

Recommendation

BUY

Publisher:

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We point out that an investment in emerging-market and corporate bonds is currently associated with extraordinarily high uncertainty. We recommend investors to reduce their risk exposure, and consequently we have double underweight on high-yielding bonds. But for long-term risk tolerant investors, there may be good investment opportunities in these turbulent times. The recommendations for individual bonds are relative to the market in general and therefore the recommendations apply provided that you have decided to invest in high-yielding bonds.

Disclaimer:

Please see the last page.

Safe investment in Deutsche Telekom

Company Description

Deutsche Telekom is the leading integrated telecommunications provider in Germany with more than 36.6m fixed-network customers, 13.9m broad band customers and 36m mobile communications customers. Deutsche Telekom is also one of the world's leading mobile communications operators with more than 119.6m customers worldwide. The company is listed and the German government owns 31.7% of the company.

Bond ratings

S&P: BBB+ (Stable Outlook).

Moody's: Baa1 (Stable Outlook)

Issues				
	Offer	Y-t-w	Spread	Bond ID
€ 6.625% 2010*	105.75	2.90%	158 bp	B99684
€ 6.625% 2011*	106.75	4.13%	257 bp	B88283
€ 8.125% 2012**	111.00	4.46%	261 bp	B89364
€ 4.50% 2013	101.50	4.14%	180 bp	B02868
€ 6.00% 2017	102.25	5.64%	270 bp	B04059
£ 6.25% 2010**	105.00	3.40%	244 bp	B74720
£ 5.625% 2013	102.00	5.10%	226 bp	B03958
£ 7.375% 2019**	104.00	6.84%	279 bp	B56884
\$ 8.50% 2010*	106.50	3.56%	267 bp	B99815
\$ 5.875% 2013	104.75	4.70%	289 bp	B04107
\$ 5.75% 2016	103.00	5.24%	244 bp	B03734

*The bond issues have a yield step-down of 50 bp if the issues are upgraded to A3 and A- by Moody's and S&P, respectively.

**The bond issues have a yield step-down of 50 bp if the issues are upgraded to A3 and A- by Moody's and S&P, respectively, and a yield step-up of 50 bp if the issues are downgraded to a rating below Baa1/BBB+ by Moody's and S&P, respectively.

The \$5.875% 2013 and \$5.75% 2016 bond issues have a make whole of 15 bp and 20 bp, respectively.

Recent Developments

Deutsche Telekom has a very strong position in the German market and is one of the world's largest telecommunications providers. For the first nine months of 2008, Deutsche Telekom generated sales of EUR 45.6bn of which EUR 21.6bn was generated in the German market. EBITDA came to EUR 14.3bn for the first nine months of 2008 while the net profit was EUR 2.2bn. At the end of the third quarter, total debt

was EUR 46.6bn while the cash holdings amounted to EUR 3.1bn. Net debt was EUR 43.5bn. The financial gearing was 2.6x at the end of Q3 2008.

Deutsche Telekom had an operational target to maintain operating earnings around EUR 19.3bn, a free cash flow of EUR 6.6bn and a financial gearing ratio in the range of 2-3x.

Recommendation

Deutsche Telekom operates in a sector which is very non-cyclical, and we assess that investors will achieve a high degree of safety in the investment. Deutsche Telekom generates very high and stable cash flows, and the financial gearing is moderate. Deutsche Telekom has bond issues denominated in EUR, GBP and USD with different times to maturity so there is ample opportunity for investors with different time horizons and base currencies.

We recommend investors who wish a safe investment in an Investment Grade company to buy issues from Deutsche Telekom, and we start the coverage of Deutsche Telekom with a BUY recommendation.

Strengths/Opportunities

- Strong market position in Germany
- Strong underlying cash flow
- Strong focus on efficiency
- Diversified portfolio in Europe and the US
- Moderate financial policy

Weaknesses/Threats

- High total debt leaves less opportunity to finance large acquisitions without help
- Uncertainty involved in the return for ambitious investment projects
- Keen competition in the German market
- Low growth rates in the German market

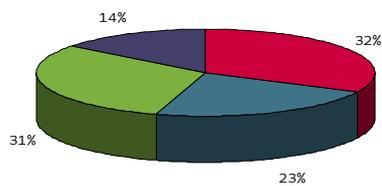
Development in Price and Spread



DEUTSCHE TELEKOM

Corporate bonds · 03.02.2009 · Jyske Markets

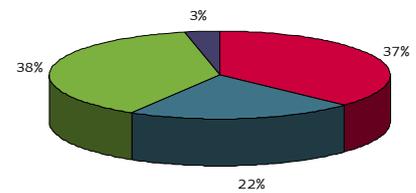
Sales by segments



■ Mobile Communications Europe ■ Mobile Communications USA
■ Broadband/Fixed Network ■ Business Customers

Source: Deutsche Telekom and Jyske Bank

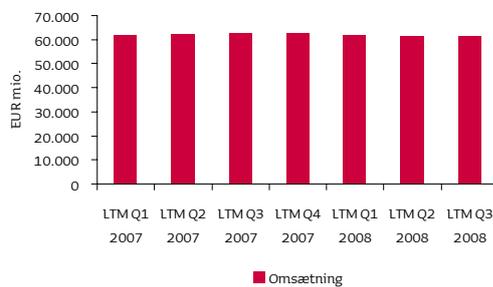
EBITDA by segments



■ Mobile Communications Europe ■ Mobile Communications USA
■ Broadband/Fixed Network ■ Business Customers

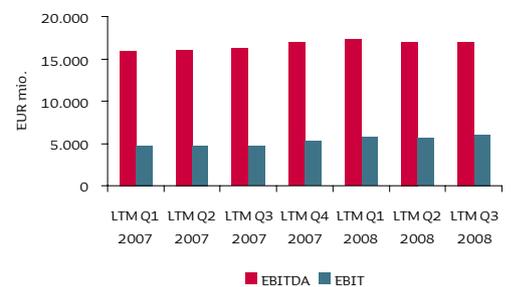
Source: Deutsche Telekom and Jyske Bank

Sales - LTM



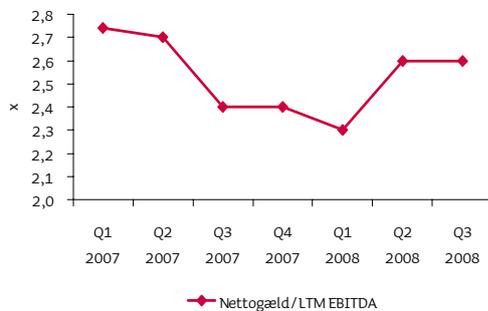
Source: Deutsche Telekom and Jyske Bank

EBITDA & EBIT



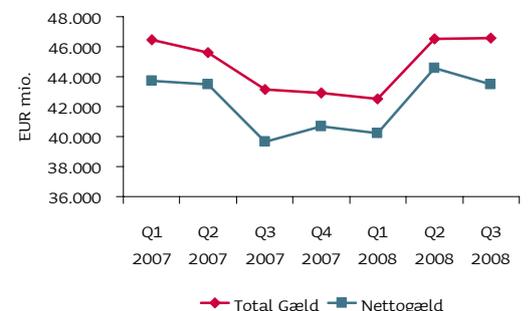
Source: Deutsche Telekom and Jyske Bank

Financial gearing



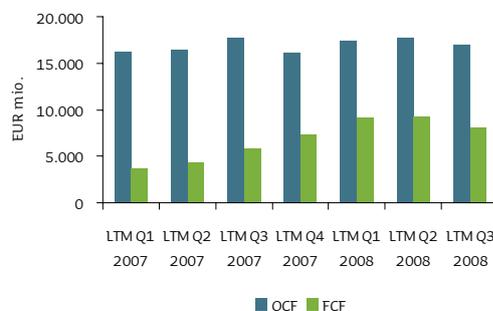
Source: Deutsche Telekom and Jyske Bank

Total debt & Net debt



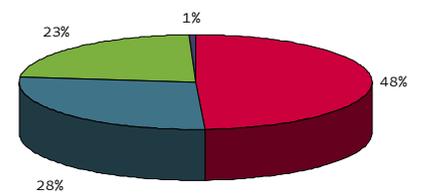
Source: Deutsche Telekom and Jyske Bank

OCF & FCF - LTM



Source: Deutsche Telekom and Jyske Bank

Sales by Geography



■ Germany ■ Europe (excl. Germany) ■ North America ■ Other

Source: Deutsche Telekom og Jyske Bank

DEUTSCHE TELEKOM

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	2005	2006	2007	Q3 2008 LTM
Selected accounting figures	In EUR millions unless otherwise stated			
Sales	59,604	61,347	62,516	61,352
EBITDA	20,119	16,321	16,897	17,036
EBIT	7,622	5,287	5,286	6,016
Interest expenses	2,799	2,837	2,775	2,779
Net profit/loss	6,021	3,574	1,078	2,022
Short-term debt	10,374	7,683	9,075	9,396
Long-term debt	36,347	38,799	33,831	37,179
Total debt	46,721	46,482	42,906	46,575
Cash holdings and securities	4,975	2,765	2,200	3,111
Net debt	41,746	43,717	40,706	43,464
Tangible assets	47,806	45,869	42,531	41,502
Intangible assets	52,675	58,014	54,404	55,293
Equity	48,599	49,670	45,235	44,815
Equity ratio	37.8%	38.2%	37.5%	36.3%
Total assets	128,468	130,160	120,664	123,385
Cash Flow from Operations (CFO)	17,989	16,981	16,169	16,959
CAPEX	9,635	12,373	8,776	8,848
Free Cash Flow (FCF)	8,354	4,608	7,393	8,111
Selected financial ratios				
EBITDA margin	33.8%	26.6%	27.0%	27.8%
EBIT margin	12.8%	8.6%	8.5%	9.8%
EBITDA/interest expenses	7.2x	5.8x	6.1x	6.1x
CFO/interest expenses	6.4x	6x	5.8x	6.1x
Total debt/EBITDA LTM	2.3x	2.8x	2.5x	2.7x
Net debt/EBITDA LTM	2.1x	2.7x	2.4x	2.6x
CFO LTM/total debt	38.5%	36.5%	37.7%	36.4%
Net debt/equity	0.9x	0.9x	0.9x	1x

Source: Deutsche Telekom and Jyske Bank

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This is a recommendation and not an in-depth investment report.

Conflicts of interest

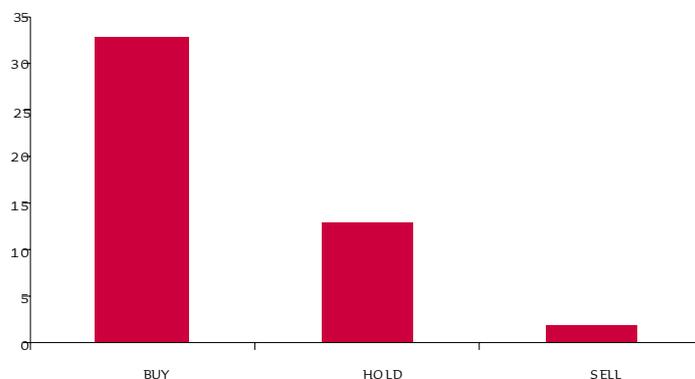
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Jyske Bank's corporate bond recommendations – current breakdown

Breakdown of recommendations, corporate bonds (number)



Source: Jyske Bank

Financial models

Jyske Bank uses mainly Credit Edge from Moody's.

Risk

Investment in this corporate bond is associated with risk. Movements in the credit market, the sector and/or the news flows, etc. regarding the company may affect the price of the bond. See the front page of the research report for our view of the risk associated with the corporate bond. The risk factors stated and/or calculations of sensitivities in the research report are not to be considered all-encompassing. If the corporate bond is denominated in a currency other than the investor's base currency, the investor accepts an FX risk.

Update of the research report

The planned update of the report will be prepared immediately upon the release of the company's financial statements.

See the front page for the initial date of publication of the report.

All prices stated are the latest trading prices at the time of the release of the research report, unless otherwise stated.

Recommendation concepts

Our recommendations are based on market developments and an assessment of the expected return. A positive recommendation (BUY) is based on expectations that investment in the corporate bond will generate a return above that of the general credit market. On the other hand, a negative recommendation (SELL) implies that we expect investment in the corporate bond to generate a return below that of the general credit market.

The future and historical returns estimated in the research report are stated as returns before costs since returns after costs depend on a number of factors relating to individual customer relations, custodian charges, volume of trade as well as market-, currency- and product-specific factors.