

Open Letter to Hrvatski Telekom Board of Directors

March 11, 2019

Contact:
Krupa Global Investments a.s.
ir@krupainvestments.com
www.krupainvestments.com

KRUPA GLOBAL INVESTMENTS RELEASES OPEN LETTER TO HRVATSKI TELEKOM BOARD OF DIRECTORS

Prague, March 11, 2019 – Today Krupa Global Investments (<http://krupainvestments.com/>) released the following open letter to the board of directors of Hrvatski Telekom:

**Krupa Global Investments a.s.
Polygon House, Doudlebska 1699/5
Prague 4, 14000, Czech Republic**

Dear Board of Directors of Hrvatski Telekom,

KGI is a Prague based hedge fund focusing on opportunistic and event – driven investments globally.

As we are one of the top ten shareholders of Hrvatski Telekom (HT), we have been very concerned so far about the value destruction arisen to minority shareholders of HT under Deutsche Telekom`s dominance. Particularly how Deutsche Telekom has been continuously annexing cash of HT and use it as a cheap source of financing for is off shore based projects.

We consider as highly depraved that company like Deutsche Telekom, Germany tycoon, is continuously looking for methods how to swindle minority shareholders and avoid paying regular taxes in their domiciles. That`s even more worrisome that one of the main shareholders of HT is the War Veteran`s fund and the whole case has therefore very strong social background.

Those predicaments have been resulted in a substantial value destruction in favor of the interests of Deutsche Telekom and its shareholders:

- **Access to cash flow:** At the end of 2016, HT has been forced to purchase corporate bonds of Deutsche Telekom International Finance B.V. registered in Maastricht, Netherland in the amount of EUR 125mn, BB+ rated, bearing FX risk and yielding 0.024% only. That time, Croatian government bonds yielded ca 3% without FX risk. Such a step essentially annexed HT`s cash, using it as a source of a cheap financing some 300bps below market alternatives. This has left HT`s shareholders far from adequately compensated for the risks of investing in Deutsche Telekom Group`s projects.

- **Inefficient capital structure:** HT has been forced to retain earnings and inflated cash reserves for cheap project financing of Deutsche Telekom. As of 2018, HT has HRK 3.1bn cash that equals to HRK 24% of its market capitalization and HRK 38/shr. This is reflected in highly inefficient capital structure not seen among its competitors in the period of historical low interest rates. We strongly suggest to increase the portion of debt in order to lower the cost of financing and utilize the advantage of capital structure optimization. Based on our calculation, HT can take up to HRK 9.2bn (HRK 112/shr) of debt financing to equal the leverage with sector average at Net Debt to EBITDA at 1.8x. Otherwise stated, HT can increase DPS to HRK 20/shr and keep it at that level for at least ten years to optimize capital structure at the sector average (EPS HRK 11.4 plus debt financing at HRK 11.2/shr every year for upcoming ten years). This would return DPS to the level seen in 2013 and lift the share price back to HRK 300 – 350 range, in our view.
- **Artificially low capital distribution:** HT tend to be dividend paying company with DPS ranging HRK 11 – 34 in the past implying dividend yield between 5.6% - 11.8%. As operational performance remains very strong, we see no reason for dividend to be significantly below historical levels with maximum dividend yield currently around 4% only. Decision to cut the dividend to halve had its rationale in tax optimization. As this tax advantage ended in 2017, we would expect to return the DPS back to initial level. This would compensate to minority shareholders massive loss in value of their investment caused by significant drop in share price following the dividend cut as only majority owner benefited from tax optimization.

Dear board of directors, we urge you to rethink your current approach as soon as possible. Otherwise we are going to initiate an investigation against those illegal corporate practices.

Sincerely,

Pavol Krupa
Chairman of the Board of Directors
Krupa Global Investments

Annex No. 1: Minorities presentation: Damage Suffered by HT Shareholders Due to Deutsche Telekom Domination

About Krupa Global Investments

Krupa Global Investments, previously known as Arca Capital, is a private investment group with a focus on energy, real estate, retail and service activities, as well as regulated activities focused on building and managing fund structures focusing on energy, real estate and financial services. It is named after its founder and chairman, Pavol Krupa. The firm takes an activist approach, with the goal of remedying and eliminating management actions that have a negative impact on companies, and with the goal of achieving significant positive change in strategy, financial structure or management. The firm has fought and won many successful battles and in so doing has streamline companies and realize hundreds of millions in shareholder value.