



DAILY COMPANY NOTE — BT Group See page 2 for full details

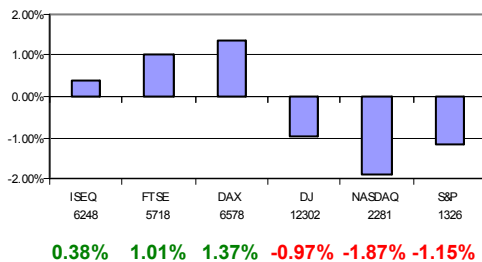
Daily Market Comment

Yesterday's Summary : Although underperforming the majority of European markets, the ISEQ finished yesterday's trading session in positive territory, closing up 0.38% at 6,247.91. The Irish financials managed to recovery some of their recent losses with Anglo Irish Bank gaining 1.15% to €8.80 and Irish Life & Permanent adding 1.6% to €12.80. After releasing full year results which were mostly in line with expectations and a positive outlook for 2008, Independent News & Media soared 8.4% to €1.875. Smurfit Kappa fell 2.4% to €7.34 as it announced it will close a board mill in northern Spain to reduce capacity.

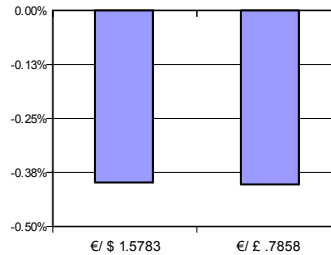
Overnight News : In Japan, the Nikkei closed up 1.7 % at 12,820.47 as fund managers tidied up their portfolios ahead of the closing of their books on March 31, the end of the current fiscal year. In China, the benchmark Shanghai Composite Index closed 4.94% higher at 3,580.15, with heavyweights such as banks and PetroChina rebounding strongly amid speculation that China will soon launch the long-awaited stock index futures. Australia's S&P/ASX 200 closed 0.4% lower at 5,351.1.

Breaking News : The ECB has announced that it has noted increased tension in euro zone money markets towards the end of the first quarter and said it was prepared to ease those difficulties by providing more liquidity if necessary. The Federal Reserve's \$75bn in short term loans of U.S government debt to investment firms today showed weaker demand by one measure than recent Treasury Department auctions. Alliance & Leicester, the second worst performing bank stock in the past year, has had its long term debt rating cut to A+ from AA- at Fitch ratings, which cited weaker access to funding. The changes reflect Alliance & Leicester's weak profit growth prospects for 2008 and 2009.

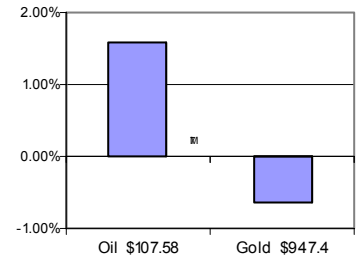
Equity Indices change on day



Currency daily % change



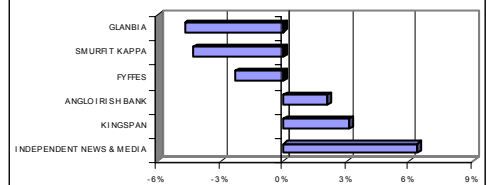
Oil/Gold daily % change



News

- “Gloves are off in fight for INM’s future”-Independent News & Media-(Irish Times)
- “ECB ready to act to calm market tensions”-(The Irish Times)
- “Oracle falls over delayed orders”-Oracle-(Irish Examiner)
- “Smurfit to close recycled paper mill”-Smurfit Kappa-(Irish Examiner)
- “ESB invest €22bn to hit 33% renewable target”-(Irish Independent)

ISEQ Performers/Losers 27/03/08



Market Themes and Movers

Oil over \$106 on Iraq pipeline explosion : The price of crude oil increased to over \$106 a barrel yesterday after saboteurs blew up a major pipeline in Iraq. This is the first time since 2004 that this southern supply route has been disrupted, where Iraq exported 1.54 million barrels per day from in February. Iraqi officials have announced that efforts have already begun to get operations back to normal. Oil prices had already jumped \$5 per barrel before this news amid the US weekly oil inventory report which showed a decline in US oil inventories.

UK house prices fall for the fourth month running : British house prices dropped for the fifth successive month in March, meaning the annual rate of increase rose 1.1% from a year earlier, the weakest annual increase since March 1996. The Nationwide Building Society said house prices fell 0.6% this month after a 0.5% decline in February. The pound fell to an all time low against the euro on the news, with the euro rising as high as 79.14p.



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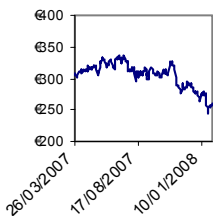
BT Group

Stephen Taylor
BUY
Target 245p
Previous (07/02/08) 300p
Current 215p
ISEQ
Media
Company Profile

BT Group provides telecommunications services. The group offers local and long-distance telephone call products and services in the UK, international telephone calls to and from the UK, broadband network solutions and web hosting to corporate customers, network ADSL, ISDN, and IP services to companies.

Fundamental view : Since BT reported its third quarter results in February that were slightly light of expectations its shares have fallen by 18% to 215p. We believe that the shares have been harshly treated despite the company reiterating that it still expects to grow revenue, earnings and dividends. To combat a slowdown in fixed line revenue BT Group has been increasing its focus on new wave revenue providing broadband solutions and IT services to corporates. At its third quarter report new wave revenue showed a strong increase rising by 7% to £2bn and now accounts for 39% of group revenue an increase of 1% from the second quarter. A further example of BT's expansion into new wave services is that it recently announced that all of its BT Vision IPTV customers will be able to receive high-definition television, gaming and movies through Microsoft's Xbox 360 console. BT continues to remain the number one provider of Broadband in the UK. Over the third quarter there were 511,000 broadband internet connections in the UK, with BT's share of those net additions of 177,000 equating to 35% of the market. The company also pointed out that it was seeing no sign that the economic slowdown was having an effect on its retail or corporate customers. A factor that is continuing to weigh on BT Group is in relation to its pension situation. BT had a pension surplus of £700m at the end of its third quarter compared to a pension deficit of £1.1bn for the same period last year. While that surplus is likely to come down due to recent declines in equity markets BT Group has continued its de-risking strategy and further reduced the size of the pension scheme's exposure to equities from 50% to 40%. In May last year, BT group announced a £2.5bn share buyback program to be completed by the end of March 2009. The company has completed over half of this buyback program and in recent weeks appears to have stepped up the purchases an indication that it feels its shares are undervalued. Like all telecom companies BT Group has a significant net debt position estimated to rise to £9.4bn by the end of 2008. However the group has sufficient interest cover of 3.2x with a debt to equity ratio of c. 50% which is broadly in line with the sector.

Next catalyst : The next major catalyst for BT Group is on 15/05/2008 when it is due to report its fourth quarter results. We expect the group to post a 3% rise in EPS to 5.95p with revenue increasing by 4% to £5.4bn. BT shares currently trade at c. 30% discount to its peer group. While we do feel that shares in BT deserve to trade at a discount given its lack of mobile and international exposure we believe that a 20% discount is warranted. As a result this generates our new 12-month price target of 245p based on an earnings multiple of 10x 2009 forecasted EPS of 24.5p. What should also support the stock is that it pays a current year dividend yield of 7.3% with dividend cover of 1.5x.

Statistics
Price Performance

Chart view: BT Group

Support Key: 200 area
 Resistance Primary: 222
 Resistance Secondary: 240

Medium-term trend is negative with stock continuously failing to hold onto any gains. However, recent price action has been encouraging and strong long-term support in the 200 area should limit any downside. A break of trend resistance at 240 would change chart sentiment and suggest good upside to follow.

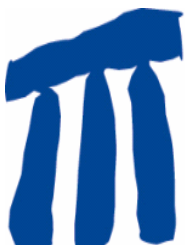
Profit By Sector


- Traditional 61%
- New Wave Revenue 39%

Major Shareholders		Peer Group Multiples			
	%	Company name	P/E 08	P/E 09	EPS Growth 08-09
Invesco	5.03%	BT Group	9.11	8.78	3.81%
Legal & General	4.68%	Vodafone	12.8	11.8	8.33%
Barclays	4.62%	Deutsche Telekom	15.8	13.80	15.00%
Brandes Investment Fund	4.23%	BSkyB	20.6	15.6	31.91%

Shares Outstanding 7812m

Share Data	Financial Data	2007	2008e	2009e	
Current Price (£)	215	Revenue (£m)	20,223	20,650	20,935
Mkt Cap (£m)	16,814	Profit Before Tax (£m)	2,495	2,365	2,513
Reuters	BT.L	EPS (p)	22.70	23.60	24.5
Bloomberg	BT/ALN	P/E(x)	9.47	9.11	8.78
Sector	Telecom	DPS (p)	15.10	15.63	16.29
CEO	Ben Verwaayen	Dividend Yield %	7.02%	7.27%	7.58%
CFO	Hanif Lalani				
Website	www.btplc.com				





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