.g. environmental protection and poverty eradication
- Countries at all stages of economic development should recognise ICT as an integral component of sustainable development strategies, not merely as a valuable industry in its own right
- Relevant international and regional institutions should develop a strategy for the use of ICT as an effective instrument to help achieve the UN's Millennium Development Goals
- Governments and the private sector should implement different instruments that can help to extract the maximum benefits from ICT and speed the development of sustainability solutions throughout society
- Tools should be developed to evaluate the environmental and social impacts of ICT use.

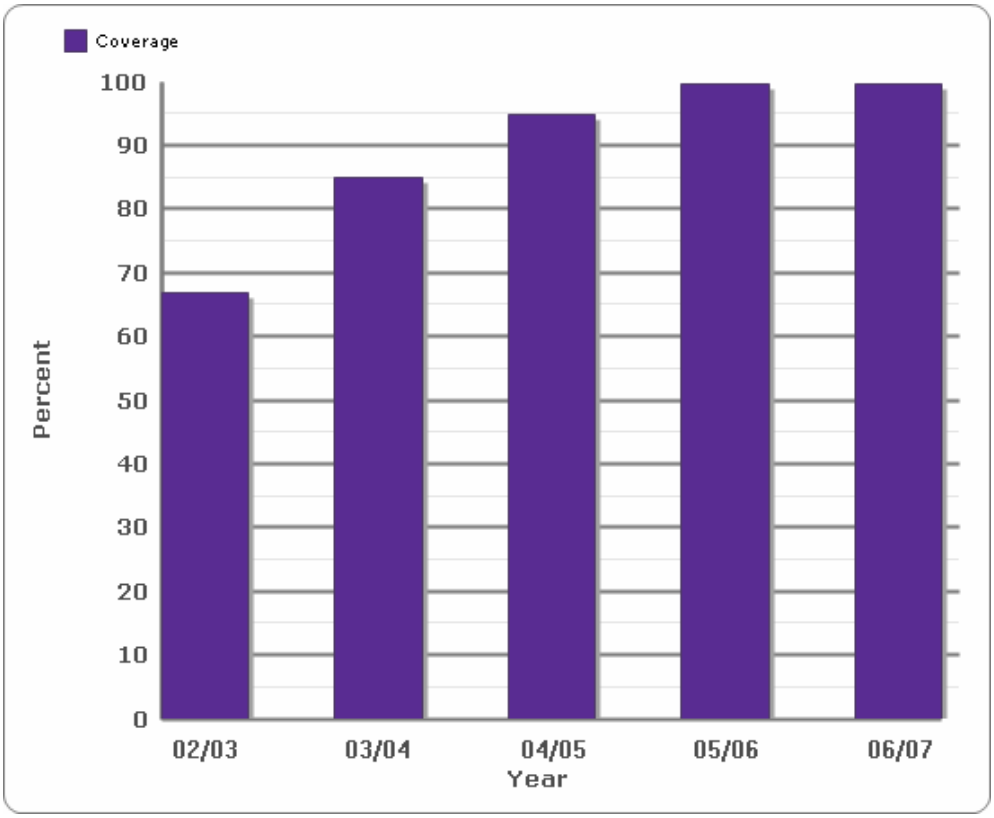
The ICT sector - Key Performance Indicators

Indicator	Description	Measure	Target
UK Addressable Broadband Market	A measure of the geographical reach of broadband	99.8% of UK homes and businesses have access to broadband.	Replaced by new digital exclusion target.

The ICT sector Targets

Start Date	End Date	Description	Update	Target Status
April 2006	**March 2007**	BT will maintain its Broadband coverage at 99.7% and actively look for economic opportunities to extend.	As of 31st March, 99.8% of all UK households were enabled.	Completed

Broadband coverage



Sustainable Economic Growth Targets

Start Date	End Date	Description	Update	Target Status
April 2007	**March 2008**	BT will investigate the development of a key performance indicator for sustainable economic growth.		New
April 2007	**March 2008**	BT will integrate sustainability into the product and proposition development processes within BT.		New
April 2007	**March 2008**	BT will construct an opportunities map of BT's CSR related opportunities.		New
April 2006	**March 2007**	BT will maintain its Broadband coverage at 99.7% and actively look for economic opportunities to extend.	As of 31st March, 99.8% of all UK households were enabled.	Completed