



## Prospectus

Admission of Notes by  
Telekom Slovenije, d. d.,  
with Ticker Symbol  
TLS1, to Trading on the  
Regulated Market

Ljubljana, July 2016



**IMPORTANT NOTICE:**

This is an informative English language translation of the Prospectus for the Admission of Notes by Telekom Slovenije, d. d., with ticker symbol TLS1, to trading on the regulated market (hereinafter: Slovenian Prospectus).

The Slovenian Prospectus has been approved by the Slovenian Securities Market Agency.

This informative English language translation of the Slovenian Prospectus has been translated from the Slovenian original (Slovenian Prospectus) for the purposes of listing the Notes, ticker symbol TLS1, for trading on the regulated market. Although we made our best endeavours to ensure the accuracy of the English translation, the Slovenian original shall prevail if any discrepancies between the translation and the Slovenian original should arise. Neither Telekom Slovenije, d. d., ALTA Skupina d. d., ALTA Invest d. d., NLB d. d. nor any other person assume any responsibility for this translation or for any direct, indirect or any other damages arising from the translation.

## Introduction and Important Notes

This Prospectus for the Admission of Notes by Telekom Slovenije, d. d., with Ticker Symbol TLS1, to Trading on the Regulated Market (hereinafter: the Prospectus) has been prepared for the purpose of the admission of the notes, coded TLS1, ISIN code SI0032103630 (hereinafter: the Notes) by the Issuer Telekom Slovenije, d. d., Cigaletova ulica 15, 1000 Ljubljana, Slovenia (hereinafter: the Issuer/Telekom Slovenije, d. d./the Company), to trading on the regulated market and to provide information about the Issuer and the Notes to existing and potential new Note holders.

The offering of Notes (hereinafter: the Offering) took place in the Republic of Slovenia pursuant to the provision of the Financial Instruments Market Act (Zakon o trgu finančnih instrumentov, Uradni List RS (UL RS; Official Gazette of the Republic of Slovenia) No 67/2007, as changed and amended; hereinafter: the ZTFI), subject to two exceptions regarding the obligation to publish a prospectus for certain securities offerings pursuant to Article 49 of the ZTFI. The Offering was addressed to qualified investors only (Article 49, Paragraph 1, Section 1 of the ZTFI) (hereinafter: Institutional Investors), or to less than 150 natural and legal persons in each member state, who are not classified as qualified investors (Article 49, Paragraph 1, Section 2 of the ZTFI) (hereinafter: the Retail Investors).

The purpose of the information contained in the Prospectus is to enable potential investors to make their own assessment of the Issuer's assets and liabilities, the financial position, profit and development potential of the Issuer and rights associated with the Notes. The information contained in the Prospectus does not represent investment recommendations, investment or personal consulting or legal, tax or any other professional consulting or advice. For such advice or consulting, each Potential Investor should contact his/her attorney, tax consultant or other relevant expert. For a complete and correct understanding of the information and statements contained in the Prospectus, it is necessary to take into account its entire content, including references to other sources of information. Furthermore, the Issuer does not guarantee that the Prospectus includes all potentially relevant information for a full assessment of the investment in the Notes. As a result, all Potential Investors assume full responsibility for obtaining all the relevant information required to complete the analysis and estimates of the financial position and credit rating (risk) of the Issuer, and in the scope and manner believed to be required or seen fit by each Potential Investor. Potential Investors should be aware that the operations, business performance and results, financial position and outlook of the Issuer may have changed since the date of the Prospectus. Despite such potential changes, the Prospectus shall not be updated or amended by the Issuer. The Issuer regularly communicates to the public any material business events via its website at [www.telekom.si](http://www.telekom.si) and via the electronic information system of the Ljubljana Stock Exchange, d. d., Ljubljana, which is SEOnet: <http://seonet.ljse.si/>.

As the Issuer of the Notes, Telekom Slovenije, d. d. assumes full responsibility for the information given or shown in this Prospectus to be correct, truthful and not misleading as at the date printed on the title page of the Prospectus, and confirms that, to the best of its knowledge, the information contained in the Prospectus complies with the facts, that no relevant information which could affect the meaning of this information or the Prospectus has been omitted, and that it has committed its full reasonable diligence to attain such compliance and completeness.

The Issuer concluded a contract with ALTA Invest, d. d., ALTA Skupina, d. d. and NLB d. d. (Lead Managers) for expert consulting related to the preparation of the Prospectus and services related to the initial offering of Notes in the Republic of Slovenia, subject to Slovenian law, and with regard to the issue of Notes in the central securities register with the Central Securities Depository (CDD) and the admission of the Notes to the regulated market of the Ljubljana Stock Exchange. In addition, the Issuer concluded a contract with the law firm Odvetniki Vidmar Zemljarič, Slovenska cesta 29, Ljubljana, Slovenia (Legal Advisor) for legal advisory services related to the initial offering and the issue of Notes. The Legal Advisor and the Lead Managers assume no responsibility for the accuracy, correctness or completeness of the information contained in the Prospectus. The expert consulting

services and documents prepared by the Lead Managers and Legal Advisor are not binding on the Issuer. The Issuer shall decide at his own discretion as to whether to include the solutions, explanations or notes proposed by the Lead Managers and Legal Advisor in the Issuer's documentation and shall independently determine the contents of its documentation, including the Prospectus. As a result, the Lead Managers and/or the Legal Advisor are not responsible for the contents of the Prospectus or the information contained therein. Moreover, the Lead Managers and the Legal Advisor did not separately or independently review the information presented in this Prospectus. The Lead Managers and Legal Advisor do not make any warranties or representations, express or implied, as to the accuracy or completeness of the information in the Prospectus. No part of the Prospectus shall be deemed or taken as a reference or in any way considered a promise or guarantee made by the Lead Managers.

This Prospectus may only be used for its expressly stated purpose. Use of the entire Prospectus or any parts thereof is not permitted for any other purpose. The unauthorised distribution, copying, and publication of the Prospectus or any parts thereof is not allowed.

Unless explicitly stated otherwise in this Prospectus, no person or entity is authorised to provide any information or guarantees regarding the Notes. Should anyone provide such information, the investors should not rely on or consider such information to have been confirmed by the Issuer. If the Prospectus is distributed, or a sale transaction of Notes is executed according to the Prospectus, this shall in no way be deemed or assumed to mean that no changes regarding the Issuer or the Issuer's subsidiaries as a whole have occurred in the period after the date of the Prospectus, nor shall this mean that the information in the Prospectus is accurate as at any date later than the date of this Prospectus.

Some of the amounts included in this Prospectus were rounded. Therefore, (a) minor differences may occur between the amounts representing the same items or the same data in different tables, and (b) the sums of amounts in some tables may differ marginally from the arithmetic sums of the summed amounts.

This Prospectus includes forward-looking statements (forecasts), estimates of profit or estimations, i.e. statements regarding the future, rather than the past. These statements, which include forecasts, can be identified by the words such as "planned or budgeted", "believe", "anticipated", "target", "will", "may", "anticipate", "would", "could" or other similar expressions and negations thereof. Such forecasts about the future include known and unknown risks, uncertainties and other relevant factors that are beyond the Issuer's influence or control, which could result in the Issuer's actual results, operations or performance being considerably different from any of the future results, operations or performance data stated or contained in these forecasts. These forecasts are based on numerous assumptions regarding the current and future business strategy and the environments in which the Issuer is operating now and in the future. Relevant factors that could cause the Issuer's actual results, operations, and performance to differ considerably from those expressed in the forecasts are those described in Chapter 2 ("Risk Factors") and elsewhere in this Prospectus. These forecasts are only valid as at the date of the Prospectus. The Issuer explicitly rejects any obligation or commitment to distribute any updates or amendments to the forecasts contained in the Prospectus, which would include changes to the Issuer's forecasts or any changes in the events, conditions or circumstances on which the forecasts were based, unless required by legislation or a Ljubljana Stock Exchange regulation. Potential investors should be aware that several important factors may cause the actual results to differ considerably from the plans, goals, expectations, estimates and forecasts expressed in forward-looking statements.

This Prospectus has been published on the website of the Issuer [www.telekom.si](http://www.telekom.si) and on the electronic information system of the Ljubljana Stock Exchange, called SEOnet: <http://seonet.ljse.si/>. The Issuer regularly communicates to the public any material business events via its website at [www.telekom.si](http://www.telekom.si) and via the electronic information system of the Ljubljana Stock Exchange, called SEOnet: <http://seonet.ljse.si/>.

## List of Abbreviations and Technical Terms

Abbreviation:	Full title:
AKOS	Agencija za komunikacijska omrežja in storitve RS / Agency for Communication Networks and Services of the Republic of Slovenia
ALTA Invest, d. d.	ALTA Invest, d. d. Železna cesta 18, 1000 Ljubljana
ALTA Skupina, d. d.	ALTA Skupina, upravljanje družb, d. d., Železna cesta 18, 1000 Ljubljana
ARPU	Average Revenue per User
ATVP / SMA	Agencija za trg vrednostnih papirjev / Securities Market Agency
AVK	Javna agencija RS za varstvo konkurence / Slovenian Competition Protection Agency
Beneficiary	In relation to any amount payable in respect of a Note, the person registered at the Relevant Time in the Central Register as the person entitled to receive such amount
BSS	Business Support System
Central Register	Securities central register, held by CDD
CDD	Central Securities Depository in the Republic of Slovenia, in line with ZNVP-1, which is the KDD – Centralna klirinško depotna družba, delniška družba / Central Securities Clearing Corporation
CDD Business Day	Any day on which CDD is open for business
Due Date / Maturity Date	10 June 2021
DDV / VAT	Value-added tax
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EFQM	European Foundation for Quality Management
EU	European Union
EUR	euro
Euro account	In relation to a person, an account nominated by or on behalf of such person and into which euro payments in respect of the Notes may be credited or transferred
Euribor	Euro Interbank Offer Rate
FTTH/B/N	Fibre to the Home/Business/Node
FTTx	Fibre to the Exchange
ICT	Information and Communication Technology
Institutional Investors	(i) in the Republic of Slovenia: qualified investors, as defined by Article 44 of the Financial Instruments Market Act, (ii) in other EU member states: institutional or qualified investors in accordance with the relevant legislation applicable in these states
Interest Payment Date	10 June of each year until final maturity, commencing 10 June 2016
Interest Rate	1.95% per annum up to and including the Release Date, and 2.35% per annum at any time thereafter
IP	Internet Protocol
IP TV	IP television
Investor	A Subscriber that subscribed to the Notes and paid-up the allotted Notes in full
Issue Date	10 June 2016
Ljubljana Stock Exchange or LJSE	Ljubljanska borza vrednostnih papirjev, d. d., Ljubljana
LTE/4G	LTE/4G – Long Term Evolution
M2M	Machine to Machine
MPLS	Multiprotocol Label Switching

MVNO	Mobile Virtual Network Operator
NLB d. d.	Nova Ljubljanska banka d. d., Ljubljana, Trg republike 2, Ljubljana
Notes	Notes of the company Telekom Slovenije, d. d., coded (ticker) TLS1 and ISIN code SI0032103630
Note holder / holder of Notes	Each person that is recorded in the Central Register as the holder of a particular number of the Notes
Odvetniki Vidmar Zemljarič or Legal Advisor	Odvetniki Vidmar Zemljarič, Slovenska cesta 29, Ljubljana
OTT	Over-the-top
OZ / CO	Code of Obligations (UL RS No 83/2001, as subsequently amended)
Prospectus	Prospectus for the admission of Telekom Slovenije, d. d., Notes, coded (ticker) TLS1, to trading on the regulated market
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council, dated 4 November 2003, on the prospectus to be published when securities are offered to the public or admitted to trading, and amending Directive 2001/34/EC
Prospectus Regulation	Commission Regulation (EC) No 809/2004, dated 29 April 2004, implementing Directive 2003/71/EC of the European Parliament and of the Council regarding the information contained in prospectuses as well as the format, incorporation by reference, and the publication of such prospectuses and the dissemination of advertisements (OJ L 149, 30 April 2004, as amended)
Release Date	The date on which the purchase price for the Notes is paid to the Note holders who accepted the Tender Offer
Relevant Time	Regarding any amount payable in respect of a Note, the end of the third CDD Business Day prior to the due date for such amount
Retail Investors	All natural and legal persons in the Republic of Slovenia or other EU member states not deemed Institutional Investors
ROO	Regional Optical Network
Security	A mortgage, pledge, lien, assignment or other security interest over any asset of any member of the Group, securing any obligation of any person or any other agreement or arrangement having a similar effect
SEOnet	The electronic notification system of the Ljubljana Stock Exchange ( <a href="http://seonet.ljse.si/">http://seonet.ljse.si/</a> )
SLA	Service Level Agreement
Telekom Slovenije, or Issuer or Company	Telekom Slovenije, d. d., Cigaletova ulica 15, 1000 Ljubljana
Telekom Slovenije Group or Group	The parent company Telekom Slovenije, d. d. and its subsidiaries as listed in the Prospectus
Tender Offer	A notice of the Issuer given to all Note holders, containing a binding offer for the purchase of all Notes, which meets the following requirements:  (i) the offer is valid for at least 14 days since the date of such notice; and  (ii) the price offered for each Note is equal to or higher than the sum of its nominal amount and accrued interest calculated for the period from the most recent Interest Payment Date up to the Release Date.
Terms and Conditions of the Notes	The obligations of the Issuer and the rights arising out of the Notes which are registered in the Central Register and are applicable to each Note

VOIP	Voice over IP
ZDDV-1	Value Added Tax Act (UL RS No 117/2006, as subsequently amended)
ZDoh-2	Personal Income Tax Act (UL RS No 117/2006, as subsequently amended)
ZGD-1	Companies Act (UL RS No 42/2006, as subsequently amended)
ZNVP-1	Book Entry Securities Act (UL RS No 75/2015)
ZPPDFT	The Law on prevention of money laundering and terrorist financing (UL RS 60/2007, as amended)
ZTFI	Financial Instruments Market Act (UL RS No 67/2007, as amended)
ZVOP-1	Personal Data Protection Act (UL RS No 86/2004, as subsequently amended)

## List of References:

For further information about the Issuer, please see the table below:

Reference:	Information:
<a href="http://www.telekom.si/en/investor-relations/annual-and-interim-reports">http://www.telekom.si/en/investor-relations/annual-and-interim-reports</a>	Annual Reports of Telekom Slovenije Group, for the business years 2015 and 2014 Unaudited Business Report of Telekom Slovenije Group and Telekom Slovenije, d. d., for the period January to March 2016
<a href="http://www.telekom.si">www.telekom.si</a>	Issuer's web pages
<a href="http://seonet.ljse.si">http://seonet.ljse.si</a>	Electronic notification system SEOnet



# SUMMARY OF THE PROSPECTUS

## (HEREINAFTER: THE SUMMARY)

This Summary consists of disclosure requirements known as “Elements” in accordance with Annex XXII (Disclosure Requirements in Summaries) of the Prospectus Regulation with reference to the Issuer and the Notes to be admitted to trading on the regulated market of the LJSE. These elements are numbered in Sections A–E (A.1–E.7) below. This Summary contains all the Elements required for inclusion in a summary for securities and issuers of this type. Since some Elements do not need to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the Summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element in question. In this case a short description of the Element is included in the Summary and is described as 'not applicable'.

## SECTION A – INTRODUCTION AND WARNINGS

### A.1 Warnings

In addition to this Summary, the Prospectus includes detailed information that allows insight into the legal status of the Issuer and the Issuer's financial position and business possibilities; the rights pertaining to the Notes were also prepared.

This Summary should be read as the introduction to the Prospectus. The Summary only includes the basic information and risks related to the Issuer and the Notes that are subject to listing for trading on the regulated market; it does not include all information that may be of relevance for potential investors. Any decision to invest in the Notes contemplated in this Prospectus should be based on consideration by the investor of this Prospectus as a whole.

Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor may, under the national legislation of the EU Member States, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

The civil liability attaches only to those persons who have tabled the Summary, including any translation thereof, but only if the Summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or if it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.

### A.2 Permission and notice

Not applicable.

## SECTION B – ISSUER

### B.1 Legal and commercial name of the Issuer

Company name: Telekom Slovenije, d. d.  
Short company name: no name

### B.2 Domicile and legal form of the Issuer, the legislation under which the Issuer operates and its country of incorporation

Registered office: Ljubljana

Address: Cigaletova ulica 15, 1000 Ljubljana, Slovenia

Legal organisational form of the Issuer: Joint stock company

Legislation under which the Issuer operates: The Issuer operates in accordance with Slovenian legislation

Entry in the companies register: Ljubljana District Court

Entry (registration) number: 1/24624/00

#### **B.4b Description of all known trends affecting the Issuer and the sectors in which it operates**

The main trends in Slovenia are its continuing recovery and moderate economic growth. Economic development on the markets of South-East Europe, where the Telekom Slovenije Group operates, lags well behind Slovenia.

Other trends and events that could have a significant effect on the Issuer's expectations:

- Trends in the ICT sector and the development of ICT markets
  - Technological trends (the users of telecommunication services want comprehensive solutions that facilitate the advanced use of those services; a development trend that is geared towards the upgrade and/or transformation of standard telecommunication and TV solutions into over-the-top (OTT) and IPTV solutions). All of this will facilitate the use of the same services on different platforms and devices, offer additional functions and thus increase usefulness and added value.
  - Situation and trends in the telecommunications sector in Europe (according to forecasts by the consultants of Arthur D. Little, revenues from basic telecommunication services are expected to stabilise or record modest growth in Western Europe in the period 2017–20).
  - Moderate growth in the fixed broadband connection market (the number of broadband connections in the EU has risen since 2010).
  - Growth in mobile broadband access (mobile broadband internet access represents the fastest growing segment in the broadband services market).
  - Development of high-speed fibre optic connections (Slovenia ranks among the leading countries in the EU in terms of household fibre optic access penetration (FTTx) and stands above the EU average in this regard; Telekom Slovenije is accelerating the replacement of the copper-based network with the fibre optic network, including outside urban centres).
  - Growth in the pay-TV market (the trend of growth in IPTV services and multimedia content continues).
  - Contrary to the forecast of Arthur D. Little, the analysts and consultants of Analysys Mason are forecasting a decline in the fixed telephony market and growth in mobile telephony in Western Europe until 2020. Declining revenues are also forecast for Central and Eastern Europe until 2020.
  - Decline in the fixed telephony market and growth in the mobile telephony market (the proportion of traffic from the mobile network and VoIP is also rising, while the proportion of traffic from the fixed network is declining).
  - The ICT services market and cloud computing (operations with large business users and groups are changing radically on the Slovenian ICT market; major transactions are becoming increasingly rare due to a lack of investment funds, while they are giving way to alternative models for the provision of ICT services; a small number of large transactions are being transformed into a large number of smaller transactions).
  - Increasing popularity of package services (triple play and quadruple play: European operators are combating the declining number of customers by offering increasingly varied packages that include fixed telephony, internet, TV and mobile telephony, i.e. quadruple play).
- Regulation of electronic communications
  - Slovenia:

- Digital Slovenia 2020 initiative (in March 2016 the Slovenian government adopted the Information Society Development Strategy and the Next Generation Broadband Network Development Plan with the aim of implementing the aforementioned initiative).
- Legislation and EU regulations (the National Assembly of the Republic of Slovenia adopted an amendment to the Electronic Communications Act (ZEK-om-1) and the Extra-Judicial Resolution of Consumer Disputes Act; in 2015 the European Parliament adopted the Regulation laying down measures concerning open internet access and amending Directive 2002/22/EC on universal service and user rights relating to electronic communications networks and services and Regulation (EU) No 531/2012 on roaming on public mobile communications networks within the Union).
- Relevant markets<sup>1</sup>: (1) The AKOS eased regulations on one relevant market and issued corrective measures on two relevant markets; and (2) AKOS conducted various inspections with respect to Telekom Slovenije in connection with the obligations imposed on relevant regulated markets. It halted four proceedings, and identified certain instances of non-compliance in three other proceedings and ordered the rectification thereof.
- Net neutrality (AKOS issued Telekom Slovenije two decisions in 2015 in the scope of inspection proceedings due to a breach of net neutrality) in relation to the “zero rating” services. Telekom Slovenije filed legal means.
- Frequencies (in June 2016 AKOS published a decision to conduct a public tender via public auction for the allocation of radio frequencies in the 1800 MHz and 2100 MHz frequency bands; Telekom Slovenije submitted an offer for the allocation of additional 5 MHz frequencies in the frequency band 2100 MHz. On 8 July 2016, AKOS announced the annulation of the public tender and announced a new Resolution for the initiation of a public tender with public auction. The deadline for the submission of offers is 8 August 2016. At the request of AKOS, Telekom Slovenije and operators in neighbouring countries began harmonising their 800 MHz agreements on the coordination of the use of frequencies in border regions) and have already entered into an agreement with the Austrian operator, A-1.
- Regulatory developments in South-East Europe:
  - Kosovo (the telecommunications sector underwent significant development in 2015); and
  - Bosnia and Herzegovina (the regulatory body has analysed specific relevant markets in recent years).

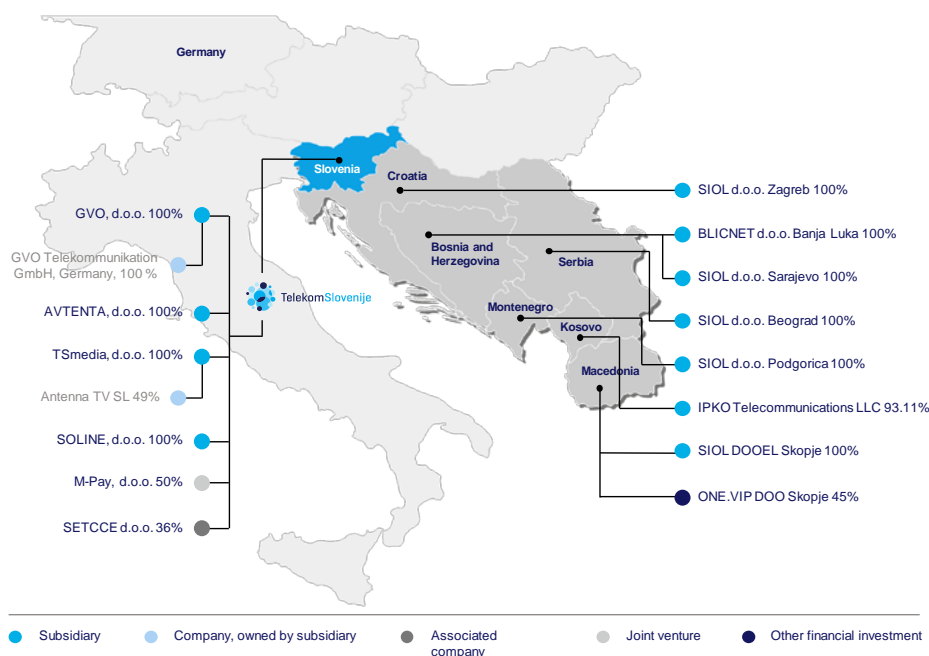
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<sup>1</sup> The relevant markets are product and services markets in the electronic communication sector, which can be grounds for the introduction/implementation of regulatory obligations based on specific EU Directives and can therefore be a subject to previous (ex-ante) regulation.

In the field of electronic communications AKOS must define the product, service and geographic markets which correspond to the situation in the country in accordance with the principles of competition law and with due regard to the respective recommendation of the European Commission on relevant product and service markets in the field of electronic communications (the most recent one is from 2014). If AKOS finds, on the basis of an analysis of the relevant market, that this market is insufficiently competitive, it shall determine by decision the undertaking or undertakings with a significant market. With the aforementioned decision AKOS may impose on the undertaking with significant market power at least one obligation with a view to establish effective competition on the relevant market.

## B.5 Description of the Telekom Slovenije Group and the Issuer's position therein

The Telekom Slovenije Group comprises the parent company Telekom Slovenije, d. d. and the subsidiaries, associates and joint ventures shown in the figure below with corresponding participating interests.



## B.9 Profit forecast

The Issuer has not included any profit forecast or estimate in the Prospectus.

## B.10 Qualifications in the audit report on the historical financial information

The audit reports on the historical financial information for the Group Telekom Slovenije and the Company did not contain any qualifications.

## B.12 Selected financial information on the issuer

### Operations of the Telekom Slovenije Group in 2014 and 2015

#### Key financial performance indicators of the Telekom Slovenije Group

in EUR thousand and %	2015	2014	Index 15/14
Net sales revenue	729,543	756,454	96
Other operating revenues	17,663	8,442	209
Total operating revenues	747,206	764,896	98
EBITDA	200,759	170,051	118
EBITDA margin (EBITDA/net sales revenue)	27.5%	22.5%	122
EBIT	49,265	11,418	431
Return on sales: ROS (EBIT/net sales revenue)	6.8%	1.5%	447
Net profit	68,095	1,506	-
Assets	1,315,988	1,342,989	98
Capital	698,692	694,956	101
Return on assets (ROA)	5.1%	0.1%	-
Return on equity (ROE)	10.3%	0.2%	-
Equity ratio	53.1%	51.7%	103
Net financial debt	376,257	344,057	109
NFD/EBITDA	1.9	2.0	93
Investment in property, plant and equipment (CAPEX)	112,962	176,481	64
EBITDA – CAPEX	87,797	-6,430	-
Ratio of (EBITDA – CAPEX) to EBITDA (cash margin)	43.7%	-3.8%	-
Number of employees as at	3,803	4,431	86
Investments as a proportion of operating revenues	15.1%	23.1%	66

Note: Pursuant to the requirements of IAS 1 and IAS 8, the financial statements for the comparative period have been adjusted for a change to an accounting policy.

#### Operations in 2015

##### In 2015 the Telekom Slovenije Group:

- increased the number of mobile connections by 3%, the number of broadband connections by 4% and the number of TV connections by 6%<sup>2</sup>;
- generated a net profit of EUR 68.1 million, compared with EUR 1.5 million in 2014;
- generated net sales revenues of EUR 729.5 million, a decrease of 4% or EUR 26.9 million relative to the previous year (revenues are not comparable with revenues generated in 2014, as ONE was only included in the Group's fully consolidated results until 31 July 2015; for the aforementioned reason, revenues in Macedonia were down EUR 31 million in 2015, which affected all of the Telekom Slovenije Group's revenue categories);
- erected 348 new base stations in Slovenia with the aim of upgrading the broadband mobile network with LTE technology, which covered more than 95% of the population at the end of the year. An additional 157 4G and 74 3G base stations were erected in Kosovo, such that the LTE/4G network already covers 81.7% of the population; and

<sup>2</sup>Data regarding ONE, which was merged with another company in 2015 to form ONE.VIP and is no longer part of the full consolidation of the Telekom Slovenije Group, has been excluded from the 2014 data for the sake of comparability.

- generated EBITDA of EUR 200.8 million, primarily on account of an improvement in the results of Telekom Slovenije, which achieved an EBITDA of EUR 166.3 million (compared with EUR 126.0 million in 2014). Here the minor impact of companies in Macedonia that were only included in the Group's results until 31 July 2015 should also be taken into account, as well as the fact that the Group's stake in Gibtelecom was EUR 4.1 million in 2014, but was no longer included in the results of the Telekom Slovenije Group in 2015 due to the sale of the participating interest in the aforementioned company at the end of 2014.

## Operations in 2014

### Key financial performance indicators of the Telekom Slovenije Group for 2014

in EUR thousand and %	2014	2013	Index 14/13
Net sales revenue	756,454	779,360	97
Other operating revenues	8,442	19,819	43
Total operating revenues	764,896	799,179	96
EBITDA	170,051	239,868	71
EBITDA margin (EBITDA/net sales revenue)	22.5%	30.8%	73
EBIT	11,412	71,540	16
Return on sales: ROS (EBIT/net sales revenue)	1.5%	9.2%	16
Net profit	1,594	51,057	3
Assets	1,343,421	1,391,869	97
Capital	693,901	758,582	91
Return on assets (ROA)	0.1%	3.5%	3
Return on equity (ROE)	0.2%	6.8%	3
Equity Ratio	51.7%	54.5%	95
Net financial debt	344,057	341,807	101

### In 2014 the Telekom Slovenije Group:

- increased the number of mobile telephony users by 4.8%, the number of fixed broadband connections by 2.1% and the number of TV connections by 6.6%;
- generated a total of EUR 756.5 million in net sales revenue (a decrease of 3% relative to 2013), despite the adverse macroeconomic conditions and a decrease in revenues from mobile voice services due to the migration to new, more affordable packages for subscribers;
- introduced a number of innovations and improvements to services and networks aimed at increasing the mobility of users;
- erected 141 new base stations in Slovenia with the aim of upgrading the broadband mobile network with LTE technology, which covered more than 75% of the population at the end of the year; and
- generated an EBITDA of EUR 170.1 million, representing 22.5% of net sales revenue.

The operating results of the Telekom Slovenije Group in 2014 were characterised by the following one-off events that had a current effect on the Group's operating results for 2014, but for the most part represent a solid foundation for future operations:

- Slovenia was hit by an ice storm at the beginning of the year and by floods in the middle of the year. The ice storm resulted in numerous power outages and severe damage to Telekom Slovenije's cable network, which was also damaged by the floods. The Company repaired the cable network at a cost of EUR 6.2 million.
- At April's auction of frequencies for the provision of public mobile communication services organised by AKOS, Telekom Slovenije secured an appropriate number of relevant frequency bands that will be used in the future to offer users the most

state-of-the-art services and the best coverage on a superior network. The Company paid EUR 64.5 million for the aforementioned frequencies.

- At the 25th General Meeting of Shareholders held in May, the shareholders supported the counter proposal on the use of distributable profit for 2013, and adopted a resolution that the full amount of distributable profits of EUR 65.1 million be earmarked for the payment of dividends in the gross amount of EUR 10.00 per share.
- In October, Telekom Slovenije and the Telekom Austria Group agreed to merge operators on the Macedonian market. Due to the complex procedures involved and the time required to obtain the consent of the Macedonian regulatory body, the planned consolidation of operations in Macedonia was postponed from the final quarter of 2014 until 2015.
- In accordance with its adopted Strategic Business Plan for the period 2014–2018, Telekom Slovenije signed an agreement with the government of Gibraltar in November on the sale of its 50% participating interest in Gibtelecom Limited. The transaction was completed in full in December 2015.
- Telekom Slovenije and Si.mobil signed an agreement in December on mutual relations whereby the two companies clarified open issues regarding mutual relations and laid down the conditions for future business cooperation. The signing of the agreement represented an important step aimed at mitigating risks associated with lawsuits, which further enhances the Company's value for owners.
- Provisions of EUR 43.6 million were created.

### **Operations of the Telekom Slovenia Group in the period January–March 2016**

#### **The Telekom Slovenije Group achieved the following results in the first quarter of 2016:**

- An EBITDA of EUR 51.9 million. Taking into account one-off effects (the exclusion of ONE and the creation of impairments of receivables for T-2, which is in bankruptcy), the adjusted EBITDA amounted to EUR 54.4 million, which is 6% more than the adjusted EBITDA recorded in the first quarter of 2015.
- Net sales revenue was down 3% or EUR 5.8 million on the same period in 2015, to stand at EUR 176.0 million. Taking into account one-off effects (ONE was included in the full consolidation of the Telekom Slovenije Group until 31 July 2015), net revenues were up by 5% or EUR 7.7 million. Telekom Slovenije's net revenues were also up by 2% or EUR 3.2 million, primarily due to the higher revenues from broadband services, IT services, mobile and fixed merchandise and revenues on the wholesale market, despite the lower revenues from mobile subscribers and pre-paid users (aggressive offers from competitors, the transition to new packages that are more affordable for subscribers and the expected drop in revenues from traditional voice telephony services, which are being replaced by mobile and IP telephony).
- The Telekom Slovenije Group's net profit amounted to EUR 9.8 million, an increase of 16% or EUR 1.3 million compared to the net profit achieved in the first quarter of 2015.

## Key financial performance indicators of the Telekom Slovenije Group for Q1 2016

in EUR thousand and %	I - III 2016	I - III 2015 / 31.12.2015*	Index 16/15
Net sales revenue	175,991	181,821	97
Other operating revenues	2,029	1,326	153
Total operating revenues	178,020	183,147	97
EBITDA	51,855	53,461	97
EBITDA margin (EBITDA/net sales revenue)	29.5%	29.4%	100
EBIT	12,930	13,462	96
Return on sales: ROS (EBIT/net sales revenue)	7.3%	7.4%	99
Net profit	9,794	8,468	116
Assets	1,300,313	1,322,797	98
Capital	715,478	705,501	101
Equity Ratio	55.0%	53.3%	103
Net financial debt	377,530	376,257	100

### B.13 Most recent events particular to the Issuer that are material for evaluation of the Issuer's solvency

The Issuer believes there are no particular events that could have a material impact on the assessment of its solvency.

### B.14 The Issuer's dependence on other entities within the Group

The Issuer, Telekom Slovenije, d. d., is the parent company of the Telekom Slovenije Group and is the founder or direct or indirect owner of the Group's subsidiaries. The Issuer is not dependent on the entities within the Group.

### B.15 Description of the Issuer's core activity

Telekom Slovenije is the leading Slovenian telecommunications operator. During the 1990s, it was the leading provider of fixed telephony services. Today Telekom Slovenije is recognised as the leader in the introduction and connection of the most advanced and comprehensive telecommunications services in the best (fixed and mobile) network in Slovenia. The Telekom Slovenije Group is one of the most comprehensive communication service providers in South-East Europe, where it operates through its subsidiaries in Kosovo, Bosnia and Herzegovina, Macedonia, Croatia, Montenegro and Serbia, and even Germany.

The activities of the Telekom Slovenije Group comprise:

- fixed and mobile communication services,
- digital content and services,
- multimedia services and digital advertising,
- system integration and cloud computing services,
- the development and implementation of solutions for managing business content and relations, and tools for managing and monitoring operations,
- the construction and maintenance of telecommunication networks, and
- the preservation of natural and cultural heritage in the Sečovelje Saltpans Regional Park.



## B.16 Ownership structure of the Company

As at 30 June 2016 there were 10,666 shareholders entered in Telekom Slovenije's register of shareholders. The 10 largest shareholders held 77.45% of the Company's share capital.

	Shareholder as at 30 June 2016	%	Shareholder as at 31 December 2015	%
1	Republic of Slovenia	62.54	Republic of Slovenia	62.54
2	Kapitalska družba, d. d.	5.59	Kapitalska družba, d. d.	5.59
3	Slovenian Sovereign Holding	4.25	Slovenian Sovereign Holding	4.25
4	Modra zavarovalnica, d. d. - PPS	1.26	Modra zavarovalnica, d. d. - PPS	1.44
5	Perspektiva FT, d. o. o.	1.21	Perspektiva FT, d. o. o.	1.21
6	DBS, d. d.	0.56	DBS, d. d.	0.57
7	NLB, d. d.	0.55	NLB, d. d.	0.55
8	Triglav vzajemni skladi – delniški Triglav	0.51	Triglav vzajemni skladi – delniški Triglav	0.51
9	Kritni sklad prvega pokojninskega sklada	0.51	KD Galileo, mešani fleksibilni sklad	0.47
1	The Bank of New York Mellon-fiduciarni	0.47	The Bank of New York Mellon-fiduciarni	0.47
	<b>Total</b>	<b>77.45</b>	<b>Total</b>	<b>77.60</b>

## B.17 Credit ratings assigned to the Company or its debt securities at the request or with the cooperation of the Company in the rating process

In September 2015 the international ratings agency Moody's Investors Service Ltd. published a new credit rating report in which it reconfirmed the Company's credit rating of Ba2 with a negative outlook. Confirmation of the Company's existing rating was a reflection of Moody's expectations that Telekom Slovenije will successfully complete the process to secure refinancing for its existing issue of bonds, which mature in December 2016. The rating also takes into account the Company's position on the market and its relatively low level of indebtedness. The agency also warned of the highly competitive environment in which the Company operates, and its declining revenues, which are the result of falling prices and regulation.

On 20 June 2016 Moody's international rating agency raised the outlook on Telekom Slovenije, d. d.'s credit rating from negative to stable. The rating remains at the current "Ba2" level. According to the agency, the positive change in the rating reflects the improved cash flow situation of Telekom Slovenije, d. d. alongside the successful refinancing of the company, which was completed with the signing of a long-term syndicated loan in the amount of EUR 300 million in March 2016, and with the issuing of 5-year bonds in the nominal value of EUR 100 million in June 2016.

## SECTION C – SECURITIES

### C.1 Type and class of the Notes being admitted to trading

Ordinary, registered Notes, issued in dematerialised form, coded (ticker) TLS1 and ISIN code SI0032103630.

The total nominal amount of the issue is EUR 100,000,000.00. Notes are issued in the nominal amount of EUR 1,000.00 each (i.e. in EUR 1,000.00 denominations). The total number of Note denominations is 100,000.

### C.2 Currency of the Note issue

The Notes are issued in euros.

## C.5 Description of any restriction on the free transferability of the Notes

After the issue, the Notes are transferable in accordance with the provisions of the ZNVP-1, other applicable Slovenian legislation and the rules and regulations applicable to and/or issued by CDD. Title to the Notes shall pass by registration in the Central Register.

## C.8 Description of rights attached to the Notes

Each Note gives its Note holder the right to claim from the Issuer the payment of the interest and principal upon their maturity.

The Notes constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves and at least equally with all other present and future unsecured and unsubordinated indebtedness of the Issuer.

The Issuer commits that, in accordance with the Terms and Conditions of the Notes, the Issuer and each member of the Group will take into account the commitments, covenants and restrictions pursuant to the Terms and Conditions of the Notes related to the Negative Pledge, Mergers, the providing of loans, guarantees and acquiring capital stakes outside the Issuer's core business. Most of the restrictions will cease to be valid if the Issuer gives a notice to all Note holders which contains a binding offer for the purchase of all Notes at the price for each Note equal to or higher than the sum of its nominal amount and accrued interest calculated for the period from the most recent Interest Payment Date up to the Release Day (the Tender Offer), and the purchase price for the Notes is paid to the Note holders who accepted the Tender Offer.

## C.9 Nominal interest rate and interest liabilities

The coupon Interest Rate is 1.95% per annum. In the event that the Issuer gives a notice to all Note holders which contains a binding offer for the purchase of all Notes, the Interest Rate shall be increased by 40 b.p. to 2.35% at any time after the date on which the purchase price for the Notes is paid to the Note holders who accepted the Tender Offer (Release Day).

The Notes bear interest from 10 June 2016 at the Interest Rate, payable in arrears on 10 June of each year commencing 10 June 2017.

The Issuer shall repay the obligations related to the Notes (interest and the principle of the Note) according to the below repayment schedule:

No	Interest Payment Date	Payment of a Note obligation in EUR		
		Interest	Principal	Total
1	10 June 2017	19.50	0.00	19.50
2	10 June 2018	19.50	0.00	19.50
3	10 June 2019	19.50	0.00	19.50
4	10 June 2020	19.50	0.00	19.50
5	10 June 2021	19.50	1,000.00	1,019.50
<b>Total</b>		<b>97.50</b>	<b>1,000.00</b>	<b>1,097.50</b>

The amount of interest due in respect of any Notes shall be calculated by reference to the aggregate principal amount of Notes according to a linear method, taking into account the actual number of days in the interest-accruing period and actual number of days in the year. The amount of such payment shall be rounded down to the nearest EUR 0.01.

The interest shall be calculated by using the following formula:

$$o = \left( \frac{om}{100} * \frac{d_i}{dl} \right) * G$$

The following applies:

<i>o</i>	Interest for the Interest Period concerned
<i>om</i>	Fixed annual Interest Rate
<i>d<sub>i</sub></i>	Actual number of days in the interest-accruing period
<i>d<sub>l</sub></i>	Actual number of days in the year
<i>G</i>	Nominal Note amount

All obligations in respect of the Notes shall be paid in euros.

The payments of the principal and interest shall be transferred in euros to the euro accounts of the Beneficiaries of such payments. Each payment so made shall discharge the Issuer's obligation in respect thereof.

The Issuer shall repay the obligations related to the Notes based on the records of Note holders in the Central Register with the CDD to the accounts of the Note-related payment Beneficiaries as at the day when a particular obligation is due for payment, according to the repayment schedule.

The beneficiary in relation to any amount payable in respect of a Note is the person registered at the end of the third CDD Business Day prior to the due date for such amount in the Central Register as the person entitled to receive such amount.

Each Note holder or Beneficiary shall nominate its euro account by sending details in respect thereof to the Issuer. If the Beneficiary of any amount payable in respect of a Note fails to nominate its euro account as defined by this Prospectus or in such other manner as may from time to time be specified in a notice given by or on behalf of the Issuer before the third CDD Business Day prior to the due date for payment of such amount, such Beneficiary shall not be entitled to payment of the amount due until the fifth business day after details of its euro account have been properly advised, and the relevant Beneficiary shall not be entitled to any interest or other payment in respect of any such delay.

If the due date for payment of any amount in respect of any Note is not a business day, the Beneficiary shall not be entitled to payment of the amount due until the next business day and shall not be entitled to any interest or other payment in respect of any such delay. A business day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) payment system, which utilises a single shared platform and was launched on 19 November 2007, is in operation.

Claims for principal shall become void unless claimed for payment within five years of the appropriate Relevant Date. Claims for interest shall become void unless claimed for payment within three years of the appropriate Relevant Date.

No organisation represents the Note holders in relation to the Issuer.

#### C.10 Derivative component in the interest payment

Not applicable.

## **C.11 Admission of Notes to the regulated market**

The Notes will be admitted to trading on the regulated bond market of the Ljubljana Stock Exchange.

Except for the regulated securities market operated by the Ljubljana Stock Exchange there is no other regulated securities market in Slovenia on which securities or notes are traded.

The Issuer has not made any agreement with any entity regarding any operations in the secondary market (or aftermarket) or regarding the provision of liquidity of the Notes.

## **SECTION D – RISKS**

### **D.2 Risks specific to the Company or the industry**

The Telekom Slovenije Group takes a well-planned and systematic approach to risk management. The risk management system is updated for the purpose of promptly identifying and appropriately assessing and managing all key risks to which the Group is exposed. The Group implements its Risk Management Policy and, in the event of deviations, defines additional measures for the management of risk.

For the Group, risk means uncertainty regarding an event that may have a positive or negative impact on the achievement of objectives. Risk is, by its very nature, incorporated into all business processes and decisions. The Telekom Slovenije Group has a Risk Management Policy in place that comprehensively governs the risk management system and is binding on all Group companies. The aforementioned policy includes the basic guidelines for managing risks, including powers and responsibilities.

All identified risks are classified into four major categories:

- strategic or business risks,
- financial risks,
- operational risk,
- regulatory and compliance-related risks.

#### **Key risks within the Telekom Slovenije Group**

- Competition-market risks (risks associated with a declining number of users as the result of stiff competition and the price sensitivity of users)
- Regulatory risks (risks associated with changes in European and local legislation, and risks associated with procedures before the regulatory body and legal risks linked to lawsuits and legislation)
- Financial risks
  - Liquidity risk (lack of funds to repay financial and operating liabilities; moderate)
  - Interest-rate risk (risk of losses due to changes in interest rates; low)
  - Currency risk (risk of unfavourable exchange rates; low)
  - Credit risk (the risk of failure by counterparties to fulfil their obligations; moderate)
- Risks associated with the outflow of revenues in billing processes (from centralised data capture to the billing process, as well as risks associated with poor-quality data or the loss of data between systems)
- Risks associated with the functioning and security of information and communication technologies (ICT; moderate)
- Employee-related risks (risks associated with human resource restructuring)

#### **Key risks for Telekom Slovenije**

- Strategic and business risks
  - Risk of a reduction in the number of users due to their migration to the networks of competitors and the emergence of new 'alternative' solutions on the market (risk of the migration of users to other solution providers)

- Risk of diminishing profitability of users (optimisation of the range of products and services and the sales network)
- Risks associated with the consolidation of regional electronic communication markets
- Risk of diminishing user satisfaction
- Risks associated with the introduction of new services and products, and the modification of existing services
- Financial risks
  - Risks associated with short-term solvency
  - Risks associated with capital adequacy and long-term solvency
  - Risks associated with securing sources of financing
  - Risk of subscriber default
  - Risk of operator default
  - Exposure to subsidiaries
  - Interest rate risk
- Operational risks
  - Risks associated with diminishing employee commitment
  - Risks associated with the outdated or insufficient knowledge of employees
  - Risks associated with a lack of innovation and creativity
  - Risks associated with achieving the HR plan and the optimisation of the employee structure and labour costs
  - Risks associated with obstructions to constructive dialogue with social partners
  - Risks associated with corporate media exposure and uncertainty among employees
  - Risks associated with the functioning and security of ICT networks and devices
  - Risks associated with the functioning and security of the circuit switched mobile core
  - Risks associated with planning and developing ICTs
  - The risk of dependency on outside contractors
  - Risks associated with the malfunctioning of connections and services provided by other entities
  - The risk of network and technology obsolescence
  - Risk of abuse
  - Risks associated with losses due to the disclosure of trade secrets
  - Revenue-loss risk in "switch to bill" processes
  - Risks associated with the effective implementation of the transformation programme
  - Legal risks
  - Risk of damage to/destruction of property – direct damage
- Regulatory and compliance-related risks
  - Risk of pressure from the regulatory body regarding price-related, technical and technological obligations
  - Risks in proceedings before the Competition Protection Office
  - Compliance risks associated with the use of software licences
  - Risks associated with energy efficiency and environmental management

### D.3 Risks specific to the Notes

#### Risk of default

Holders of the Notes or Beneficiaries to payment based thereon assume or face the risk that the Issuer is unable to pay the liabilities pertaining to the Notes (risk of default). The Issuer's liabilities pertaining to the Notes, towards the holders or Beneficiaries of such Notes, are backed by all of the Issuer's property. The Notes are not backed by any underlying collateral or guarantee of the Issuer and the holders of the Notes shall not have any preferential treatment relative to other creditors or claims regarding repayment.

#### Liquidity risk

Despite the fact that the Issuer intends to list the Notes for trading on the Ljubljana Stock Exchange, there is no guarantee of a significant trading volume on the Ljubljana Stock Exchange. As a result, it is possible that a holder of Notes will not be able to dispose of them (sell them) before their maturity. Low liquidity can also affect the market price of the Notes.

### **Interest rate risk**

Interest on Notes is accrued on the nominal value of the Notes on the basis of fixed interest rate, which is why the amount of liabilities arising from the Notes is specified in advance and is not exposed to the risk of changes in the interest rate.

### **Market price risk on the regulated market**

The market price volatility of the Notes on the regulated market depends on supply and demand for the Notes as well as on market interest rate fluctuations. Excess demand for Notes could lead to an increase in the market prices for them, whereas oversupply could lead to a market price decrease. In the event of an increase in market interest rates, holders could demand a higher return, which in turn could lead to a reduction in the market prices of Notes on the regulated market. In the event of a decrease in market interest rates, holders could demand a lower return on Notes, which in turn could lead to an increase in the market prices of Notes on the regulated market.

### **Risk of reinvesting the principal and coupons of the Note**

In the event of the early redemption of the Notes in accordance with the provisions of the Prospectus, the holder is exposed to reinvestment risk. This is the risk that the Note holder will have to reinvest the received coupons and partial repayments of the principal at an interest rate that is lower than the rate at the time of the purchase of the Notes. As a result, it is possible that the investor falls short of achieving the theoretically calculated yield-to-maturity.

### **Risk of releasing covenants of the Issuer**

The Issuer may at any time purchase Notes by submitting to the Note holders a binding offer for the purchase of all Notes at a price for each Note that is equal to or higher than the sum of its nominal amount and accrued interest. If the purchase price for the Notes redeemed is paid by the Issuer to the Note holders or Beneficiaries who accepted the offer, the existing covenants of the Issuer as set by the Prospectus are released and are no longer binding on the Notes that have not been redeemed; thereafter the interest rate for those Notes that are not redeemed is increased by 40 b.p.

## **SECTION E – OFFER**

### **E.2b Reasons for the offer and use of proceeds**

By issuing the Notes, the Issuer is looking to provide financing for new investments. In 2016 the Telekom Slovenije Group is planning to invest up to EUR 156 million, which is an increase of 38% on the previous year. Most investments (84%) are planned to be performed in Slovenia; outside Slovenia, most of the investments will be carried out in Kosovo.

The Issuer is planning a new investment cycle in which the funds will be invested primarily in three areas, namely:

- Intensive enhancement and upgrade of broadband optic fibre access network,
- Further modernisation of the radio (mobile) network,
- Simplification of processes by means of active IT architecture.

### **E.3 Description of the terms and conditions of the offer**

The Notes were issued through a public offering procedure for which there is no obligation to publish the prospectus. The offering of the Notes took place pursuant to the provision of the ZTFI, subject to two exceptions regarding the obligation to publish a prospectus for certain types of securities offerings pursuant to Article 49 of the ZTFI. The offering of the Notes was addressed to qualified investors only (Article 49, Paragraph 1, Section 1 of the ZTFI), or to less than 150 natural and legal persons in an individual EU Member State, who were not classified as qualified investors (Article 49, Paragraph 1, Section 2 of the ZTFI).

The Issuer signed an agreement with ALTA Invest, d. d., ALTA Skupina, d. d. and NLB d. d. (Lead Managers) for expert consulting and services related to the ZTFI and the issue and sale of the Notes

of Telekom Slovenije, d. d., and the registration thereof with the Central Register of securities at the CDD as well as admission to trading on the regulated market of the LJSE. For legal advisory services related to the issue of the Notes, the Issuer signed an agreement with the law firm Odvetniki Vidmar Zemljarič (Legal Advisor). The Legal Advisor or the Lead Managers assume no responsibility for the accuracy, correctness or completeness of the information contained in the Prospectus.

The Issuer did not conclude any agreement with ALTA Invest, d. d., ALTA Skupina, d. d. or NLB d. d. to underwrite the issue of Notes on a firm commitment basis (the initial sale of Notes was carried out without a firm commitment).

The selling price at which the Notes were offered in the initial sale was 100% of the Note nominal amount. In the initial offering, 63 Investors subscribed to and paid-up the Note issue.

Since this Summary relates to the admission of the Notes to trading on the regulated market, any other information regarding the terms of the offering is not relevant.

#### **E.4 Description of any interest that is material to the issue/offer**

Not applicable.

#### **E.7 Estimated expenses charged to the investor by the Issuer or the offer**

Not applicable.



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## 1. PERSONS RESPONSIBLE

As the Issuer of the Notes, Telekom Slovenije, d. d., confirms, to the best of its knowledge, that the information included in the Prospectus complies with the facts and that no relevant information has been omitted which could affect the meaning of this information or the Prospectus, and that Telekom Slovenije, d. d., has committed its full reasonable diligence to attain such compliance and completeness.

Ljubljana, July 2016

mag. Rudolf Skobe  
President of the Management Board



mag. Tomaž Seljak  
Vice-President of the Management Board



Aleš Aberšek  
Member of the Management Board



Ranko Jelača  
Member of the Management Board



Vesna Lednik  
Member of the Management Board –  
Workers Director



## 2. RISK FACTORS

### 2.1. Risks specific to the Issuer

**The Telekom Slovenije Group takes a well-planned and systematic approach to risk management. The Telekom Slovenije Group updates its risk management system for the purpose of promptly identifying and appropriately assessing and managing all key risks to which the Group is exposed. The Telekom Slovenije Group implements the adopted Risk Management Policy and, in the event of deviations, defines additional measures for the management of those risks.**

#### **Risk management system**

For the Group, risk means uncertainty regarding an undesirable event that may have a positive or negative impact on the achievement of objectives. Risk is, by its very nature, incorporated into all business processes and decisions. The Telekom Slovenije Group has a Risk Management Policy in place that comprehensively governs the risk management system and is binding on all Group companies. The aforementioned policy includes the basic guidelines for managing risks, including powers and responsibilities.

The risk management system is coordinated by Telekom Slovenije's Finance Department, and includes:

- reporting on significant risks;
- the development of methodologies and tools;
- drawing attention to potential risks in individual areas and business functions; and
- cooperation and expert assistance in the implementation of risk management processes.

Telekom Slovenije's Finance Department also coordinates with the Internal Audit Service, which plans annual audits on the basis of the risk assessment and inventory. The Risk Committee, which is chaired by the competent member of the Management Board, plays a special role in guiding and coordinating risk management activities. The aforementioned committee met at four sessions in 2015, where it discussed the quarterly risk management report and amendments to the associated methodology. It thus advises and offers assistance on the integration of risk management into business processes.

#### **Risk identification and management**

In every major business decision and project, and in every business plan, potential risks must be identified and analysed and a plan drawn up for their continued management. This process includes systematic communication and consultation. It also includes defining, analysing, assessing, amending, controlling, monitoring and reviewing risks.

All identified risks are classified into the following major categories:

- strategic or business risks,
- financial risks,
- operational risk,
- regulatory and compliance-related risks.

Risks are assessed according to the adopted methodology, where the degree of risk is calculated as the product of the probability of the realisation of a particular risk and its impact (effect). The criteria for assessing the consequences of an event are its financial effects and the sensitivity of the area in

question, with the assessment focusing on the impact on user satisfaction and a potential deterioration in the Company's reputation.

When managing risks, the Group decides between the following strategies: taking up risk, avoiding risk, transferring risk to a third party and mitigating risk.

The following measures are used to mitigate risks:

- the establishment of internal controls;
- the implementation of scenarios to reduce risks to an acceptable level;
- the execution of money-market transactions; and
- the use of derivatives, in particular interest-rate swaps and interest-rate caps.

The following risk owners play an important role in the risk management process:

- members of the Management Board,
- managing directors of Group companies,
- directors of sectors,
- heads of departments and other organisational units, and
- project managers and authorised experts.

Those parties are responsible for the initial identification of risks in their own areas, for the monitoring of risks and for the implementation of necessary measures. The list of identified risks, both current and potential, is updated regularly. The implementation of measures is monitored every three months, and the Management Board and Supervisory Board informed accordingly. An enclosure regarding perceived risks is also an integral part of the material submitted to the Management Board in decision-making processes.

### **Key risks within the Telekom Slovenije Group**

Significant risks identified by the Telekom Slovenije Group include:

- **risks from the external environment:** competition-market and regulatory risks, risks associated with a failure by users and operators to fulfil obligations, and risks associated with climate change; and
- **internal risks:** risks associated with the control and efficiency of processes, risks associated with the functioning and security of ICTs, and employee-related risks.

As is the case with the majority of other incumbent operators in Europe, Telekom Slovenije is faced with a declining number of users, primarily as the result of stiff competition and the price sensitivity of users. Among the market risks and risks linked to the competition, the risk of business and residential users migrating to the networks of competitors remains elevated.

Competition and market-related risks are managed by:

- adapting the range of products and services, which is contemporary and differs from the competition;
- optimising the sales network;
- implementing activities to promote sales;
- emphasising the value that our superior network offers;
- implementing activities aimed at maintaining existing subscribers; and
- improving user support processes.

Measures aimed at managing market shares increase the risk of diminishing profitability. This type of risk is managed through the optimisation of content and pricing, and through clear rules regarding the allocation of benefits and discounts.

Floods, storms, sleet and other natural disasters represent a risk to Telekom Slovenije's infrastructure and as such bring financial consequences. Risk is transferred to an insurance company in the scope of defined coverage limits, which have been raised and optimised for specific insurance types.

### **Regulatory risks**

The regulatory risks for Telekom Slovenije continue to be assessed as high. The European Commission is drawing up measures for the implementation of the regulation governing the European single market for electronic communications adopted in 2015, in particular with regard to the phasing out of retail surcharges for roaming and charges for roaming services. Telecommunication rules are being reformed in the scope of the Commission's Digital Single Market strategy, as the existing European regulatory framework dates back to 2009.

Despite the measures implemented to mitigate regulatory risks (presented in the overview of risks to which Telekom Slovenije is exposed), risks associated with regulatory measures and risk of procedures before the regulatory body (AKOS) and competition protection authority (AVK) as well as legal risks linked to lawsuits and legislation continue to persist.

### **Financial risks**

Liquidity risk is assessed as moderate, primarily due to the extent of its impact. In order to manage this type of risk, the Issuer has established an effective system for managing and planning cash flows that facilitates the timely identification of potential shortfalls in liquid funds and decisions regarding measures. Short-term credit lines at banks also provide a high level of financial flexibility to balance liquidity.

Interest-rate risk is assessed as low, as 79% (as at 31 March 2016) of the Telekom Slovenije Group's sources of financing is secured through the issue of bonds with a fixed interest rate. Currency risk is similarly assessed as low. The Issuer therefore does not use hedging instruments.

The most significant source of credit risk (the risk of failure by subscribers and operators to fulfil their obligations) is default by subscribers (retail segment) and operators (wholesale segment). Telekom Slovenije Group companies have therefore introduced risk management procedures that include the monitoring of business partners' credit ratings, collateral for receivables, the monitoring of high-traffic customers and debt collection. Debt collection activities are carried out according to a predefined timetable, whereas external collection efforts are carried out through specialised agencies. Due to the aforementioned activities, the credit risk is assessed as manageable. A detailed overview of financial risks is presented in the Financial Report of Annual report of the Telekom Slovenije Group and Telekom Slovenije.

### **Risks associated with the outflow of revenues in billing processes**

Similar to other operators, Telekom Slovenije identifies revenue-loss risk from centralised data capture to the billing process, as well as the risks associated with poor-quality data or the loss of data between OSS and BSS systems. The Issuer therefore performed a precise assessment of its risk exposure (Revenue Assurance Risk Assessment) in 2015, and defined the most exposed areas, priorities and a timetable for the implementation of measures.

### **Risks associated with the functioning and security of information and communication technologies (ICTs).**

Special attention was devoted to managing the operational risks associated with ICT networks, services and devices. Risks associated with the functioning and security of the access network is assessed as moderate. In order to mitigate these risks, priority is given to the underground construction of the cable network, for which protective piping and cable ducts are used. Through the

use of fibre optic cables (in FTTH and FTTN technologies), the Issuer repaired the sleet damage caused to the above-ground copper cable network in 2014. At the same time, the Issuer improved the functional reliability of the network and mitigated the risks associated with network obsolescence. The Issuer carried out updates and increased capacities through redundancy in those network segments where the Issuer had identified increased functional and security-related risks.

The risks associated with the malfunctioning of connections and services provided by other entities are managed by introducing processes to monitor and report on SLA indicators on leased networks, and by standardising requirements vis-à-vis network providers for newly leased networks. Continuous notification regarding planned works on the networks of operators has been established.

### Employee-related risks

In terms of employee-related risks, the Issuer gave a great deal of attention in 2015 to risks associated with achieving the human resource plan, the optimal personnel structure and labour costs, which requires cooperation with employee representatives. Before implementing changes in the area of human resources, legally prescribed procedures must be carried out with employee representatives, including joint consultations, and the acquisition of opinions, agreements and consents. An agreement on the arrangement of mutual relations was reached in July.

By promoting values and establishing the assessment of the effectiveness of cooperation between support units, the Issuer mitigated the risk of poor mutual cooperation and ineffective processes due to various cultures, habits, behaviours and work processes. The innovation system and Brihta portal are being re-engineered in order to improve the management of risks associated with a lack of innovation and creativity.

### Key risks by individual company and market

Key risks at individual companies and on the markets, and the risks that the Group assesses it will be exposed to in the future are presented in the table below. Risk management measures are presented for each risk identified. The monitoring and analysis of the implemented measures are carried out by Telekom Slovenije's Finance Department in close cooperation with individual risk holders. The reasons for the ineffectiveness of the adopted measures are analysed and corrective measures drafted on the basis thereof.

### Risks for Telekom Slovenije

#### Strategic and business risks

Strategic and business risks are linked to the successful implementation of the Group's strategy, the ability to generate operating revenues in the short and long term, and to maintaining the value of assets and the Group's reputation.

Risk	Method of management
Risk of a reduction in the number of users due to their migration to the networks of competitors and the emergence of new 'alternative' solutions on the market	<ul style="list-style-type: none"> <li>- Campaigns to prevent departures based on a forecasting model.</li> <li>- Adaptation of the range of products and services to users and trends in the sector.</li> <li>- Provision of competitive solutions in Telekom Slovenije's networks.</li> <li>- Provision of high-quality services and systems.</li> <li>- Renovation of points of sale.</li> <li>- Marketing activities.</li> </ul>
Risk of diminishing profitability of users	<ul style="list-style-type: none"> <li>- Optimisation of the range of products and services in terms of content and price.</li> </ul>

	<ul style="list-style-type: none"> <li>- Optimisation of the sales network.</li> </ul>
Risks associated with the consolidation of regional electronic communications markets	<ul style="list-style-type: none"> <li>- Active involvement in the consolidation process.</li> <li>- Proper evaluation of synergies and the realisation of market opportunities.</li> </ul>
Risk of diminishing user satisfaction due to a failure to fulfil user expectations and requirements	<ul style="list-style-type: none"> <li>- Improvement of user-support processes.</li> <li>- Mentoring and monitoring the work of call centre employees; measurement of customer satisfaction following each contact.</li> <li>- Internal and external education and training.</li> </ul>
Risks associated with the introduction of new services and products, and the modification of existing services	<ul style="list-style-type: none"> <li>- Simplification of the range of products and services, and a focus on a specific user segment in the introduction of new services.</li> <li>- Testing of new products and equipment in the laboratory and via test users, and measuring the impact on other segments, improved project management and efficiency calculations, the gradual launch of new services and monitoring their impact on existing services.</li> <li>- Monitoring of the market and the competition, motivation of employees to provide innovative ideas and improvements, timely response to users' needs, and shortening the time from idea to realisation.</li> <li>- Definition and management of business processes, and IT support for those processes.</li> <li>- Intensive monitoring of the quality of services immediately following their introduction, and prompt measures to address any deficiencies identified.</li> </ul>

## Financial risks

The table below summarises key financial risks and the measures implemented to manage them. These risks are covered in more detail in the Financial Report of the Annual Report of the Telekom Slovenije Group and Telekom Slovenije.

### Identified financial risks

Risk	Method of management
Risks associated with short-term solvency	<ul style="list-style-type: none"> <li>- Planning and management of cash flows.</li> <li>- Management of working capital.</li> <li>- Short-term and long-term revolving loans and credit lines at banks.</li> <li>- Management of cash surpluses.</li> <li>- Regular contact with banks and verification of the possibility of refinancing existing debt.</li> <li>- Use of cash surpluses within the Group (cash pooling).</li> </ul>
Risks associated with capital adequacy and long-term solvency	<ul style="list-style-type: none"> <li>- Ensure an appropriate debt-to-equity ratio.</li> <li>- Maintenance of current credit rating, thus ensuring the possibility of raising long-term sources of financing.</li> </ul>
Risks associated with securing sources of financing	<ul style="list-style-type: none"> <li>- Timely refinancing procedures.</li> <li>- Search for alternative, non-banking sources of financing.</li> <li>- Identification of the needs for sources in a timely manner with the help of cash flow forecasts.</li> <li>- Maintenance of business partnerships with banks.</li> </ul>
Risk of subscriber default	<ul style="list-style-type: none"> <li>- Consideration of subscribers' credit ratings in the sales process and the implementation of measures in accordance with the Rules on Claims Management.</li> <li>- Monitoring of daily shifts in a subscriber's traffic with regard to</li> </ul>



	<ul style="list-style-type: none"> <li>average use, and informing subscribers of increased usage.</li> <li>- Management of customer codes.</li> <li>- Regular collection according to a timetable.</li> </ul>
Risk of operator default	<ul style="list-style-type: none"> <li>- Introduction of a credit risk management system for operators.</li> <li>- Regular monitoring of receivables and liabilities, and collection under existing regulations.</li> <li>- Introduction of procedures in the event of default on the domestic wholesale market.</li> <li>- Verification of operators' credit ratings when concluding new agreements.</li> </ul>
Exposure to subsidiaries	<ul style="list-style-type: none"> <li>- Supervision of the operations and financial position of subsidiaries.</li> <li>- Control over exposure amounts.</li> <li>- Inclusion of collateral in loan agreements.</li> </ul>
Interest-rate risk	<ul style="list-style-type: none"> <li>- Continuous monitoring of the financial markets.</li> </ul>

### Operational risks

Operational risks include the risks of losses resulting from inadequate or failed internal processes, the conduct of people or the functioning of systems and external factors. They are presented in the table below.

#### Identified operational risks

Risk	Method of management
Risks associated with diminishing employee commitment	<ul style="list-style-type: none"> <li>- Communication regarding the implementation of human resource systems.</li> <li>- Human resource meetings with sector directors.</li> <li>- Training and development of managers at all levels, concern for employees.</li> </ul>
Risks associated with the outdated or insufficient knowledge of employees	<ul style="list-style-type: none"> <li>- Consistent implementation of the training plan.</li> <li>- Information regarding the use of new education and training channels.</li> <li>- Promotion of the internal transfer of knowledge and a system of internal lectures.</li> </ul>
Risks associated with a lack of innovation and creativity	<ul style="list-style-type: none"> <li>- Development and promotion of a culture of innovativeness and creativity.</li> <li>- Re-engineering of the innovation process and Brihta portal.</li> </ul>
Risks associated with achieving the HR plan and the optimisation of the employee structure and labour costs	<ul style="list-style-type: none"> <li>- Implementation of a project aimed at process optimisation.</li> <li>- Internal mobility and the allocation of employees to areas with personnel deficits identified.</li> <li>- Drafting of an HR plan by organisational unit.</li> </ul>
Risks associated with obstructions to constructive dialogue with social partners	<ul style="list-style-type: none"> <li>- Continuous cooperation with social partners.</li> </ul>
Risks associated with corporate media exposure and uncertainty among employees	<ul style="list-style-type: none"> <li>- Regular and continuous notification of employees.</li> <li>- Monitoring of events in the internal and external environment.</li> <li>- Active management of information in the shareholder environment.</li> </ul>
Risks associated with the functioning and security of ICT networks and devices	<ul style="list-style-type: none"> <li>- Implementation of preventive measures to detect possible problems and critical points; testing and training of personnel to take proper action.</li> <li>- Implementation of an information security management system (ISMS) for ordinary operations.</li> <li>- Upgrade of the business continuity management system (BCMS) for the implementation of measures if</li> </ul>

	extraordinary events should occur.
Risks associated with the functioning and security of the circuit switched mobile core	<ul style="list-style-type: none"> <li>- Regular and ad-hoc replacements of systems and ensuring redundancy.</li> </ul>
Risks associated with planning and developing ICT	<ul style="list-style-type: none"> <li>- Continuous acquisition of expert knowledge in all areas.</li> <li>- Testing and validation of solutions.</li> <li>- Continuous monitoring of trends.</li> </ul>
Risk of dependency on external service providers	<ul style="list-style-type: none"> <li>- Development of strategic partnerships with suppliers.</li> <li>- Implementation of a dual vendor strategy, where possible.</li> <li>- Definition of procedures for managing partners in the process of developing IT solutions, and the formalisation of the process of managing IT needs.</li> </ul>
Risks associated with the malfunctioning of connections and services provided by other entities	<ul style="list-style-type: none"> <li>- Standardised requirements demanded by Telekom Slovenije from network providers for newly leased networks.</li> <li>- Adaptation of IT systems to facilitate automatic and continuous notification regarding planned works on the networks of operators.</li> <li>- Organisation of processes for monitoring and reporting indicators according to a service-level agreement (SLA) on leased networks.</li> </ul>
Risks associated with network and technology obsolescence	<ul style="list-style-type: none"> <li>- Migration of services from the copper-based network to the fibre optic network, preventive maintenance, replacement of critical elements, acquisition of additional backup equipment from equipment that has been removed.</li> <li>- Introduction of new technological solutions.</li> <li>- Upgrade of the network, taking into account real disposable resources.</li> </ul>
Risk of abuse	<ul style="list-style-type: none"> <li>- Use and upgrade of systems to prevent abuse (FMS – fraud management system).</li> <li>- Use of existing systems to protect the Company's facilities.</li> <li>- Improvement of the security culture of employees.</li> <li>- Introduction of new technologies to increase the security of services.</li> </ul>
Risks associated with losses due to the disclosure of trade secrets	<ul style="list-style-type: none"> <li>- Creation of an appropriate communication culture to reduce the uncontrolled outflow of information that could cause harm to the Company.</li> <li>- Implementation of general acts to strengthen the security culture.</li> </ul>
Revenue-loss risk in "switch to bill" processes	<ul style="list-style-type: none"> <li>- The use of a system to prevent the outflow of revenues (RAS – revenue assurance system).</li> </ul>
Risks associated with the effective implementation of the transformation programme	<ul style="list-style-type: none"> <li>- Prudent planning and implementation in accordance with the transformation programme.</li> <li>- Strict implementation of all planned activities in all areas.</li> </ul>
Legal risks	<ul style="list-style-type: none"> <li>- Cooperation in the legislative process through the issuing of expert proposals.</li> <li>- Active defence before the courts and the contesting of lawsuits, efforts to reach out-of-court settlements for disputes, consulting with internal and external legal experts to avoid further lawsuits in sensitive business decisions.</li> </ul>
Risk of damage/destruction of property – direct damage	<ul style="list-style-type: none"> <li>- Risk is transferred to an insurance company in the scope of defined coverage limits.</li> </ul>

## Regulatory and compliance-related risks

Regulatory risks are risks that derive from legal and regulatory requirements.

### Identified regulatory risks

Risk	Method of management
Risk of pressure from the regulatory body regarding price-related, technical and technological obligations	- Proactive participation in all regulatory proceedings by submitting remarks, positions and the appropriate analyses.
Risks in proceedings before the Competition Protection Office	- Ensure operational compliance by considering legal opinions. - Active defence in procedures, consultation with external and internal lawyers on the adoption of sensitive business decisions.
Compliance risk associated with the use of software licences	- Restrictive policy on the allocation of software for use. - Employee awareness about the importance of using legal software tools. - Replacement of licenced software with open-source software.
Risks associated with energy efficiency and environmental management	- Maintenance and upgrade of formalised quality management systems. - Implementation of a project aimed at the efficient use of energy and the monitoring of indicators.

### Key risks in the development of digital content and media (TSmedia)

- The risk of a decline in leased advertising space is managed by investing in the technical and creative development of products.
- The risk of the excessively slow development of the digital advertising market is mitigated by promoting market development, which includes cooperation with other digital media and agencies via associations.

### Key risks for GVO

- The risks associated with unexploited opportunities, in terms of securing major investment projects and transactions that would generate revenue growth, are managed through regular monitoring and the search for new opportunities on the markets in Slovenia and abroad (primarily in neighbouring countries), by monitoring and submitting bids in public tenders and through creative cooperation with trustworthy business partners.
- The risks associated with operational implementation and the quality of implemented projects increases with the increased scope of operations. These risks are managed by outsourcing simple works to subcontractors, by employing additional workers during major projects and initiating new workers for project work, through the purchase of appropriate equipment for additional teams and the replacement of worn-out fixed assets, adjustments to the organisation of work and internal processes, and the drafting of project plans.

### Key risks for Avtenta

- Risks associated with declining revenues from public administration projects are managed by strengthening efforts to secure new projects on the external market.

### Key risks for Soline

- The risk of changes to the concession agreement on the management of the Sečovelje Saltpans Regional Park (SSRP) and the draining of the natural assets of the Sečovelje salt pans to the detriment of the concession holder (Soline) is assessed as moderate. Negotiations on potential amendments to the agreement are currently suspended.

- In order to mitigate the operational risks associated with the Lepa Vida spa, we are actively marketing the spa and establishing ties with local hotel chains. The spa's operations are highly dependent on weather conditions.
- Increased liquidity risk has been identified due to uncertainty regarding the fulfilment of the government's obligations under the current concession agreement and undefined fees for managing the regional park. Solvency is ensured through cash management, the planning of cash flows and through short- and long-term financing within the Group.

#### **Key risks for Kosovo**

- Competition and market risks have risen in Kosovo, including the risk of unfair competition. IPKO responds to that risk by monitoring tenders and through the appropriate use of legal remedies, whereas a more proactive approach is taken in operations with business users.
- The law governing copyright sets out the obligation to pay a copyright fee for the transfer of programmes via a cable-based platform. Risks derive from differences in the understanding of the amount of the fee, which will be resolved in negotiations with the VAPIC, the collective organisation for copyrights.

#### **Key risks in Bosnia and Herzegovina**

- Liquidity risk is managed by planning and managing cash flows, and through short- and long-term financing within the Group.
- Legal risks are high in Bosnia and Herzegovina due to the disorganised legal environment and protracted procedures required to obtain building and operating permits. Individual sections of the network thus continue to operate without the requisite permits, despite the initiation of procedures aimed at legalisation.
- The risks associated with the continuous functioning of the network and services are mitigated by establishing redundant connections on individual segments of the network.
- The risks associated with the departure of key personnel have increased due to the optimisation and reduction of labour costs.

## **2.2. Risks specific to Notes**

### **2.2.1. Risk of Default**

Holders of the Notes or Beneficiaries for payment based thereon all assume or face the risk that the Issuer is unable to pay the liabilities pertaining to the Notes (risk of default). The Issuer's liabilities pertaining to the Notes, towards the holders or Beneficiaries of such Notes, are backed by all of the Issuer's property. The Notes are not backed by any underlying collateral or guarantee of the Issuer and the holders of the Notes shall not have any preferential treatment relative to other creditors or claims regarding repayment.

### **2.2.2. Liquidity Risk**

Despite the fact that the Issuer intends to list the Notes for trading on the Ljubljana Stock Exchange, there is no guarantee of a significant trading volume on the Ljubljana Stock Exchange. As a result, it is possible that a holder of Notes will not be able to dispose of them (sell them) before their maturity. Low liquidity can also affect the market price of the Notes.

### **2.2.3. Interest Rate Risk**

The interest on Notes is accrued on the nominal value of the Notes on the basis of a fixed interest rate, which is why the amount of liabilities arising from the Notes is specified in advance and is not exposed to the risk of changes in the interest rate.

### **2.2.4. Market Price Risk on the Regulated Market**

The market price volatility of the Notes on the regulated market depends on the supply and demand for the Notes as well as on market interest rate fluctuations. Excess demand for Notes could lead an increase in the market price for them, whereas oversupply could lead to a market price decrease. In

the event of an increase in market interest rates, holders could demand a higher return, which in turn could lead to a reduction in the market prices of Notes on the regulated market. In the event of a decrease in market interest rates, holders could demand a lower return on the Notes, which in turn could lead to an increase in the market prices of the Notes on the regulated market.

#### **2.2.5. Risk of Reinvesting the Principal and Coupons of the Note**

In the event of the early redemption of the Notes in accordance with the provisions of this Prospectus, the holder is exposed to reinvestment risk. This is the risk that the Note holder will have to reinvest the received coupons and partial repayments of the principal at an interest rate that is lower than the rate at the time the Notes were purchased. As a result, the investor may fall short of achieving the theoretically calculated yield-to-maturity.

#### **2.2.6. Risk of Releasing Covenants of the Issuer**

The Issuer may at any time purchase Notes by submitting to the Note holders a binding offer for the purchase of all Notes at a price for each Note that is equal to or higher than the sum of its nominal amount and accrued interest. If the purchase price for the Notes redeemed is paid by the Issuer to the Note holders or Beneficiaries who accepted the offer, the existing covenants of the Issuer as set by the Prospectus are released and are no longer binding on the Notes that have not been redeemed; thereafter the interest rate for those Notes that are not redeemed is increased by 40 b.p.

## 3. MATERIAL INFORMATION

### 3.1. Interest of Natural and Legal Persons Involved in the Offering

The Issuer signed an agreement with ALTA Invest, d. d., ALTA Skupina, d. d. and NLB d. d. (Lead Managers) for expert consulting and services related to ZTFI and pertaining to the issue and sale of the Notes of Telekom Slovenije, d. d., and the registration thereof with the Central Register of securities at the CDD and admission to trading on the regulated market of the LJSE. For legal advisory services related to the issue of the Notes, the Issuer signed an agreement with the law firm Odvetniki Vidmar Zemljarič (Legal Advisor). The Legal Advisor or the Lead Managers assume no responsibility for the accuracy, correctness or completeness of the information contained in the Prospectus.

Expert consulting and legal advice provided by and documents prepared by the Lead Managers and the Legal Advisor, respectively, are not binding on the Issuer. The Issuer may decide at his own discretion whether to include the solutions, explanations or notes proposed by the Lead Managers and/or the Legal Advisor in the contents of the Issuer's documents and may specify at his own discretion the final contents of all documents, including this Prospectus. Therefore the Lead Managers and/or Legal Advisor shall not be held responsible for the contents of the Prospectus or the information contained therein. Moreover, the Lead Managers and the Legal Advisor did not separately or independently review the information included in this Prospectus. The Lead Managers and the Legal Advisor make no guarantees or representations, express or implied, as to the accuracy or completeness of the information contained in this Prospectus. No part of this Prospectus shall be deemed or taken as a reference or in any way considered a promise or guarantee made by the Lead Managers or Legal Advisor.

The Issuer did not conclude any agreement with ALTA Invest, d. d., ALTA Skupina, d. d. or NLB d. d. to underwrite the issue of Notes on a firm commitment basis (the initial sale of Notes was carried out without a firm commitment).

To the best knowledge of the Issuer, there are no other natural or legal persons involved in the issue of the Notes who could have any interests, including opposing interests, which would be material for the issue of the Notes.

### 3.2. Representations Regarding the Issue and Use of Proceeds

By issuing the Notes, the Issuer is looking to provide financing for new investments. In 2016 the Telekom Slovenije Group is planning to invest up to EUR 156 million, which is an increase of 38% on the previous year. Most investments (84%) are planned to be performed in Slovenia; outside Slovenia, most of the investments are going to be carried out in Kosovo.

The Issuer is planning a new investment cycle in which the funds will be invested primarily in three areas, namely:

- Intensive enhancement and upgrade of broadband optic fibre access network,
- Further modernisation of the radio (mobile) network,
- Simplification of processes by means of active IT architecture.

## 4. INFORMATION ABOUT THE NOTES TO BE ADMITTED TO TRADING

### 4.1. Description of Financial Instrument

#### 4.1.1. Note Type

Ordinary Notes, with the annual payment of interest, registered, denominated in euros, issued in dematerialised form, coded (ticker) TLS1 and ISIN code SI0032103630.

#### 4.1.2. Total Nominal Amount of the Note Issue

The total nominal amount of the issue is EUR 100,000,000.00. The notes are issued in the nominal amount of EUR 1,000.00 each (i.e. in EUR 1,000.00 denominations). The total number of Note denominations is 100,000.

#### 4.1.3. Redemption and Purchase

The principal of a Note at any given time is equal to the nominal amount of such Note. The principle of the Notes shall be due for payment in a single amount upon maturity of the Notes. Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 10 June 2021.

The Issuer may at any time purchase Notes in the regulated market or outside the regulated market and at any price. Any Notes so purchased may be cancelled or held and resold.

Tender Offer means a notice of the Issuer given to all Note holders, containing a binding offer for the purchase of all Notes, which meets the following requirements:

- (i) the offer is valid for at least 14 days after the date of such notice; and;
- (ii) the price offered for each Note is equal to or higher than the sum of its nominal amount and accrued interest calculated for the period from the most recent Interest Payment Date up to the Release Day.

### 4.2. Legislation under which the Notes have been Created

The Notes and any non-contractual obligations arising out of or in connection with these are governed by and shall be construed in accordance with Slovenian law.

### 4.3. Form of Financial Instruments

The Notes have been issued in dematerialised form, in accordance with the provisions of ZNVP-1, as entries in the Central Register maintained by CDD, in the denomination of EUR 1,000.00.

### 4.4. Currency of the Notes Issue

The Notes were paid in euros (EUR).

## 4.5. Classification of Financial Instruments

The Notes do not include any clauses according to which liabilities pertaining to the Notes would be subordinated to any other current or future liabilities of the Issuer.

## 4.6. Description of Rights Attached to Financial Instruments

The description of the rights arising from the Notes, which are contained in section 4.6 herein, only summarises some of the major provisions of the Terms and Conditions of the Notes. In order to view all the information about the Issuer's obligations and rights of the Note holders or Beneficiaries, it is necessary to take into account the Terms and Conditions of the Notes as a whole. The Issuer is legally bound only by the text of the Terms and Conditions of the Notes, as has been registered in the Central Register of securities maintained by CDD and as included in the Annex to this Prospectus.

### 4.6.1. Status of Financial Instruments

The Issuer's liabilities pertaining to the Notes, towards the holders or Beneficiaries (in Slovene: Upravičenec) of such Notes, are backed by all of the Issuer's property. The Notes are not specifically collateralised or guaranteed by any underlying collateral or guarantee of the Issuer and the holders of the Notes shall not have any preferential treatment relative to other creditors or claims regarding repayment.

The Issuer guarantees that the claims and receivables of Note holders, related to the issued Notes, towards the Issuer will be mutually equal and equal to the ordinary non-insured (*pari passu*) claims and receivables of the Issuer's other creditors which occur after the issue of the Notes

### 4.6.2. Other Rights Attached to Financial Instruments

Except for the claims to the Issuer for the payment of the principal and coupon, the Note shall not be deemed to bear any other right to the holder of the Note or other Beneficiary; this also applies to the right to exchange the Note for another type of financial instrument.

The Note holder shall have the right to request from the Issuer the premature collection of claims related to the Notes before their maturity in the event of a breach of the commitments, covenants and restrictions related to the issue of the Notes, as specified in Section 4.6.3 and subject to the conditions specified in Section 4.6.3 of this Prospectus.

With the exception of the Note holder no other party may assert the rights related to the Notes. Regardless of this, the claim for the payment of any sum pertaining to the Note may only be asserted by the Beneficiary to such payment.

### 4.6.3. Commitments/Covenants and Restrictions thereof regarding the Issue of Financial Instruments

The Issuer commits that in accordance with the Terms and Conditions of the Notes it will take into account the commitments and restrictions set out in Condition 7 and Condition 8 (whereby a reference to a Condition with a certain number means a reference to the same numbered item of the Terms and Conditions of the Notes) which shall read as follows:

#### Condition 7. Covenants

(Note: The below statements only summarise some of the major provisions related to the covenants pursuant to the Terms and Conditions of the Notes. For complete and detailed information about the



Issuer's obligations pertaining to Covenants, it is necessary to take into account Condition 7 of the Terms and Conditions of the Notes, which are included in the Annex to this Prospectus.)

## 7.2 Negative Pledge

The Issuer shall not, and shall ensure that no other member of the Group will, create or permit any Security over any of its assets to exist unless equivalent Security is also created for the Issuer's obligations under the Notes. This restriction, *inter alia*, does not apply to Securities securing liabilities towards members of the Group arising from their intergroup financing or to Securities securing the liabilities provided that the amount of such securities does not, in aggregate, exceed EUR 1,000,000.00 or to Securities arising by operation of law in the ordinary course of business (for all exceptions see paragraph (b) of Condition 7.2).

## 7.3 Mergers

The Issuer shall not, and shall ensure that no other member of the Group will, enter into any Merger, except for Mergers where all the participants are members of the Group (for all exceptions see paragraph (b) of Condition 7.3).

## 7.4 Loans

The Issuer shall not, and shall ensure that no other member of the Group will, enter into any loans. This restriction does not apply to existing loans, or to a loan made by any member of the Group to another member of the Group or to Associated Companies, or to any loans, in aggregate, not exceeding EUR 1,000,000.00 (for all exceptions see paragraph (b) of Condition 7.4).

## 7.5 No Guarantees

The Issuer shall not, and shall ensure that no other member of the Group will, incur or allow to remain outstanding any guarantee in respect of any obligation of any person. This restriction does not apply to a guarantee which guarantees the liabilities of a member of the Group under any contract entered into in the ordinary course of its business, of which guarantees the liabilities of a person who is not a member of the Group, provided that the amount of such guarantees does not, in aggregate, exceed EUR 1,000,000.00 (for all exceptions see paragraph (b) of Condition 7.5).

## 7.6 No acquiring of capital stakes outside the Issuer's core business

The Issuer shall not, and shall ensure that no other member of the Group will, acquire any stakes in other companies' capital. This restriction does not apply to the acquisition of stakes in the capital of companies whose core business activity is the same as or complements the core business of the Issuer or other member of the Group (for all exceptions see paragraph (b) of Condition 7.6).

## 7.7 Publication of Information

The Issuer shall publish the following information in accordance with Condition 14 as soon as it becomes aware of the relevant facts if it does so at any time before the Release Day:

- (a) in connection with any Security referred to in sub-paragraphs (vi) of paragraph (b) of Condition 7.2 over the assets of the Issuer or any other member of the Group, which was not disclosed in a prior notice given in accordance with this Condition 7.7:
  - (i) the description and market value of the assets on which such Security exists;
  - (ii) the amount, final maturity and the debtor of the obligations secured by such Security;
  - (iii) an explanation for the exemption set out in sub-paragraph (vii) of paragraph (b) of Condition 7.2 applicable to such Security, allowing such exemption;
- (b) in connection with any Merger taking place after the date of the Prospectus:

- (i) a description of such Merger;
  - (ii) an explanation as to any exemptions set out in paragraph (b) Condition 7.3 applicable to such Merger,
- (c) in connection with any loan made by the Issuer or by any other member of the Group, except the loans referred to in paragraph (b) of Condition 7.4:
  - (i) the amount, final maturity and the borrower of such loan;
- (d) in connection with any acquiring of capital stakes outside the Issuer's core business referred to in paragraph (a) of Condition 7.6:
  - (i) a description of the acquisition of the stakes in capital of the other companies;
  - (ii) an explanation as to any exemptions set out in sub-paragraph (i) of paragraph (b) Condition 7.6.

#### Condition 8. Events of Default

At the request of its holder, each Note shall become immediately due and repayable in its principal amount, together with interest accrued until the date of repayment, if any of the following events (each an "Event of Default") occurs and is continuing:

##### 8.1 Non-payment

The Issuer fails to pay any amount of principal or interest in respect of the Notes within 5 days of the due date for payment thereof; or

##### 8.2 Breach of other obligations

The Issuer does not perform or comply with any one or more of its other obligations under the Notes which default is incapable of remedying or, if capable of remedying, is not remedied within 30 days after notice of such default has been given to the Issuer by any Note holder; or

##### 8.3 Cross Default

Any of the following events occur in respect of financial indebtedness for borrowed money owed by the Issuer or any other member of the Group (save for the obligations towards members of the Group) either as a principal debtor or as a guarantor which, individually or in aggregate, exceeds the amount of EUR 10,000,000 (or its equivalent in any other currency):

- (a) such indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity by reason of an event of default (however described); or
- (b) the Issuer or any other member of the Group fails to make any payment in respect of such indebtedness when due nor within any originally applicable grace period; or

##### 8.4 Change in shareholder's structure of the Issuer

The direct or indirect share owned by the Republic of Slovenia drops to 50% altogether and one share before the Release Day in the Republic of Slovenia loses its majority control over the Issuer in any other respect; or

##### 8.5 Insolvency, etc.

(i) The Issuer becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator (upravitelj prisilne poravnave) or liquidator (stečajni upravitelj) of the Issuer or the whole or a substantial part of the undertaking, assets and revenues of the Issuer is appointed (or an application for any such appointment is made), (iii) by reason of its financial difficulties the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an

arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it, or (iv) the Issuer ceases or threatens to cease to carry on all or any substantial part of its business; or

#### 8.6 Winding up, etc.

An order is made or an effective resolution is passed by any competent authority for the winding up, liquidation or dissolution of the Issuer; or

#### 8.7 Analogous event

Any event occurs which under the laws of the Republic of Slovenia has an analogous effect to any of the events referred to in paragraphs 8.5 (Insolvency, etc.) to 8.6 (Winding up, etc.) above.

#### 4.6.4. Modification of Terms and Conditions of the Notes

The Terms and Conditions of the Notes contain provisions for calling meetings of Note holders to consider proposals for modifications to the Terms and Conditions. These provisions permit that a resolution adopted on a validly convened meeting of Note holders by a required majority is binding on all the Note holders, including Note holders who did not attend and vote at the relevant meeting or voted in a manner contrary to the majority.

### 4.7. Nominal Interest Rate and Interest Liabilities

The coupon Interest Rate is 1.95% per annum. If the Issuer gives a notice to all Note holders, containing a Binding Offer for the purchase of all Notes, the Interest Rate is increased by 40 b.p. to 2.35% at any time after the date on which the purchase price for the Notes is paid to the Note holders who accepted the Tender Offer (Release Day).

The amount of interest due in respect of any Notes will be calculated by reference to the aggregate principal amount of Notes held by the relevant holder according to a linear method, which means that the Interest Rate shall be multiplied by the nominal value of the Note, taking into account the actual number of days in the interest-accruing period (including the first day of such period but excluding the last day of such period) and the actual number of days in the year. The amount of such payment shall be calculated to two decimal places and rounded down to the nearest EUR 0.01.

The Notes bear interest from 10 June 2016 at the Interest Rate, payable in arrears on 10 June in each year commencing 10 June 2017.

Each Note will cease to bear interest from the due date for final redemption. If payment of the principal is improperly withheld or refused, the Beneficiary of such payment will be entitled to receive interest at the rate specified above (after as well as before the judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Beneficiary or (b) the day which is five (5) business days after the Issuer has notified the Beneficiaries that all sums due in respect of such principal and interest will be paid subject only to the receipt by the Issuer of a notice specifying the details of the (euro) account of the relevant Beneficiary (except to the extent that there is any subsequent default in payment).

The interest shall be calculated by using the following formula:

$$o = \left( \frac{om}{100} * \frac{d_i}{dl} \right) * G$$

The following applies:

<i>o</i>	Interest for the Interest Period concerned
<i>om</i>	Fixed annual Interest Rate
<i>di</i>	Actual number of days in the interest-accruing period
<i>dl</i>	Actual number of days in the year
<i>G</i>	Nominal Note amount

## 4.8. Method and Period of Payment of Liabilities

The Notes bear interest from 10 June 2016, payable in arrears on 10 June in each year until the Maturity Date of the Notes.

The principle of the Notes shall be due for payment in a single amount upon the Maturity Date of the Notes.

The Issuer shall repay the obligations related to the Notes (interest and the principle of the Note) according to the below repayment schedule:

No	Interest Payment Date	Payment of a Note obligation in EUR		
		Interest	Principal	Total
1	10 June 2017	19.50	0.00	19.50
2	10 June 2018	19.50	0.00	19.50
3	10 June 2019	19.50	0.00	19.50
4	10 June 2020	19.50	0.00	19.50
5	10 June 2021	19.50	1,000.00	1,019.50
<b>Total</b>		<b>97.50</b>	<b>1,000.00</b>	<b>1,097.50</b>

Obligations in respect of the Notes shall be paid in euros.

The payments of the principal and interest will be transferred in euros to the euro accounts of the Beneficiaries of such payments. Each payment so made will discharge the Issuer's obligation in respect thereof.

The Issuer shall repay the obligations related to the Notes based on the records of Note holders in the Central Register with the CDD to the accounts of the Note-related payment Beneficiaries as at the day when a particular obligation is due for payment and in accordance with the repayment schedule.

The beneficiary in relation to any amount payable in respect of a Note is the person registered at the end of the third CDD Business Day prior to the due date for such amount in the Central Register as the person entitled to receive such amount.

Each Note holder or Beneficiary shall nominate its euro account by sending details in respect thereof to the Issuer. If a Beneficiary of any amount payable in respect of a Note fails to nominate its euro account as defined by this Prospectus or in such other manner as may from time to time be specified in a notice given by or on behalf of the Issuer before the third CDD Business Day prior to the due date for payment of such amount, such Beneficiary shall not be entitled to payment of the amount due until the fifth business day after details of its euro account have been properly advised, and the relevant Beneficiary shall not be entitled to any interest or other payment in respect of any such delay.

If the due date for payment of any amount in respect of any Note is not a business day, the Beneficiary shall not be entitled to payment of the amount due until the next business day and shall not be entitled to any interest or other payment in respect of any such delay. A business day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer

(TARGET2) payment system, which utilises a single shared platform and was launched on 19 November 2007, is in operation.

Claims for principal shall become void unless claimed for payment within five years of the appropriate Relevant Date. Claims for interest shall become void unless claimed for payment within three years of the appropriate Relevant Date.

#### 4.9. Note Yield

Taking into account the Note selling price of 100%, the yield to maturity is 1.95% per annum. The aforementioned yield is calculated as at the Issue Date, taking into account the price at which the Notes were offered in the initial sale, as a result of which it cannot be regarded as a forecast of yield on any later date and/or taking into account any other selling price of the Note.

#### 4.10. Representing Note Holders

No organisation represents the Note holders in relation to the Issuer.

#### 4.11. Method of Issue and Sale of Notes

On 7 June 2016 the Management Board of Telekom Slovenije, d. d., adopted a decision to issue Notes, with ticker symbol TLS1, under the Terms and Conditions of the Notes as included in the Annex to this Prospectus.

The initial offering of the Notes was carried out pursuant to the provision of the ZTFI, subject to cumulative exceptions regarding the obligation to publish a prospectus for certain types of securities offerings pursuant to Article 49 of the ZTFI. The offering of the Notes was addressed to Institutional investors and to less than 150 Retail investors, who do not have the position of a qualified investor.

On 10 June 2016 the Notes were issued in dematerialised registered form, through the book entry of Notes to the relevant securities accounts of the holders opened with CDD, in accordance with the CDD's rules. Pursuant to the ZNVP-1 the beneficial owner of a dematerialised registered note is a person in whose name the note is entered in the securities account held with CDD.

#### 4.12. Transferability of Notes

The Notes are transferable in accordance with the provisions of the ZNVP-1, other applicable Slovenian legislation and the rules and regulations applicable to, and/or issued by, CDD. The title to the Notes will pass by registration in the Central Register

#### 4.13. Information on Taxes

The information on tax liabilities occurring upon maturity, the disposal of the Note before maturity and the purchase of the Note before maturity is general in nature and shall not be understood as legal or tax advice to a particular Note holder or seller, and shall not be deemed a comprehensive description of all tax-related results or consequences that may be material for the Note holders. The information on taxes is based on the Slovenian tax legislation effective as at the date printed on the title page of the Prospectus. The Issuer notes that that legislation may change and that other (foreign) tax legislation or regulations may also affect the position of the Investors. If there is any doubt regarding the taxation of interest from Notes or taxes payable by Note holders or upon disposal thereof, a qualified advisor should be consulted.

#### 4.13.1. Taxation of Interest

##### Legal persons

Interest/coupons received by the Note holder are classified as income and shall therefore count against the taxable base for the corporate income tax of a resident or business unit of a non-resident liable to pay tax in Slovenia. The general tax rate for corporate income tax in Slovenia in 2015 is 17%.

As long as the Notes are listed for trading in a regulated market or they are traded in a multilateral trading system in an EU member state or Organisation for Economic Cooperation and Development member state, the interest in respect of Notes received by a legal person that is not a resident of the Republic of Slovenia for tax purposes and does not have a non-resident business unit in Slovenia shall not be subject to withholding tax in Slovenia.

##### Natural persons

Interest received by a natural person – resident of the Republic of Slovenia shall be subject to personal income tax pursuant to the Personal Income Tax Act at a rate of 25%.

As long as the Notes are listed for trading in a regulated market or they are traded in a multilateral trading system in an EU member state or Organisation for Economic Cooperation and Development member state, the interest in respect of Notes received by a natural person who is not a resident of the Republic of Slovenia for tax purposes shall not be subject to taxation in Slovenia; at the same time, upon payment of interest in respect of the Notes to a natural person who is a resident of the Republic of Slovenia, the Issuer shall not be obliged to calculate, withhold or pay any tax. Any resident who receives interest without any amount of personal income tax being withheld upon payment of such interest shall file a personal income tax return (statement) by no later than 28 February of the current year for the previous year in which such interest payment was received. If a natural person receives interest in respect of Notes as income from its self-employment, this interest is (from a tax perspective) regulated in the same manner as for a natural person who is not self-employed, as the conditions for the exclusion of interest from the taxable base of the income from the self-employment are fulfilled.

#### 4.13.2. Corporate Income Tax

##### Legal persons

Gains from disposal of Notes shall be deemed the taxable income of persons liable to pay corporate income tax – residents and non-residents gaining income through gainful activities or conducting business at a business unit or through a business unit in Slovenia.

##### Natural persons

Pursuant to the Personal Income Tax Act, no personal income tax is payable on capital gains from the disposal of bonds, bills or notes. Since the conditions regarding the exclusion of income gained at disposal of the Note before maturity are fulfilled, the income from such disposal is not included in the taxable base of the income from the self-employment.

#### 4.13.3. Value-added tax

Pursuant to the provisions of the Value Added Tax Act, transactions with financial instruments are free of tax. Interest in respect of bills, bonds and notes are VAT-free pursuant to the Value Added Tax Act

## 5. OFFERING CONDITIONS

The Notes were issued through public offering procedure for which there is no obligation to publish the prospectus. The offering of the Notes took place pursuant to the provision of the ZTFI, subject to two exceptions regarding the obligation to publish a prospectus for certain types of securities offerings pursuant to Article 49 of the ZTFI. The offering of the Notes was addressed to qualified investors only (Article 49, Paragraph 1, Section 1 of the ZTFI), or to less than 150 natural and legal persons in an individual EU Member State, who were not classified as qualified investors (Article 49, Paragraph 1, Section 2 of the ZTFI).

The Issuer signed an agreement with ALTA Invest, d. d., ALTA Skupina, d. d. and NLB d. d. (Lead Managers) for expert consulting and services related to the ZTFI and pertaining to the issue and sale of the Notes of Telekom Slovenije, d. d., and the registration thereof with the Central Register of securities at the CDD as well as admission to trading on the regulated market of the LJSE. For legal advisory services related to the issue of the Notes, the Issuer signed an agreement with the law firm Odvetniki Vidmar Zemljarič (Legal Advisor). The Legal Advisor or the Lead Managers assume no responsibility for the accuracy, correctness or completeness of the information contained in the Prospectus.

The Issuer did not conclude any agreement with ALTA Invest, d. d., ALTA Skupina, d. d. or NLB d. d. to underwrite the issue of Notes on a firm commitment basis (the initial sale of Notes was carried out without a firm commitment).

The selling price at which the Notes were offered in the initial sale was 100% of the nominal Note amount. In the initial offering, 63 Investors subscribed to and paid-up the Note issue.

## 6. ADMISSION TO TRADING

### 6.1. Listing

This Prospectus is prepared for the purpose of the admission of Notes to trading on the regulated bond market of the Ljubljana Stock Exchange.

### 6.2. Regulated Markets

Except for the regulated securities market operated by the Ljubljana Stock Exchange there is no other regulated securities market in Slovenia on which securities or notes are traded.

### 6.3. Market Makers Ensuring the Note Liquidity

ALTA Invest, d. d., ALTA Skupina, d. d., and NLB, d. d. have been involved in providing activities related to the admission of the Notes to trading on the regulated market of the Ljubljana Stock Exchange.

The Issuer has not made any agreement with any entity regarding any operations in the secondary market (or aftermarket) or regarding the provision of liquidity of the Notes.



## 7. STATUTORY AUDITOR

The financial statements of the Telekom Slovenije Group and the company Telekom Slovenije, d. d., for the business years 2014 and 2015 were audited by KPMG SLOVENIJA, d. o. o., Železna cesta 8 A, 1000 Ljubljana. The financial statements of material subsidiaries were audited by the same auditors or locally presented KPMG firms.

## 8. SELECTED FINANCIAL INFORMATION

### 8.1. Business results of the Telekom Slovenije Group 2014–15

#### 8.1.1. Financial results of the Telekom Slovenije Group

##### Operating highlights 2015

- Net profit reached EUR 68.1 million.
- EBITDA amounted to EUR 200.8 million.
- Operating revenues amounted to EUR 747.2 million, a decrease of 2% compared to 2014.
- OPEX was 8% lower compared to 2014 and amounted to EUR 697.9 million.

##### Key financial performance indicators of the Telekom Slovenije Group

in EUR thousand and %	2015	2014	Index 15/14
Net sales revenue	729,543	756,454	96
Other operating revenues	17,663	8,442	209
Total operating revenues	747,206	764,896	98
EBITDA	200,759	170,051	118
EBITDA margin (EBITDA/net sales revenue)	27.5%	22.5%	122
EBIT	49,265	11,418	431
Return on sales: ROS (EBIT/net sales revenue)	6.8%	1.5%	447
Net profit	68,095	1,506	-
Assets	1,315,988	1,342,989	98
Capital	698,692	694,956	101
Return on assets (ROA)	5.1%	0.1%	-
Return on equity (ROE)	10.3%	0.2%	-
Equity ratio	53.1%	51.7%	103
Net financial debt	376,257	344,057	109
NFD/EBITDA	1.9	2.0	93
Investment in property, plant and equipment (CAPEX)	112,962	176,481	64
EBITDA – CAPEX	87,797	-6,430	-
Ratio of (EBITDA – CAPEX) to EBITDA (cash margin)	43.7%	-3.8%	-
Number of employees as at	3,803	4,431	86
Investments as a proportion of operating revenues	15.1%	23.1%	66

Notes: Pursuant to the requirements of IAS 1 and IAS 8, the financial statements for the comparative period have been adjusted for a change to an accounting policy.

##### Income statement analysis

The Telekom Slovenije Group's **operating revenues** totalled EUR 747.2 million, a decrease of 2% relative to 2014.

Net sales revenue was down 4% in 2015 relative to the previous year to stand at EUR 729.5 million, but is not comparable with the revenue generated in 2014, as ONE was only included in the Group's fully consolidated results until 31 July 2015, which affected all revenue categories.

Revenues in the mobile segment were lower on account of the migration to new, more affordable packages for subscribers and the resulting drop in services outside mobile subscriber packages. The

drop in revenues from traditional voice telephony in the fixed segment (as the result of a decreasing number of traditional voice telephony connections, driven by the optimisation of costs through the migration to mobile and IP telephony) was offset by higher revenues from IT and ICT services in Slovenia. Revenues on the wholesale market were lower, despite growth in revenues on the international wholesale market, due to regulation of the call termination market in the mobile network and the call termination market in the fixed network. Revenues from international transit traffic are recording growth primarily on the international wholesale market. Lower revenues outside of Slovenia were in part the result of lower revenues from incoming calls in Kosovo due the increasing use of free internet voice applications.

The Group's **operating expenses** were down 8% relative to 2014 to stand at EUR 697.9 million. Through the consolidation of operations and the optimisation of processes within the Telekom Slovenije Group, we achieved a reduction in all costs relative to 2014, except the costs of materials, which were up 10% due to the scope of operations. The largest decline was recorded in other operating expenses, which were down EUR 33.9 million or 72% in 2015 due to the creation of provisions in 2014. Labour costs were also down 6% due to the exclusion of ONE and because of the reduction in the number of employees at Telekom Slovenije.

**Earnings before interest, taxes, depreciation and amortisation (EBITDA)** reached EUR 200.8 million or 27.5% of net sales revenue.

**Return on sales** amounted to 6.8%.

**Earnings before interest and taxes (EBIT)** was EUR 49.3 million.

**Finance income** amounted to EUR 39.2 million, which is EUR 22.1 million or 1.3 times higher than the finance income recorded the previous year. Finance costs in the amount of EUR 18.8 million were down by 8% or EUR 1.7 million.

Following the calculation of income tax in the amount of EUR 4.1 million, the Telekom Slovenije Group generated a **net profit** of EUR 68.1 million in 2015.

### **Balance sheet analysis**

**Total assets** stood at EUR 1,316.0 million as at 31 December 2015, down 2% or EUR 27.0 million on the previous year.

**Non-current assets** totalled EUR 1,086.8 million, an increase of 8% or EUR 77.2 million. The proportion of the Group's total assets accounted for by non-current assets stand at 82.6%.

The increase in other financial assets in the amount of EUR 75.4 million was the result of the acquisition of a participating interest in ONE.VIP in the context of the simultaneous disposal of non-current assets relating to ONE when the latter was merged with VIP. Non-current assets include derivatives linked to the put option (forward contract) relating to the sale of the participating interest in ONE.VIP that was concluded with the Telekom Austria Group. Assets linked to the purchase of Debitel, including goodwill, were also recognised in the final quarter.

**Current assets** totalled EUR 229.4 million, and were down by EUR 94.4 million on the end of 2014 due to the disposal of assets of the subsidiaries ONE and Digi Plus.

**Equity and reserves** totalled EUR 698.7 million, representing 53.1% of total assets.

**Non-current liabilities** in the amount of EUR 66.9 million represented 5.1% of total assets, primarily on account of the reclassification of financial liabilities from issued bonds that mature at the end of 2016 to current liabilities.

For the same reason, **current liabilities** were up EUR 345.5 million to stand at EUR 550.4 million, representing 41.8% of total assets. The majority of the Group's financial liabilities relate to a bond issue in the amount of EUR 300 thousand, which falls due for payment in December 2016.

## Business Operations by segment

Segment reporting disclosures comply with requirements of the management relating to reporting for internal users. The criterion for segment reporting is the registered office where an activity is performed, hence the Group records two segments, namely Slovenia and other countries:

**Slovenia** – this segment encompasses companies with a registered office in Slovenia and activities in the areas of fixed and mobile telephony telecommunication services, the installation and maintenance of telecommunications networks, the provision of multimedia and internet services, and digital content and television. This segment includes Telekom Slovenije, Debitel, GVO, Avtenta, TSmedia, Soline, M-Pay as a joint venture and Antenna TV SL as an associate company.

**Other countries** – includes all other countries, namely Ipko, Blicnet, Siol Zagreb, Siol Sarajevo, SIOL Podgorica, Siol Skopje, Siol Beograd and the Germany-based GVO Telekommunikation GmbH. The core activity of this segment is the provision of telecommunication services.

Sale transactions between individual segments are effected at market values. Intragroup transactions are eliminated in the consolidation procedure and included among the eliminations and adjustments.

The Group does not disclose its finance income and expenses per segment as the Group's financing is centralised and conducted on the level of the parent company.

## Operating segments 2015

EUR thousand	Slovenia	Other countries	Elimination and adjustment	Consolidated
External sales	629,067	100,476	0	729,543
Intersegment sales	51,526	33,795	-85,321	0
<b>Total segment revenue</b>	<b>680,593</b>	<b>134,271</b>	<b>-85,321</b>	<b>729,543</b>
<b>Other revenue</b>	<b>17,315</b>	<b>1,930</b>	<b>-1,582</b>	<b>17,663</b>
Cost of goods and material sold	-69,626	-2,414	6,554	-65,486
Cost of material	-16,465	-3,173	3,326	-16,312
Cost of services	-308,417	-83,198	70,369	-321,246
Employee benefits expense	-124,051	-10,390	4,226	-130,215
Amortisation and depreciation expense	-123,161	-30,494	2,161	-151,494
Other operating expenses	-10,983	-2,821	616	-13,188
<b>Total operating expenses</b>	<b>-652,703</b>	<b>-132,490</b>	<b>87,252</b>	<b>-697,941</b>
<b>Operating profit per segment</b>	<b>45,205</b>	<b>3,711</b>	<b>349</b>	<b>49,265</b>
Finance income	-5,684			-5,684
Finance costs				39,224
Share of profit or loss in associates and jointly controlled entities				-18,805
<b>Profit before tax</b>				<b>64,000</b>
Income tax expense				-243
Deferred tax				4,338
<b>Profit for the period</b>				<b>68,095</b>

## Other segment information at 31 December 2015

EUR thousand	Slovenia	Other countries	Elimination and adjustment	Consolidated
Segment assets	1,379,958	263,966	-327,936	1,315,988
Impairment of segment assets	3,878	275	0	4,153
Carrying amount of goodwill	3,603	580	0	4,183
Investments in associates and joint ventures by applying equity method	14	0	0	14
Investments in intangible assets	37,807	7,762	0	45,569
Investments in property, plant and equipment	67,923	17,126	0	85,049
Segment liabilities	641,041	219,253	-242,998	617,296

### Net sales revenue by segment 2015

EUR thousand	Slovenia	Other countries	Elimination and adjustment	Consolidated
Mobile services on end-customer market	245,987	53,617	-2,789	<b>296,815</b>
Fixed-line telephone services on end-customer market	200,890	39,806	-2,871	<b>237,825</b>
Wholesale market	177,414	39,895	-42,982	<b>174,327</b>
Other revenue and merchandise	56,302	953	-36,679	<b>20,576</b>
<b>Total net sales revenue</b>	<b>680,593</b>	<b>134,271</b>	<b>-85,321</b>	<b>729,543</b>

### Operating segments 2014 – adjusted\*

EUR thousand	Slovenia	Other countries	Elimination and adjustment	Consolidated
External sales	631,695	124,759	0	756,454
Intersegment sales	65,719	41,595	-107,314	107,314
<b>Total segment revenue</b>	<b>697,414</b>	<b>166,354</b>	<b>-107,314</b>	<b>756,454</b>
<b>Other revenue</b>	<b>8,145</b>	<b>2,255</b>	<b>-1,958</b>	<b>8,442</b>
<b>Share in profit or loss of joint ventures</b>	<b>0</b>	<b>4,058</b>	<b>0</b>	<b>4,058</b>
Cost of goods and material sold	-74,175	-3,969	5,024	<b>-73,120</b>
Cost of material	-19,034	-4,624	8,781	<b>-14,877</b>
Cost of services	-308,581	-103,492	87,102	<b>-324,971</b>
Employee benefits expense	-130,416	-12,281	3,810	<b>-138,887</b>
Amortisation and depreciation expense	-127,190	-34,365	2,922	<b>-158,633</b>
Other operating expenses	-45,793	-2,823	1,568	<b>-47,048</b>
<b>Total operating expenses</b>	<b>-705,189</b>	<b>-161,554</b>	<b>109,207</b>	<b>-757,536</b>
<b>Operating profit per segment</b>	<b>370</b>	<b>11,113</b>	<b>-65</b>	<b>11,418</b>
Finance income	-5,395			-5,395
Finance costs				17,104
Share of profit or loss in associates and jointly controlled entities				-20,495
<b>Profit before tax</b>				<b>2,632</b>
Income tax expense				-286
Deferred tax				-840
<b>Profit for the period</b>				<b>1,506</b>

\* Changes in accounting policies are disclosed in the Annual Report of Telekom Slovenije Group and Telekom Slovenije, d. d. 2015, namely in point 3.2.2. Notes to the Consolidated Financial Statements / 2. Basis of preparation / e. Changes in accounting policies and retrospective restatement.

#### Other segment information at 31 December 2014 – adjusted\*

EUR thousand	Slovenia	Other countries	Elimination and adjustment	Consolidated
Segment assets	1,398,289	267,177	-322,477	<b>1,342,989</b>
Impairment of segment assets	3,019	198	0	<b>3,217</b>
Carrying amount of goodwill	0	580	0	<b>580</b>
Investments in associates and joint ventures by applying equity method	19	410	0	<b>429</b>
Investments in intangible assets	93,175	3,219	0	<b>96,394</b>
Investments in property, plant and equipment	57,395	22,783	0	<b>80,178</b>
Segment liabilities	641,209	218,610	-211,786	<b>648,033</b>

\* Changes in accounting policies are disclosed in the Annual Report of Telekom Slovenije Group and Telekom Slovenije, d. d. 2015, namely in point 3.2.2. Notes to the Consolidated Financial Statements / 2. Basis of preparation / e. Changes in accounting policies and retrospective restatement.

#### Net sales revenue by segment in 2014

EUR thousand	Slovenia	Other countries	Elimination and adjustment	Consolidated
Mobile services on end-customer market	252,939	65,392	-1,895	<b>316,436</b>
Fixed-line telephone services on end-customer market	197,267	44,808	-4,128	<b>237,947</b>
Wholesale market	179,240	51,873	-50,175	<b>180,938</b>
Other revenue and merchandise	67,968	4,282	-51,116	<b>21,134</b>
<b>Total net sales revenue</b>	<b>697,414</b>	<b>166,354</b>	<b>-107,314</b>	<b>756,454</b>

In 2015 revenues of EUR 729,543 thousand were recorded and cannot entirely be compared to the 2014 balance, as the company One constituted the Group only by 31 July 2015, which had an impact on all segment revenue.

As for the **mobile services on end-customer market**, beside the impact of elimination of company One, the main reasons for decreased revenue compared to year 2014 in Slovenia are less revenue generated on mobile subscribers (lower revenue generated on services outside packages with included quantities) and pre-subscribers.

Revenue recorded on the **fixed-line phone services on end-customer market** remained on the same level as the elimination of the company One from the Group is substituted by higher revenue generated in Slovenia in connection with higher revenue from IT services, which compensated for the decline in revenue from the classic phone services (the result of the decline in classic connections, replacing and optimising costs by means of low-cost IP telephony), business telephony, data-related services, IT goods and fixed merchandise.

Revenue from the **wholesale market** decreased over 2014 balance regardless of revenue growth on the international wholesale market. The relevant decrease in view of 2014 is attributable to the adopted market regulation on closing phone calls into the mobile network in the Republic of Slovenia as of 1 September 2014 and the market regulation on closing phone calls into the fixed-line network in the Republic of Slovenia as of 1 November 2014. As for the international wholesale market, revenue is primarily growing in connection with the transit.

As for other countries abroad, the decline in revenue is the result of lower revenue from incoming calls in Kosovo due to the ever growing use of free web call applications.

**Other revenue** and other merchandise decreased mostly as a result of less revenue generated by Slovenian subsidiaries, with the exception of Soline that increased its level of revenue from sale of salt and related products by means of expanding its sales network.

### 8.1.2. Financial management and performance in 2015

The core objective of financial policy is to ensure solvency and a sustainable structure of capital over the long term. Implementation of that policy and the determination of the key guidelines in the area of financial management for Group companies are the responsibility of the parent company.

Capital adequacy and solvency at the Group level were ensured through the effective planning and balancing of cash flows of individual companies, the management of financial debt, short-term and long-term financing within the Group, the optimisation of working capital and cash on the accounts of individual companies and the management of key financial risks.

As liquidity reserves, the Group had at its disposal short-term revolving credit lines at Slovenian banks that are regularly rolled over. Taking into account unused revolving credit lines, and cash and overdraft limits on transaction accounts, the Group's total liquidity reserves amounted to EUR 74.2 million at the end of 2015.

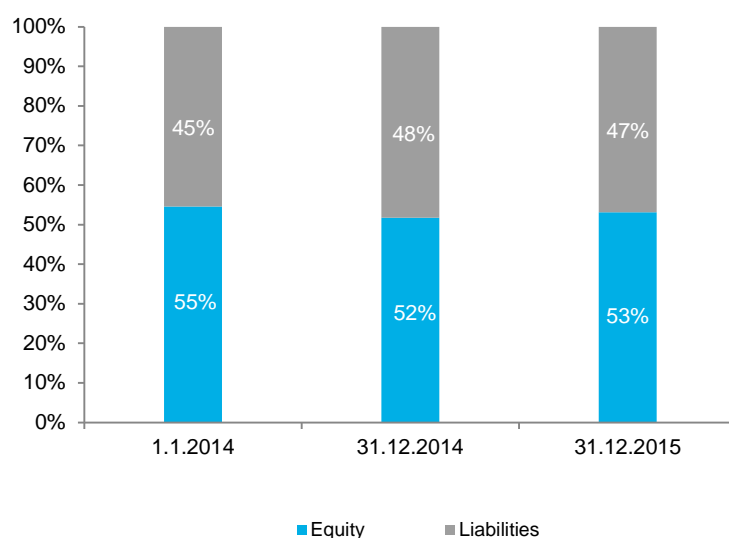
The Group's total financial liabilities stood at EUR 390.2 million at the end of 2015, an increase of 5.7% on 2014, primarily as the result of an increase in short-term loans raised for the purpose of balancing liquidity. The Group regularly repays long-term loans in accordance with the relevant loan agreements.

The parent company is responsible for the financing of the Group. Subsidiaries thus secure short-term and long-term borrowing as a rule from the former. Internal financing within the Group and the reallocation of cash between individual companies facilitate the exploitation of synergies that derive from the more favourable financing terms that apply to the parent company and from more efficient cash management, which together ensure the optimisation of net financial flows. At the same time, such financing reduces the Group's exposure to external borrowing and ensures greater flexibility in managing the liquidity of all Group companies.

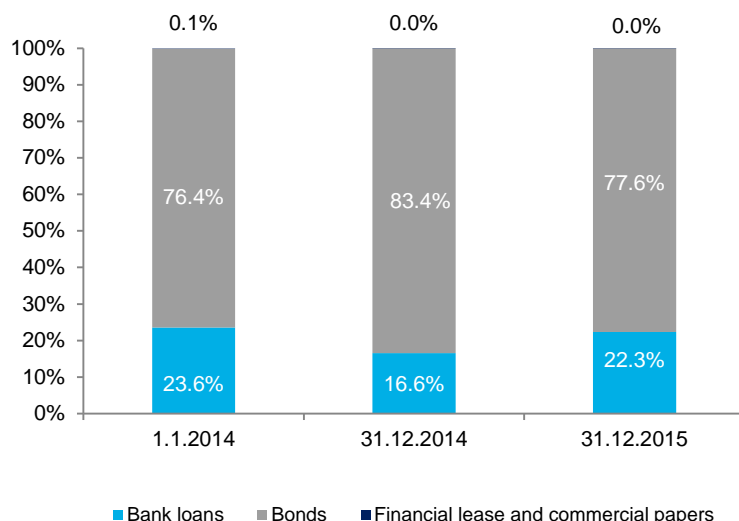
#### Financing structure

The ratio of equity to total liabilities of the Telekom Slovenije Group stood at 1.13 to 1 at the end of 2015. The Group recorded an increase in total equity, but by less than the net profit it generated in 2015, primarily due to the payment of dividends by the parent company in the amount of EUR 65.1 million.

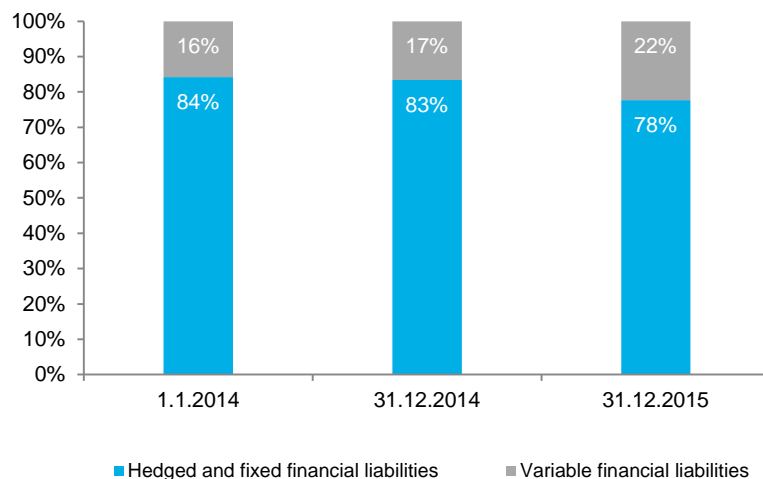
#### Structure of financing within the Group:



#### Structure of market sources of financing:



#### Ratio of variable to fixed (and hedged) financial liabilities:



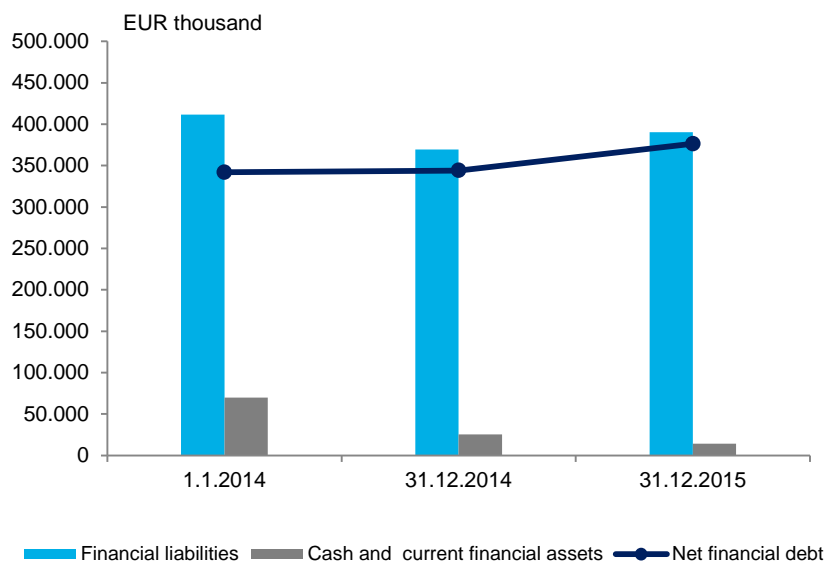
All loans raised bear variable interest rates linked to the 1-, 3-and 6-month EURIBOR, while the coupon rate on issued bonds is fixed at 4.875%. The weighted mark-up on the variable portion of the interest rate on all loans within the Group stood at 84 basis points at the end of the year.

#### Composition and changes in net financial debt

The Group's net financial debt amounted to EUR 376.3 million at the end of 2015, an increase of 9.4% relative to 2014. The increase is the result of the higher balance of financial liabilities and the lower balance of cash and cash equivalents, the latter being the result of the payment of dividends, the purchase of Debitel and the conclusion of an agreement on mutual relations with Si.mobil.



#### Net financial debt:



Debt is relatively low at the Group level, which represents a sound basis for achieving an appropriate credit rating and thus lower borrowing costs.

The majority of the Group's financial liabilities at the end of 2015 relate to a bond issue in the amount of EUR 300 thousand, which falls due for payment in December 2016. The financial resources for refinancing the aforementioned issue were provided through the raising of a long term syndicated loan in the amount of EUR 300 thousand. The loan is broken down into three tranches with different repayment schedules, which will ease the burden on cash flows which would have been caused by a large one-time repayments of the debt. A loan contract was signed on March 31, 2016. The loan is specific-purpose, and will be drawn down in December 2016 when the above-mentioned bonds mature. The syndicate is comprised of seven banks, including domestic banks, a foreign bank and three banks from major international banking groups.

#### Fulfilment of financial covenants

Banks as lenders require that the Group maintain the predefined contractual values of certain financial items and indicators. Failure to meet those values could result in demands for early repayment of loans. All contractual provisions at the Group level were met as at 31 December 2015.

## 8.2. Business results of the Telekom Slovenije Group for the period January to March 2016

#### The Telekom Slovenije Group achieved the following results in the first quarter of 2016:

- EUR 51.9 million EBITDA reached. Taking into account one-off effects (the exclusion of One and the creation of impairment of receivables for T-2 in bankruptcy), the adjusted EBITDA came in at EUR 54.4 million, which is 6% more than the adjusted EBITDA in Q1 of 2015.
- Net sales revenues were down 3% or EUR 5.8 million on the same period in 2015, to stand at EUR 176.0 million. Taking into account one-off effects (One was included in the complete consolidation of the Telekom Slovenije Group for 2015 on 31 July 2015), net revenues were up by 5% or EUR 7.7 million. Telekom Slovenije's net revenue is also up by 2% or EUR 3.2 million, which is mainly attributable to the higher revenues from broadband services, IT services, mobile and fixed merchandise as well as revenues on the wholesale market. Despite the lower revenues from mobile subscribers and pre-paid users (the aggressive offers of our competitors, transition to

new packages that are more favourable for users, expected drop in revenues from traditional voice telephone services, which are being replaced by mobile and IP telephony).

- The Telekom Slovenije Group's net profit amounted to EUR 9.8 million, an increase of 16% or EUR 1.3 million compared to the net profit achieved in Q1 of 2015.

#### Key financial indicators for the Telekom Slovenije Group

EUR thousand	I - III 2016	I - III 2015 / 31.12.2015*	Index 16/15
Revenue	175,991	181,821	97
Other operating income	2,029	1,326	153
Operating revenues	178,020	183,147	97
EBITDA	51,855	53,461	97
EBITDA margin	29.5%	29.4%	100
EBIT	12,930	13,462	96
Return on sales: ROS (EBIT/net sales revenue)	7.3%	7.4%	99
Net profit	9,794	8,468	116
Assets	1,300,313	1,322,797	98
Equity	715,478	705,501	101
Equity ratio	55.0%	53.3%	103
Net financial debt	377,530	376,257	100

\*Data for the comparative period are adjusted to reflect a change in accounting policy.

## 9. INFORMATION ABOUT THE ISSUER

### 9.1. History and Development of the Issuer

#### 9.1.1. Company Name

Company: Telekom Slovenije, d. d.  
Short company name: no name

#### 9.1.2. Address and Registration

Registered office: Ljubljana  
Registration number: 5014018000  
VAT ID number: SI98511734  
Basic activities:

- 61.100 Wired telecommunications activities;
- 61.200 Wireless telecommunications activities;
- 61.900 Other telecommunication activities;
- 60.200 Television broadcasting services.

#### 9.1.3. Entry date in the companies register

Entry date: 1 October 1993

#### 9.1.4. Business address and legal form

Business address: Ljubljana  
Legal organisational form of the issuer: Joint Stock Company  
The Issuer operates in accordance with the Slovenian legislation.

Country entry in the register: Republic of Slovenia  
Address: Cigaletova ulica 15, 1000 Ljubljana, Slovenia  
Phone number: +386 1 234 10 00

#### 9.1.5. Latest events of the Issuer

Significant events of the Issuer in 2016:

##### First quarter 2016

##### January

- The Supervisory Board of Telekom Slovenije discusses and approves the Strategic Business Plan of the Telekom Slovenije Group for the period 2016 to 2020, and the Annual Business Plan of the Telekom Slovenije Group for 2016. In doing so, the Supervisory Board reshapes the Management Board of Telekom Slovenije with the aim of realising the adopted strategy.
- In January, Telekom Slovenije records 250,000 members of the Loyalty Programme. As part of the Loyalty Programme, Telekom Slovenije enables its subscribers to collect benefit points that they can use to purchase the Company's various products and services at favourable prices.
- GVO begins marketing broadband network services in the Ormož Municipality, phase III. The network was built within the scope of a public-private partnership in 2015 and covers the entire urban settlement of Pavlovci, while GVO will manage and maintain the network over a period of 20 years.

## February

- Telekom Slovenije, as target company, receives a decision from the Securities Market Agency lifting the suspension of voting rights attached to TLSG shares issued by Telekom Slovenije, d. d., Ljubljana, together with the prohibition on the exercising of voting rights by the following parties: Slovenski državni holding, d. d., the Republic of Slovenia, Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., Nova Kreditna banka Maribor, d. d., Zavarovalnica Triglav, d. d. and the Fund for the Financing of the Decommissioning of Nuclear Power Plant (NEK). The prohibition on the exercising of voting rights that was imposed on Telekom Slovenije, d. d. as the target company is lifted with the lifting of the aforementioned suspension of voting rights.
- Telekom Slovenije opens the renovated Kromberk Telekom Centre in Nova Gorica, where it presents the latest in its range of fixed and mobile services as well as state-of-the-art devices for personal and business use.

## March

- TSmedia overhauls the Siol.net digital medium. The new appearance as well as the new name Siol.net and logo mainly feature a simple and transparent website architecture as well as modern design. The new Siol.net offers readers an advanced and uniform user experience on all screens, including mobile devices that are becoming the primary medium used by readers to follow latest news.
- Telekom Slovenije offers its users the Modri Plus package that provides unlimited conversations, messages and 10 GB of data in the mobile network, option of including up to three additional mobile numbers, fixed broadband access with speeds of up to 100/20 Mbit/s, option of free of charge selection of a software option and 1000 minutes of fixed calls to all Slovenian networks.
- The Supervisory Board of Telekom Slovenije verifies and approves the annual report of the Telekom Slovenije Group and Telekom Slovenije for 2015. The Supervisory Board in conjunction with the Company's Management Board drafts a proposal for the General Meeting on the use of distributable profit for 2015 that envisages a dividend of EUR 5.00 gross per share for 2015. At the session, Matej Golob Matzele tenders his resignation from his function of Supervisory Board member that he will continue to discharge until the appointment of a substitute Supervisory Board member.
- Telekom Slovenije signs an agreement with the syndicate of banks organised by NLB, SKB and Société Générale for a long-term syndicated loan of EUR 300 million. In addition to the organisers, the syndicate comprises Abanka, Banka Koper, SID and UniCredit Banka Slovenija. The syndicated loan is divided into three equal tranches of EUR 100 million, i.e. tranche A with maturity of 7 years and principal repayment in 13 equal semi-annual instalments, tranche B with maturity of 5 years and a one-off principal repayment, and tranche C with maturity of 2 years and a one-off principal repayment.
- The Slovenian Advertising Chamber confers the 2015 Advertiser of the Year award on Telekom Slovenije. Telekom Slovenije receives the award for its professional, innovative and original work in the area of market communications.

## Second quarter 2016

### April

- Urbana single city cardholders can now use the Urbana mobile app to pay for bus rides, parking services, rides on the funicular railway to the Ljubljana Castle, BicikeLJ services and the use of the SMS parking service. The Urbana mobile app is available for smart phones with the Android 4.4 operating system or higher and phones featuring NFC connectivity. The Urbana app was developed by Telekom Slovenije, City of Ljubljana and the Ljubljana public transport company (LPP).
- Telekom Slovenije has simplified its range of mobile subscription plans, and from now on will mostly be offering users plans in the Brezskrbni (Carefree) and Enostavni (Simple) segments. The Brezskrbni plans are aimed at users who want carefree communication, while the Enostavni plans are for those who want to purchase usage units in advance and use them as they see fit.

- Telekom Slovenije opens the renovated Telekom Centre in Lucija.

#### May

- The Telekom Slovenije Supervisory Board discussed the information on the performance of the Telekom Slovenije Group and Telekom Slovenije, d. d., for the period January to March 2016. In the first quarter Telekom Slovenije generated a total net sales revenue of EUR 159.1 million, which is 2% up on the same period last year. Compared to last year Telekom Slovenije's net profit is up 8% to stand at EUR 13.5 million, and the EBITDA is up 1% amounting to EUR 44.8 million. The Supervisory Board of Telekom Slovenije gave its consent to the appointment of Klavdij Godnič as the CEO of Soline Pridelava soli, d. o. o. for a new four-year term of office, effective from 1 July 2016. Klavdij Godnič has been the CEO of Soline Pridelava soli, d. o. o. since 1 July 2012.
- At the 27th General Meeting of Telekom Slovenije the shareholders endorsed the proposal by the company management and supervisory boards on the use of the distributable profit for 2015. The shareholders adopted the resolution that the total distributable profit for 2015 in the amount of EUR 42,253.947.72 shall be used for the payment of dividends in the amount of EUR 32,527,390.00 or EUR 5.00 gross per share. The remainder in the amount of EUR 9,726,557.72 shall be brought forward to the following year. Following the proposal by the company management and supervisory boards the General Meeting Adopted the amendments to the Articles of Association of Telekom Slovenije, d. d. The General Meeting appointed the auditing company KPMG Slovenija, d. o. o. to audit the Telekom Slovenije, d. d. financial statement of the 2016 financial year. The General Meeting was informed on the resignation of Matej Golob Matzele from the position of a member of the Supervisory Board of Telekom Slovenije, representative of the capital, effective from the day a new Supervisory Board member is appointed at the General Meeting of Telekom Slovenije, d. d. Following the counter proposal submitted by SDH (Slovenian Sovereign Holding), the General Meeting appointed Dimitrij Marjanović as the new Supervisory Board member to represent capital for a four-year term of office, effective from 13 May 2016.

#### June

- On 1 June 2016, the merger by acquisition of Debitel telekomunikacije, d. d., and Telekom Slovenije, d. d., was entered into the court register of companies. Based on the Contract on Merger by Acquisition, all the assets and liabilities of Debitel telekomunikacije, d. d., were transferred to Telekom Slovenije, d. d., which, as the sole legal successor, entered all legal relationships in which Debitel telekomunikacije, d. d., was a party.
- Telekom Slovenije has as the first company in Slovenia obtained international certificate ISO 22301:2012. Certificate ISO 22301:2012 represents international standard, allowing the company to certify the reliable working of services and processes, fast and efficient response in case of extraordinary event, which also means lower risk for longer failure of the services and processes.
- On 20th June 2016, Moody's international rating agency raised the outlook on the Telekom Slovenije, d. d.'s credit rating from negative to stable. The rating remains at the current "Ba2" level. According to the agency, the positive change in the rating reflects the improved cash flow situation of Telekom Slovenije, d. d. in coherence with the successful refinancing which the company completed by signing the long-term syndicated loan in the amount of EUR 300 million in March 2016, and with the issuing of 5-year bonds in the nominal value of EUR 100 million in June 2016.

## 9.2. Investments

### 9.2.1. Principal investments since the date of the last published financial statements

#### Accelerated construction of the fibre optic access network

Telekom Slovenije will strengthen its market position by expanding the fibre-optic access network, which will provide users high-speed internet access and a superior user experience in terms of broadband content. Significant investments in fibre optic access are thus planned in the coming years. Telekom Slovenije will take into account a selection of households, technologies and the investment needs of a specific environment when formulating its fibre optic investment strategy.

### 9.2.2. Principal future investments

The Telekom Slovenije Group will earmark up to EUR 156 million for investments in 2016, an increase of 38% relative to the previous year. In geographic terms, the majority (or 84%) of investments are planned in Slovenia, while the Group's most significant investments outside of Slovenia will be in Kosovo.

Telekom Slovenije is planning a new investment cycle, in which the majority of funds will be invested in the following three areas:

- the intensive expansion and upgrading of the fibre optic access network;
- the further modernisation of the radio (mobile) network; and
- the simplification of processes with the help of an active IT architecture.

### 9.2.3. Information regarding the anticipated sources of funds needed to fulfil commitments referred to in Item 9.2.2

New investments will be financed through the issue of bonds and via internal sources.

## 10. BUSINESS OVERVIEW

### 10.1. Core business

#### 10.1.1. Main business areas

Telekom Slovenije is the leading Slovenian telecommunications operator. During the 1990s it was the leading provider of fixed telephony services. Today Telekom Slovenije is recognised as the leader in the introduction and connection of the most advanced and comprehensive telecommunications services in the best (fixed and mobile) network in Slovenia. The Telekom Slovenije Group is one of the most comprehensive communication service providers in South-East EUROPE, where it operates through its subsidiaries in Kosovo, Bosnia and Herzegovina, Macedonia, Croatia, Montenegro and Serbia, and even Germany.

It inspires its users with innovative technologies. It opens up new professional and personal avenues for them, and together cultivates an environment for the development of a community of opportunities.

The activities of the Telekom Slovenije Group comprise:

- fixed and mobile communication services,
- digital content and services,
- multimedia services and digital advertising,
- system integration and cloud computing services,
- the development and implementation of solutions for managing business content and relations, and tools for managing and monitoring operations,
- the construction and maintenance of telecommunication networks, and
- the preservation of natural and cultural heritage in the Sečovelje Saltpans Regional Park.

#### 10.1.2. Significant New Products

Telekom Slovenije will offer its users the opportunity to purchase a wide range of services in one place. By increasing revenues from ICT services, it will also expand its operations to new areas such as energy, insurance, smart home services, e-m-health and big data services.

### 10.2. Main Markets

#### Slovenia

The Slovenian telecommunications market is characterised by a highly competitive environment, continuous development and the rapidly changing needs and requirements of users. Contemporary households have shifted to the combined use of fixed and mobile services, to a comprehensive user experience and the use of digital media anywhere, any time.

The Telekom Slovenije Group is the most comprehensive provider of fixed-mobile convergent services on the Slovenian market, and maintains the highest market shares in all segments.

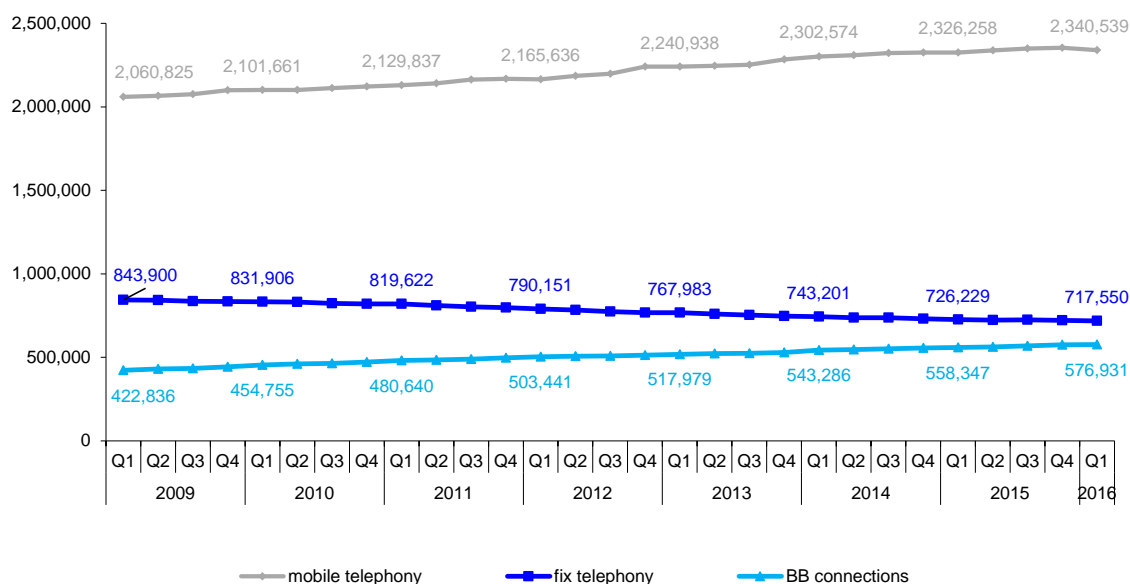
Competitors are gaining market share through an aggressive pricing policy. Users thus identify with them more easily in terms of price than with Telekom Slovenije. The Group cannot follow such policies primarily due to limitations imposed by the regulatory body and the principles of good management. Group's objective is not to be the most affordable operator on the market; Group aim is to provide users superior services and thus strengthen the perception that we are the operator who offers its users "the most for their money".

We are offsetting declining market shares in certain segments via the following:

- the optimisation of the sales network,

- cross-sales of services,
- the development of new services and new subscriber models,
- differentiation and a range of exclusive content,
- improvement of the user experience,
- the provision of standard cloud computing services, and
- the most comprehensive range of ICT services.

#### Number of connections in Slovenia



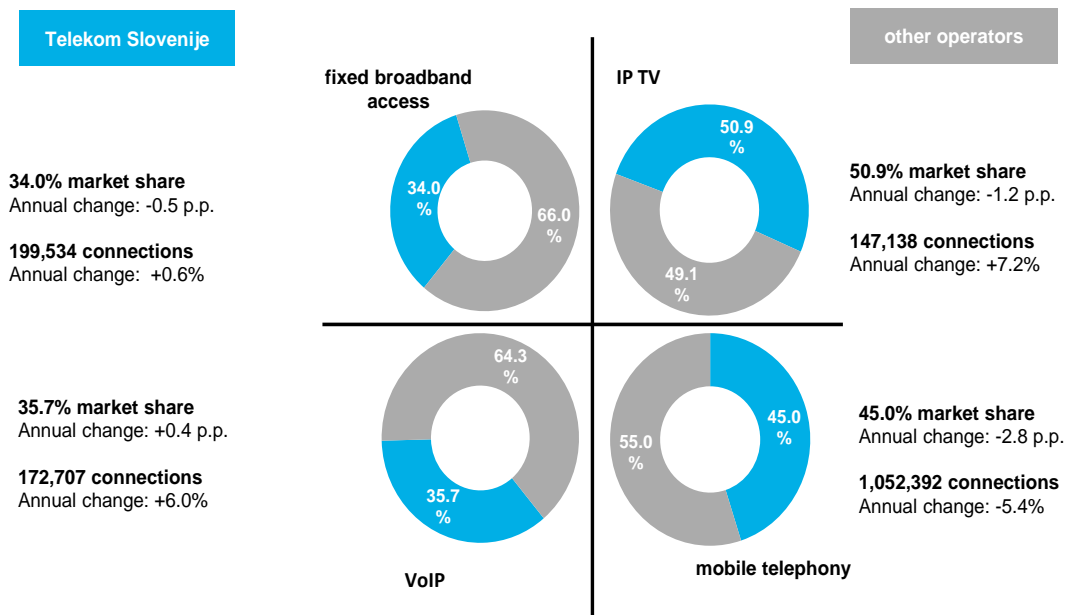
Source: Report on the development of the electronic communications market for the first quarter of 2016, AKOS, June 2016, SURS June 2016, internal Telekom Slovenije figures.



## 10.3. Competition and Market Shares

### Market shares on key markets segments

Overview of market shares in Q4 2015 for key market segments



Source: Report on the development of the electronic communications market for the first quarter of 2016, AKOS June 2016; internal Telekom Slovenije figures.

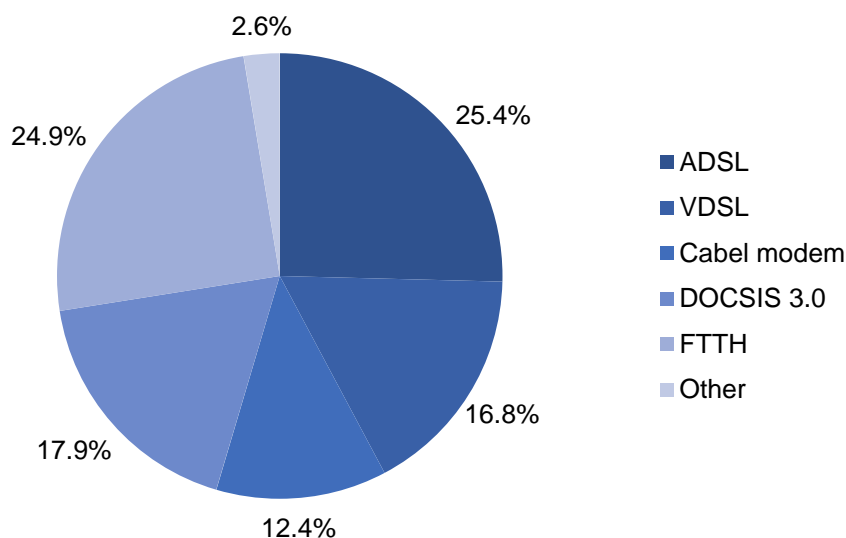
### Fixed broadband access

The household fixed broadband penetration rate stood at 72.1% in Slovenia in the first quarter of 2016.<sup>3</sup> There were a total of 576,931 broadband connections in Slovenia (compared with 558,347 in the same period last year). Telekom Slovenije maintains the highest market share in all segments, followed by Telemach and T-2.

The increasing proportion of FTTH technology (fibre optic networks) and the range of high-speed internet services included in the packages of service providers are contributing to the trend of increasing speeds. At the end of the first quarter of 2016, the number of active fibre optic connections in Slovenia exceeded 143,563, accounting for 24.9% of all connections.

<sup>3</sup> Source: AKOS – new methodology for counting households (EU-SILC), calculated as the ratio of the number of residential and business user connections to the number of households in the Republic of Slovenia.

## Market shares of fixed broadband technologies in terms of the number of broadband internet connections



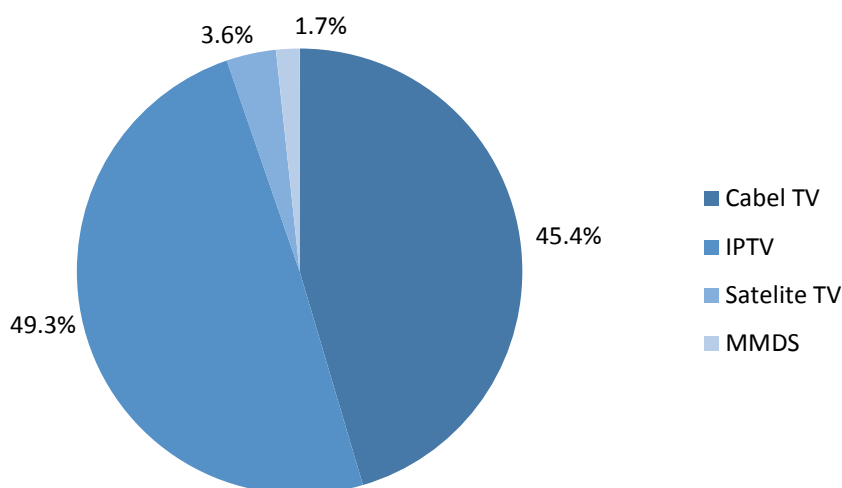
Source: Report on the development of the electronic communications market for the first quarter of 2016, AKOS, June 2016.

## Television market

The household penetration rate of fixed-line TV connections stood at 71.5% at the end of the first quarter of 2016. At 49.3%, IPTV TV accounts for the highest market share, followed by cable TV, primarily on account of digital cable TV.

Telekom Slovenije maintained the highest share of the IPTV market at 50.9%, followed by T-2 and Amis.

## Market shares of TV connections by technology



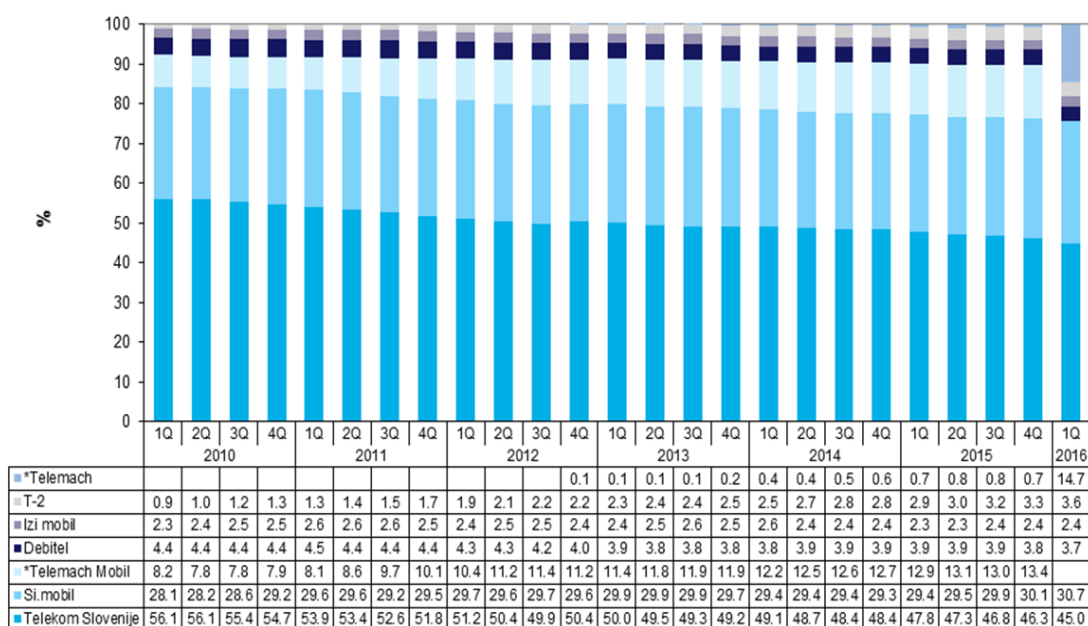
Source: Report on the development of the electronic communications market for the first quarter of 2016, AKOS, June 2016.

## Mobile telephony market

The penetration rate of active mobile telephony users fell to 113.4% at the end of the first quarter of 2016. The reason for the drop in the penetration rate lies in a sharp decline in the number of prepaid users and Telekom Slovenije's business users.

At 45.0% in the first quarter of 2016, Telekom Slovenije held the leading share of the mobile telephony market, followed by Si.mobil, which held a 30.7% market share.

## Telekom Slovenije's share of the mobile telephony market

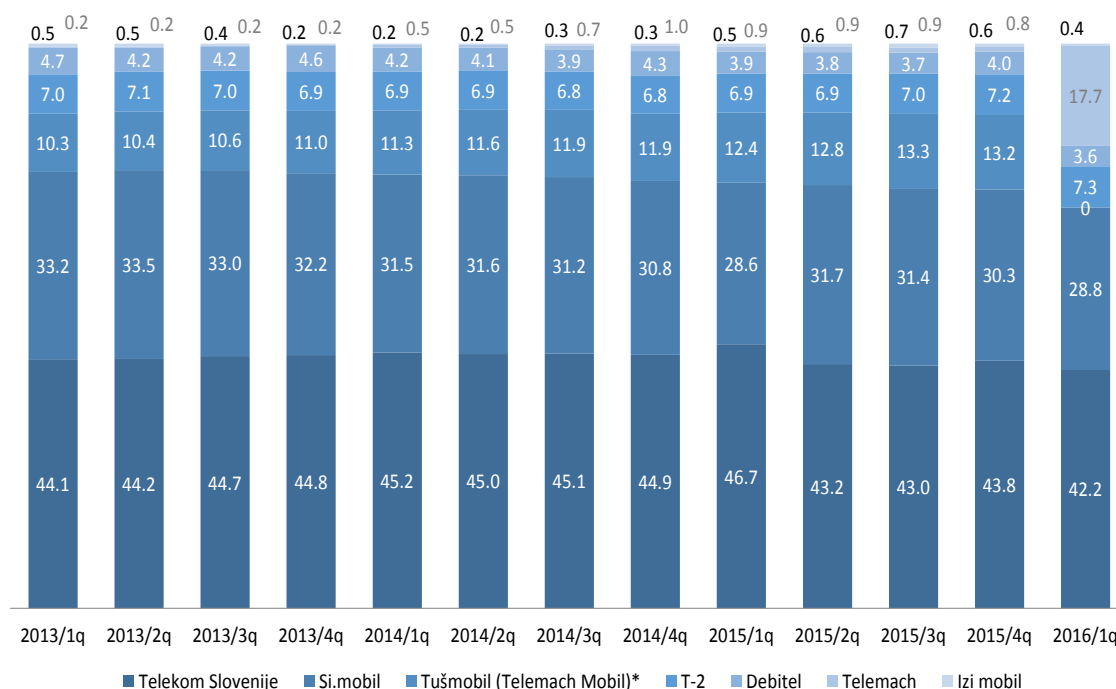


\* The merger of Telemach and Telemach Mobil was completed on 3 February 2016.

Source: Report on the development of the electronic communications market for the first quarter of 2016, AKOS, June 2016.

At 42.2% in the first quarter of 2016, Telekom Slovenije held the highest share of the mobile broadband internet access market. Data traffic is growing in the 3G network and in the most advanced networks (LTE/4G) in the mobile broadband access segment. That traffic was up 32.1% relative to the previous quarter.

## Market shares of mobile broadband internet access operators



\* The merger of Telemach and Telemach Mobil was completed on 3 February 2016.

Source: Report on the development of the electronic communications market for the first quarter of 2016, AKOS, June 2016.

## Inter-operator segment (wholesale)

Telekom Slovenije is continuously strengthening its presence on international wholesale services markets in the region, which is already reflected in significant year-on-year growth in revenues. There is a distinct trend of falling prices in the areas of international voice telephony and roaming in the EU. The key strategic policy for the long-term development of international operations is thus a focus on voice services outside the EU and on data services, where prices and volumes continue to rise.

The regional fibre optic network represents the main potential for growth in the Group's margin on the international wholesale market in the coming years. That network facilitates a wide range of services, including MPLS functionality.

The majority of inter-operator services are regulated on the Slovenian market. Thus the highest proportion of Telekom Slovenije's revenues are from regulated services. We see opportunities for growth primarily in the following areas:

- multimedia services and content,
- the leasing of data connection capacities, and
- the facilitation of access to open broadband networks and mobile virtual network operators (MVNO).

## Markets in South-East Europe

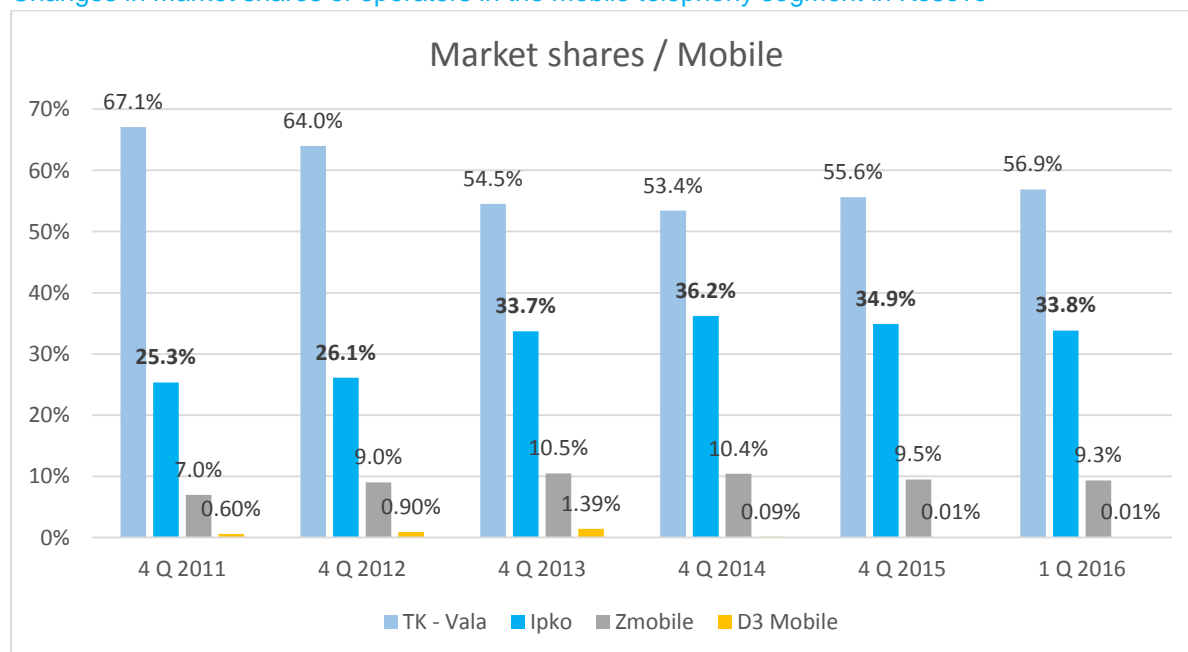
Ipko remains the leading provider of broadband connections in **Kosovo** and the second largest mobile telephony operator. According to the figures of the regulatory authority (ARKEP),<sup>4</sup> there were 217,985 broadband connections in Kosovo at the end of the first quarter of 2016, meaning a

<sup>4</sup> Source: Kosovo ARKEP regulatory authority, Q1 2016 report.

household penetration rate of 73.9% and a population penetration rate of 12.01%. Ipko held a 47.8% market share, an increase relative to the situation at the end of 2015 (2015: 46.7%).

There were nearly 1.8 million mobile telephony users in Kosovo during the same period, translating to a population penetration rate of 96.6%. Ipko's share of the mobile telephony market has averaged 35% for several consecutive years.

#### Changes in market shares of operators in the mobile telephony segment in Kosovo



Source: Kosovo ARKEP regulatory authority, Q1 2015 report

According to the figures of the regulatory authority (RAK), there were 643,199 broadband connections in Bosnia and Herzegovina at the end of the first quarter of 2016, accompanied by a positive growth trend. The mobile telephony market has stabilised, with the number of users standing at 3.3 million at the end of the first quarter of 2016, which translates to a population penetration rate of 85.6%.<sup>5</sup> The decline continues on the fixed telephony market, which at the end of 2015 comprised 785,755 users (incumbent and alternative operators), translating to a population penetration rate of 20.5%.<sup>6</sup>

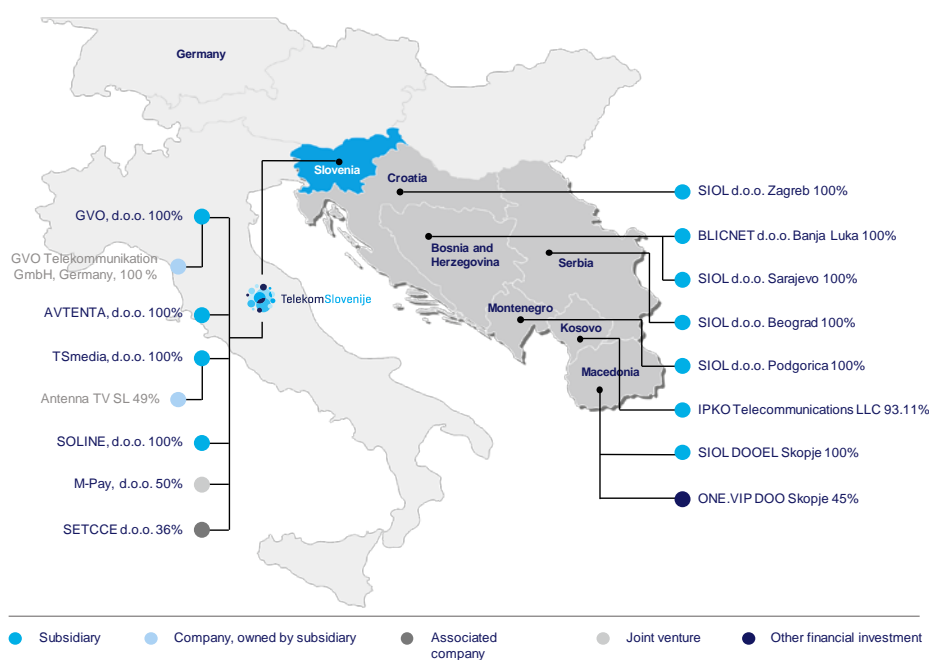
<sup>5</sup> Bosnia and Herzegovina RAK regulatory authority, Q1 2016 report.

<sup>6</sup> Annual report of the Communications Regulatory Authority for 2015.

## 11. ORGANISATIONAL STRUCTURE

### 11.1. The Issuer's Position within the Group

The Telekom Slovenije Group comprises the parent company Telekom Slovenije, d. d. and the subsidiaries, associates and joint ventures shown in the figure below with corresponding participating interests.



The detailed composition of the Telekom Slovenije Group is presented at <http://www.telekom.si/en/company/organisation>.

#### Changes in the composition of the Group in 2015 and 2016:

- In Macedonia, Telekom Slovenije established SIOL DOOEL Skopje in January 2015, and became the latter's 100% owner.
- Telekom Slovenije transferred its 100% participating interest in the subsidiary DIGI PLUS MULTIMEDIA DOOEL Skopje to the subsidiary ONE DOOEL Skopje in January 2015. On 30 July 2015, ONE DOOEL Skopje and VIP OPERATOR DOOEL Skopje signed a merger agreement, based on which the merged company ONE.VIP DOO Skopje was registered in Macedonia on 1 October 2015. Telekom Slovenije holds a 45% participating interest in the newly established merged company, while Mobilkom Mazedonien Beteiligungsverwaltung GmbH, a member of the Telekom Austria Group, holds a 55% stake.
- In Serbia, Telekom Slovenije established SIOL DOO Beograd in February 2015, and became the latter's 100% owner.
- On 27 February 2015, Telekom Slovenije signed a purchase agreement and became 100% owner of Debitel telekomunikacije, d. d., Ljubljana on 14 October 2015. On 22 January 2016 Telekom Slovenije, d. d. and Debitel Telekomunikacije, d. d. signed an agreement on the basis of which Debitel was merged to Telekom Slovenije on 1 June 2016.

## 11.2. The Issuer's Dependence on Other Entities within the Group

The Issuer is not dependent on any entities within the Group.

## 12. TREND INFORMATION

### 12.1. Issuer's Statement regarding Trends

The Issuer believes that there have been no significant unfavourable changes in the expectations regarding the situation in which it performs its main business activity since the last published consolidated financial statements (Unaudited Business Report of the Telekom Slovenije Group and Telekom Slovenije, d. d., for the period January to March 2016) published at SEOnet official website of the Issuer on 5 May 2016.

### 12.2. Trends or events that are reasonably likely to have a material effect on the Issuer's prospects

#### 12.2.1. Impact of macroeconomic environment on operations

Following 3% economic growth in 2014, the recovery in Slovenia continued during the first half of 2015 (2.9%). Slower growth is forecasted also for 2016 (1.7%). Unemployment rate is decreasing, recovery of the labour market is forecasted also for 2016.

GDP in the **countries of South-East Europe** where the Telekom Slovenije Group operates is at the level of emerging countries. The price of telecommunications services in those countries are significantly lower than prices in Slovenia. This is the result of high unemployment and GDP in some countries that is as much as six times lower than Slovenia's GDP.

#### Macroeconomic indicators

	Slovenia	Kosovo	Bosnia and Herzegovina
<b>GDP in EUR million</b>			
2014	18,093	3,023	3,603
2015	16,680	3,116	3,686
Forecast 2016	19,179	3,180	3,813
<b>GDP (real growth in %)</b>			
2014	3.0	1.2	1.1
2015	2.9	3.3	2.8
Forecast 2016	1.7	3.4	3.0
<b>Registered unemployment rate, in %</b>			
2014	13.1	35.3	27.5
2015	12.3	n. p.	27.7
Forecast 2016	11.7	n. p.	26.5

Sources: IMAD, Spring Forecast of Economic Trends, March 2016, SEE IMF Outlook, April 2016, Kosovo IMF country Report No 15/210, Statistical Office of Kosovo.

#### 12.2.2. Trends in the ICT sector and development of ICT markets

##### Technology trends

The simple and diversified use of telecommunications services is no longer enough for users. They want comprehensive solutions that facilitate the advanced use of telecommunication services. Development trends are therefore geared towards the upgrading and/or transformation of standard telecommunications and TV solutions into over-the-top (OTT) and IPTV solutions. These will facilitate



the use of the same services on different platforms and devices, offer additional functions and thus increase usefulness and added value.

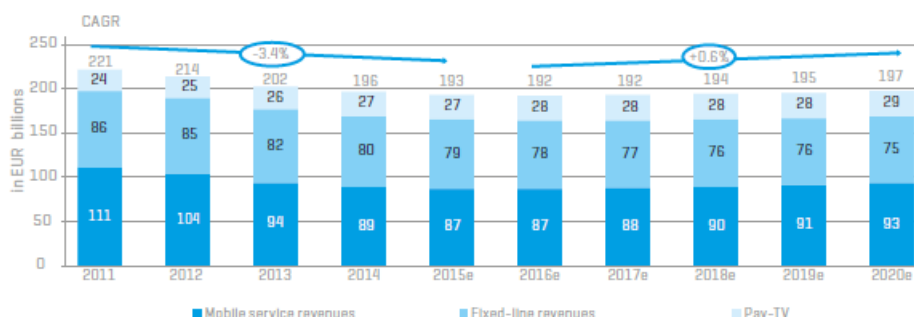
In addition to a simplified pay TV portfolio, new opportunities are opening in this segment: growth in the number of linear and non-linear channels, and increasing demand for access to content, anytime, anywhere. The pay TV sector is trending towards the transformation of TV viewing habits, from group (family) viewing to personal (individual) viewing. This is precisely the reason for the expansion of a range of services that allow the individuals to tailor their TV viewing (recommendation systems, back-viewing, etc.). The Telekom Slovenije Group's is following these trends with solutions such as TViN, seven-day back-viewing, *Daljinec+*, etc.

The increasing desire for comfort and the simplified use of services and applications is driving the need to combine those services and applications in a single environment. Users are thus provided detection and monitoring (connected home) services and the management of individual elements within a home (smart home) as an upgrade to the former: electricity management, the monitoring of various weather parameters, movement surveillance, etc. To that end, Telekom Slovenije is also developing solutions that will allow users to control their environment through the simplified use of all household devices for that purpose.

### State of the European telecommunications sector and trends

According to forecasts by the consultants of Arthur D. Little, revenues from basic telecommunications services will stabilise in 2016 (in Western Europe), while they continued to fall in 2015 (by 1.5% according to estimates). Slight growth in revenues from basic service is expected after 2017, with average annual growth of 0.6% in the period 2016 to 2020.

### Revenues and overall annual growth for basic telecommunications services in the period 2011 to 2020



\* Germany, France, United Kingdom, Italy, Spain, Netherlands, Belgium and Portugal.  
Sources: Arthur D. Little, Exane BNP Paribas estimates

The decline in revenues in the fixed telephony segment will continue (at an annual rate of 8%) due to the migration of subscribers to broadband access and IP telephony, or to unlimited telephony packages. Revenues from fixed broadband internet access will grow at an annual rate of 2%, primarily as the result of 3% annual growth in the number of customers and a stable average revenue per user (ARPU) on account of higher internet speeds. Annual growth in the pay TV segment will be 1%. Revenues from basic services will begin to contract, while revenues from premium content (premium pay TV) will continue to grow. Fixed-line revenue per household will fall gradually over the long term, to stand at around EUR 58 per month in 2020.

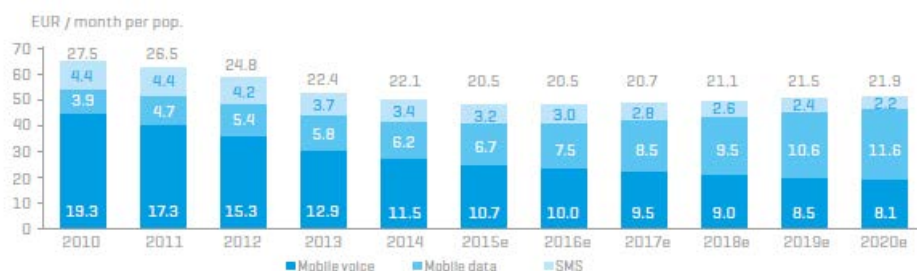
## Fixed-line revenue per household in the EU



Sources: Arthur D. Little, Exane BNP Paribas

Improvement is expected in revenues from mobile services due to the slowing of price erosion and growth in data traffic, although monetisation of data traffic is still unattainable due to competitive pressures. According to forecasts from Arthur D. Little, mobile service revenue per capita will bottom out during 2015 and 2016 at EUR 20 to EUR 21 per month. Revenue will then begin to rise and reach almost EUR 22 per month over the long term. Mobile voice services and SMS account for an increasingly smaller proportion of revenues, while sustained growth in revenues from data transfer services will finally impact growth in revenue from services overall in 2017.

## Mobile service revenue per capita in the EU



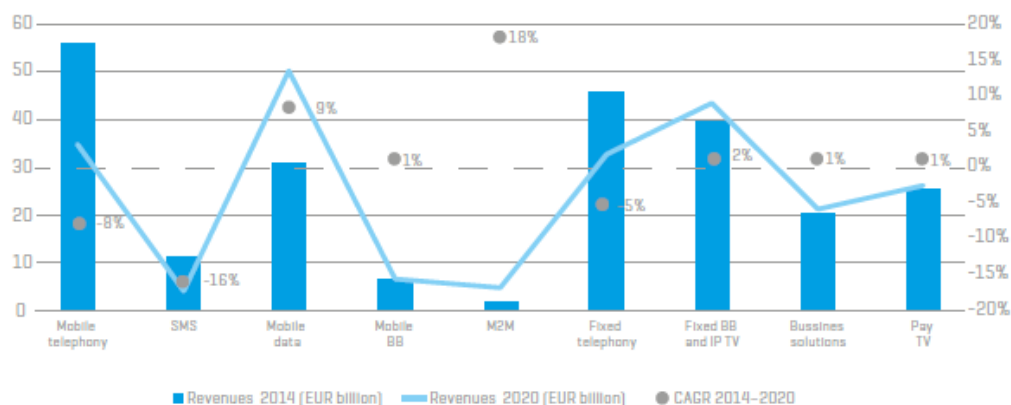
Sources: Arthur D. Little, Exane BNP Paribas

## Lower revenues from services until 2020 according to Analysys Mason forecasts

Contrary to the forecast of Arthur D. Little, the analysts and consultants of Analysys Mason are forecasting a decline in revenues from telecommunications services until 2020 for **Western Europe**; the drop in revenues is expected to be driven by market maturity, falling prices and competition. The aforementioned forecast is based on the expected drop in revenues from fixed and mobile telephony and messaging (SMS and MMS) due to stiff competition on the market. The highest growth will be achieved by M2M (machine-to-machine) devices and data transfer on mobile phones. The lowest growth will be achieved by fixed broadband access, pay TV and revenues from mobile broadband access.

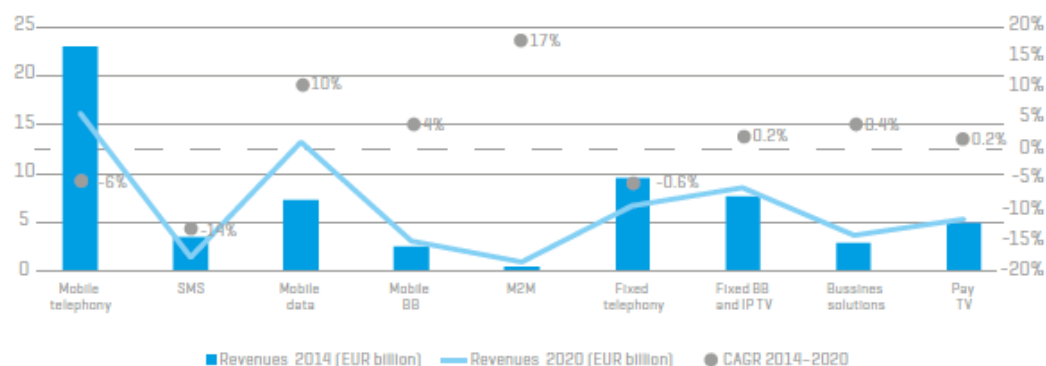
Declining revenues are also forecast for **Central and Eastern Europe** until 2020. The highest growth will be achieved by M2M devices and data transfer on mobile phones, primarily on account of a rising number of smartphone users and the increased use of mobile transfer services. The aforementioned categories will be followed by fixed broadband access and pay TV, the latter primarily on account of package offers.

### Revenues from telecommunications services – Western Europe, 2014–20



Source: Analysys Mason, 2015

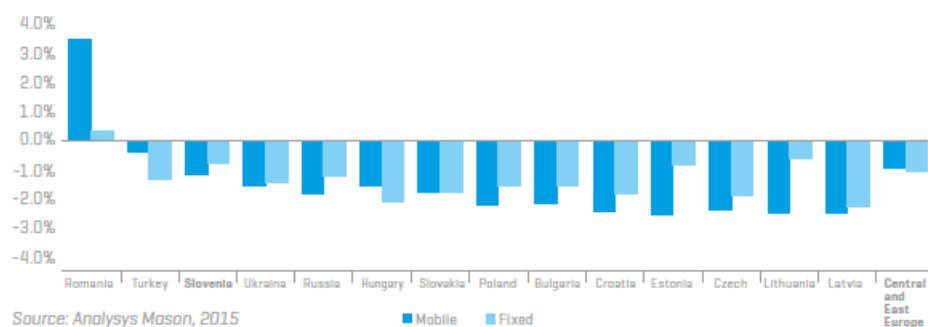
### Revenue from telecommunications services – Central and Eastern Europe, 2014–20



Source: Analysys Mason, 2015

Analysys Mason is forecasting a drop in revenues in the mobile and fixed segments for Slovenia, where the mobile services market will contract more than the fixed services market.

### Growth in retail revenues – Central and Eastern Europe, 2014–20

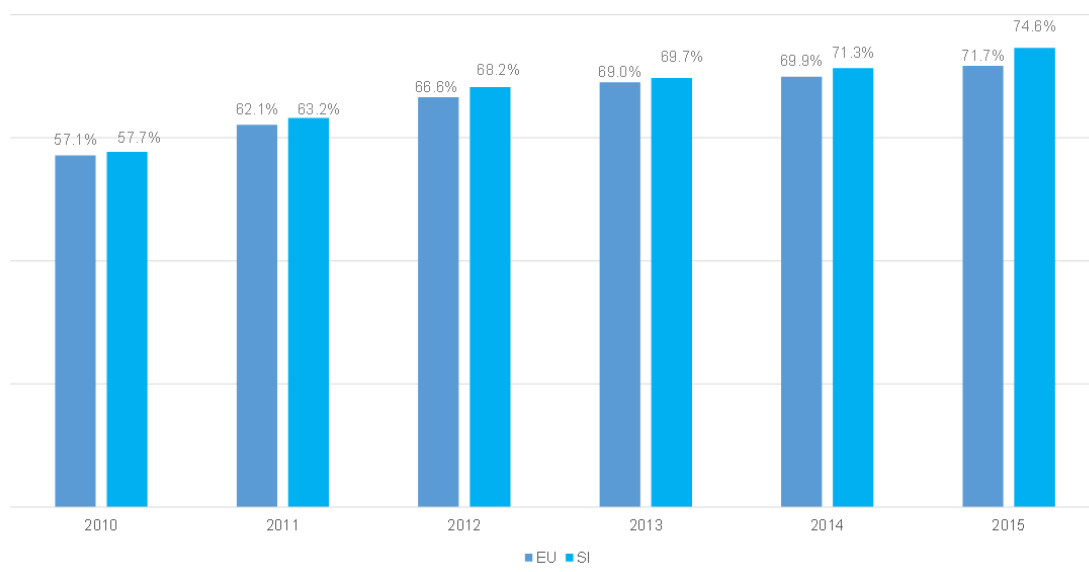


Source: Analysys Mason, 2015

### Moderate growth in the fixed broadband connections market

The number of fixed broadband connections in the EU has risen since 2010, but that growth rate is now more moderate. New operators are gaining the most, while incumbent operators still account for 41% of all fixed broadband internet access connections.

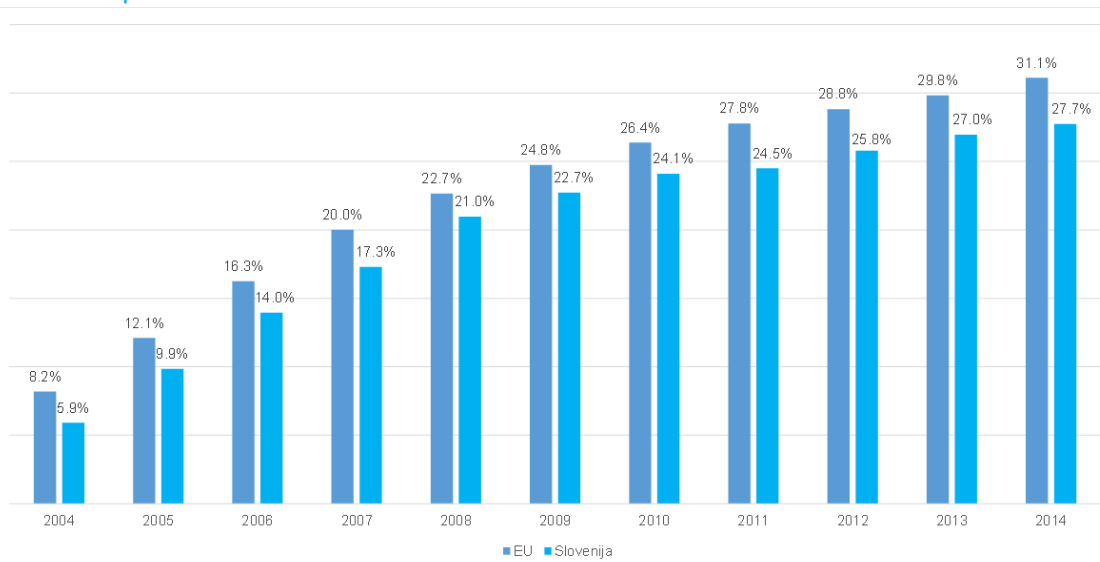
## Household penetration rates for fixed broadband internet access in Slovenia and the EU



Source: European Commission, Digital Agenda Scoreboard, 2015

New entrant operators are continuously gaining market share, but incumbents still control 41% of subscriptions. During the last 10 years, new entrant operators always posted higher net gains than the incumbents. In the last six months, new entrants yielded 79% of the total net gain in the market. This, however, could not result in a significant change in the overall market share of new entrants because of the low growth rate of the total market. Telekom Slovenije (34,5% market share) is below the average of the incumbents in the EU.

## Household penetration rates for fixed broadband access in Slovenia and the EU



Source: European Commission, Digital Agenda Scoreboard, 2015

## Growth in mobile broadband access

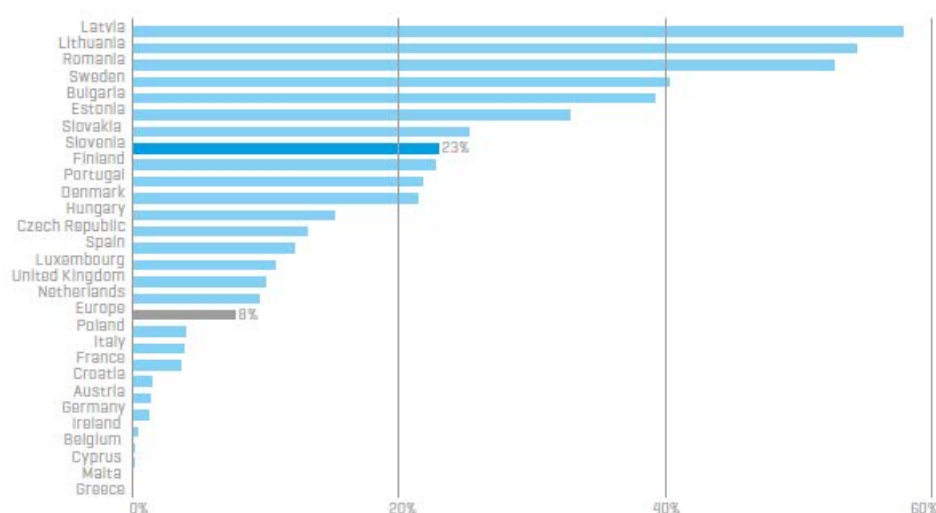
Mobile broadband internet access represents the fastest growing segment of the broadband services market. It is primarily used as an alternative form of access, and not as a replacement for fixed access, most frequently via smartphones, followed by tablet and laptop computers. A total of 8.3% of EU households used only mobile broadband access in 2014, whereas that figure was 4.1% in Slovenia.

According to figures from Analysys Mason, LTE connections will outnumber 3G connection in Western Europe by the end of 2016. Revenues from LTE connections will thus account for 56% of revenues from all mobile services, with that figure reaching 80% by 2020. Those connections will account for 62% of mobile service revenues in Central and Eastern Europe (compared with just 6% in 2014). Packages with leased data transfer services account for the highest proportion in Slovenia, followed by standard packages with voice services and data packages intended for use on other devices.

### Development of fibre optic connections for higher speeds

Slovenia still ranks among the leading countries in the EU in terms of fibre optic access penetration (FTTx), and stands above the EU average in this regard. Fibre optic connections already accounted for 23.4% of all broadband connections in Slovenian in the third quarter of 2015, compared with 8% in the EU. Telekom Slovenije is accelerating the replacement of the copper-based network with the fibre optic network, including in urban centres. Such connections ensure extremely reliable, fast and secure broadband services.

#### Broadband connections FTTx (2014)



Source: European Commission, Digital Agenda Scoreboard, 2015

### Growth in the pay TV market

The trend of growth in IPTV services and multimedia content (video-on-demand, HD content, interactive TV content and internet television) continues. At 47.4% (third quarter of 2015) of all TV connections in Slovenia, IPTV represents the leading technology, followed by cable TV (47.1%). According to AKOS figures, 71.6% of Slovenian households have pay TV (third quarter of 2015), while the Telekom Slovenije Group holds the highest share of the IPTV market at 52.1%.

According to Analysys Mason forecasts, IPTV will contribute most to growth in pay TV in Western Europe until 2020, with growth being the result of the aggressive packaging policies of operators.

Revenues from pay TV will grow at an annual rate of 2% in Central and Eastern Europe. Competition between providers of OTT (over-the-top) services will intensify more on developed markets (i.e. in Estonia). The impact of OTT services will be limited, however, as 49% of households will not have fixed broadband access in 2020.

### Contraction in the fixed telephony market and growth in the mobile telephony market

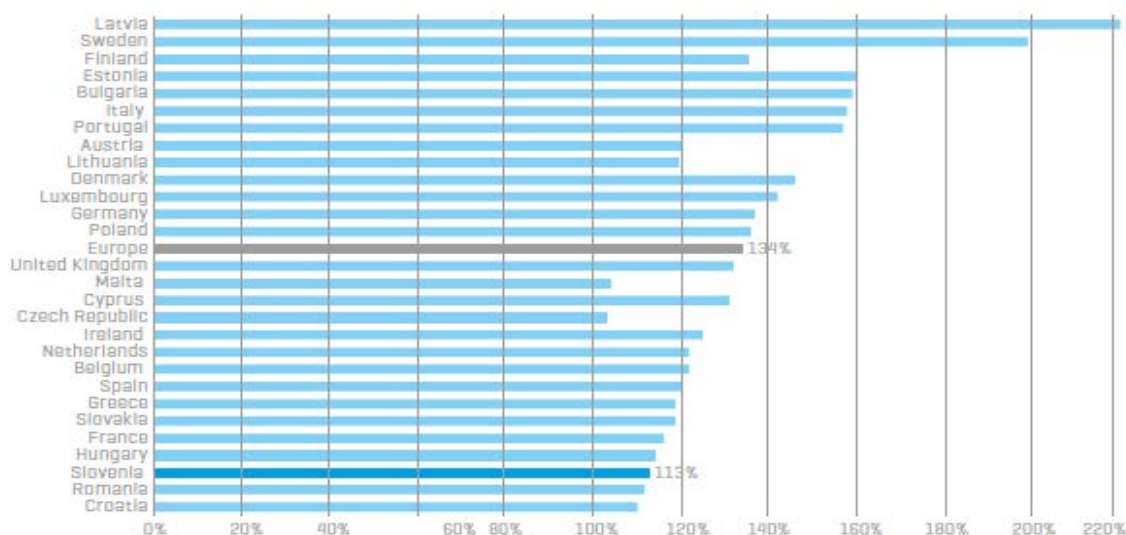
According to the forecasts of analysts at Analysys Mason, the fixed telephony market will contract at an annual rate of 1.1% in Western Europe until 2020. VOIP services will account for 49.7% of the fixed telephony segment (compared with 30% in 2014), as the result of the replacement of older and

more expensive analogue technology with digital technology. IP telephony connections held a 68.4% of the Slovenian market at the end of the second quarter of 2015. The share held by traditional telephony continues to decline and stood at 31.6% in the same period. Fixed telephony revenues will decline in both the residential and business user segments. In the business user segment, that decline will be somewhat more notable where the tendency is to migrate to mobile and other alternative forms for communication.

The proportion of traffic from the mobile network and VOIP is also rising, while the proportion of traffic from the fixed network is declining. That trend is more obvious in Slovenia, as traffic from the fixed network accounted for just 13.8% of total traffic in the third quarter of 2015 compared with 86.2% from the mobile network.

According to the information published by AKOS, the **mobile segment** in Slovenia has the third lowest per capita penetration rate of active mobile telephony users in the EU, giving it sufficient room for further growth. The penetration rate in Slovenia is constantly rising, and stood at 113.9% in the third quarter of 2015.

#### Mobile SIM card penetration in the EU by country



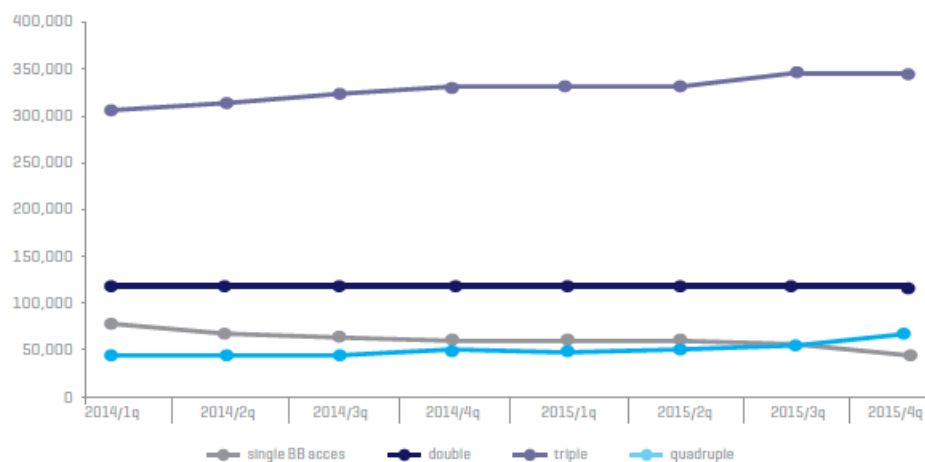
Source: European Commission, Digital Agenda Scoreboard, 2015

The migration from prepaid to subscriber services is characteristic of the EU mobile telephony market. At 73%, Slovenia is among the countries with the highest proportion of subscriptions, compared with the European average of 57%.

#### Increasing popularity of package services (triple play and quadruple play)

European operators are combating the declining number of customers by offering increasingly varied packages that combine fixed telephony, internet, TV and mobile telephony (quadruple play). Such packages are becoming increasingly popular, while the number of stand-alone broadband access connections is falling. Slovenia is also recording growth in all packages, most notably in quadruple play, primarily owing to their affordability and the fact that they are new to the market. The household penetration rate for connections including packages of services is 63.7%.

### Changes in the number of connections including packages of services in Slovenia



Sources: Report on the development of the electronic communications market for the fourth quarter of 2015, AKOS, February 2016.

### IT services market and cloud computing

Operations with large business users and groups are changing radically on the Slovenian ICT market. Major transactions are becoming a rarity due to a lack of investments funds, while they are giving way to alternative models for the provision of ICT services. A small number of large transactions is being transformed into a large number of smaller transactions that are indispensably linked to an external provider of ICT and cloud computing services. Trends in this segment include:

- Increasing demand for ICT services that increase the effectiveness and flexibility of processes: Office 365, *Mobilna blagajna*, MSP, etc.
- Growth in demand for tailor-made business continuity solutions that are based on the public cloud infrastructure.
- In order to optimise costs, an increasing number of small and large companies are opting to lease their ICT infrastructure and outsource the management thereof.

According to forecasts by Arthur D. Little, the Slovenian ICT market will grow at an average annual rate of 1% until 2020, where the increased use of IT services will compensate for declining revenues on the telecommunications market. IT services will grow at a rate of 4% and will account for more than half of the ICT market. Certain IT segments (such as cloud computing) will experience a boom and annual growth exceeding 10%.

### 12.2.3. Regulation of electronic communications

#### Slovenia

#### Electronic communications development strategy

The Slovenia government adopted the Information Society Development Strategy and the Next Generation Broadband Network Development Plan on 10 March 2016 with the aim of implementing the Digital Slovenia 2020 initiative (2020 Plan). Within the Electronic Communication Operators Section of the Chamber of Commerce of Slovenia (SOEK-GZS), Telekom Slovenije continues to strive for the adoption of strategic documents that are achievable and based on realistic points of departure, taking into account past investments and assurances in line with Slovenia's development. In accordance with the 2020 Plan, the Ministry of Education, Sport and Science issued a public call on 20 May 2016 for a declaration of market interest in the construction of broadband networks.

#### Legislation and EU regulations

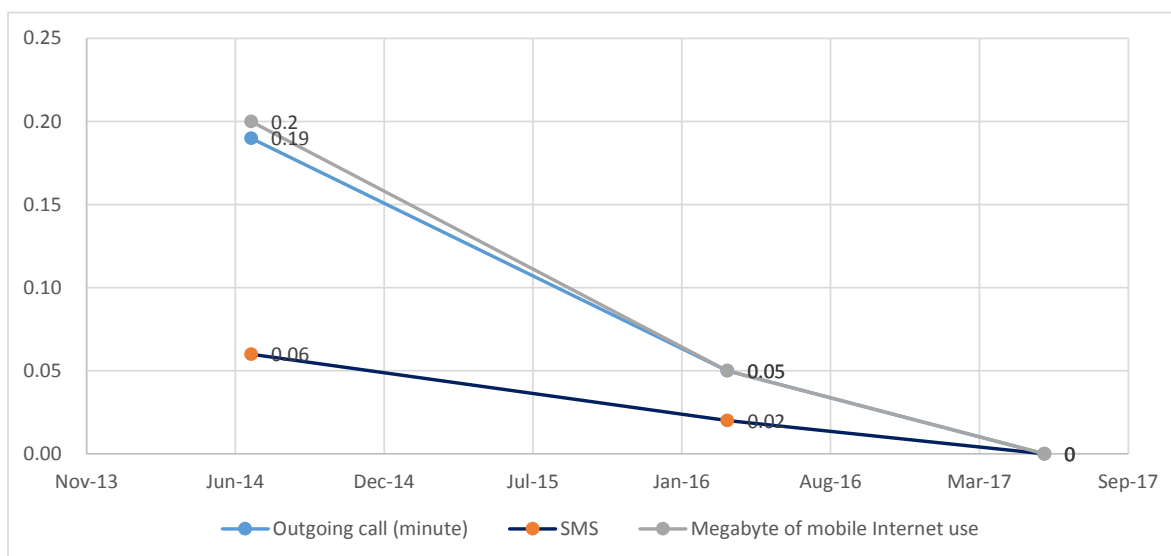
The Slovenian National Assembly adopted an amendment to the Electronic Communications Act (ZEKom-1B) and the Extra-judicial Resolution of Consumer Disputes Act (ZIsRPS). The resolution of



consumer disputes relating to electronic communications by the court will now be more transparent for users, while operators will be able to establish an effective system without high additional costs.

Several regulatory changes were made at the EU level in 2015. The European Parliament adopted Regulation (EU) No 2015/2120 of the European Parliament and of the Council of 25 November 2015 laying down measures concerning open internet access and amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services and Regulation (EU) No 531/2012 on roaming on public mobile communications networks within the Union (TSM regulation). Through the latter, the Parliament prescribed for the first time rules on net neutrality, and envisaged the abolishment of mobile roaming charges in EU Member States, effective 1 June 2017. Changes in mobile roaming prices are presented in the graph below.

#### Changes in mobile roaming prices in EU Member States (in EUR)



Source: European Commission

#### Relevant markets

In April 2015, the Agency for Communication Networks and Services of the Republic of Slovenia (AKOS) reversed its decision from year 2008, in which it found that Telekom Slovenije was an operator with significant market power on relevant market 2, "Call forwarding in the public telephone network at a fixed location (inter-operator market)". It made that reversal because it determined that effective competition is present in the aforementioned segment of the Slovenian market.

In January 2016, AKOS issued a decision on the market 5 "Broadband access (inter-operator market)", with which the obligations of Telekom Slovenije were to some extent amended in relation to an amended retail minus mode. The amended obligation enabled Telekom Slovenije to create more competitive broadband services with higher speed on wholesale as well as retail market.

On 5 April 2015, AKOS amended the decisions (no 38244-1/2014/12 and no 38244-14/2014) on the relevant market "Call termination on individual public mobile telephone networks (inter-operator market)". The amendment deregulated the price for the termination of calls originating from the EU. Telekom Slovenije enforced the new call termination prices effective 1 June 2016.

The AKOS conducted various inspections with respect to Telekom Slovenije in connection with imposed obligations on regulated relevant markets. It halted four proceedings, and identified certain instances of non-compliance in three other proceedings and ordered the rectification thereof.



### **Net neutrality**

The AKOS issued Telekom Slovenije two decisions in 2015 in the scope of inspection proceedings due to the breach of net neutrality. It ordered Telekom Slovenije to treat all internet traffic, including Deezer, TViN, TViN *Shramba*, Integral, *Integral Poslovni* in *M\_Rokovnik* services, equally. In connection with Deezer services, AKOS issued an admonishment in misdemeanour proceedings, and imposed a fine of EUR 30,000 in other misdemeanour proceedings in connection with TViN, TViN, Integral, *Integral Poslovni* and *M\_Rokovnik*. Telekom Slovenije filed legal means against the decisions, and no decision has yet been issued.

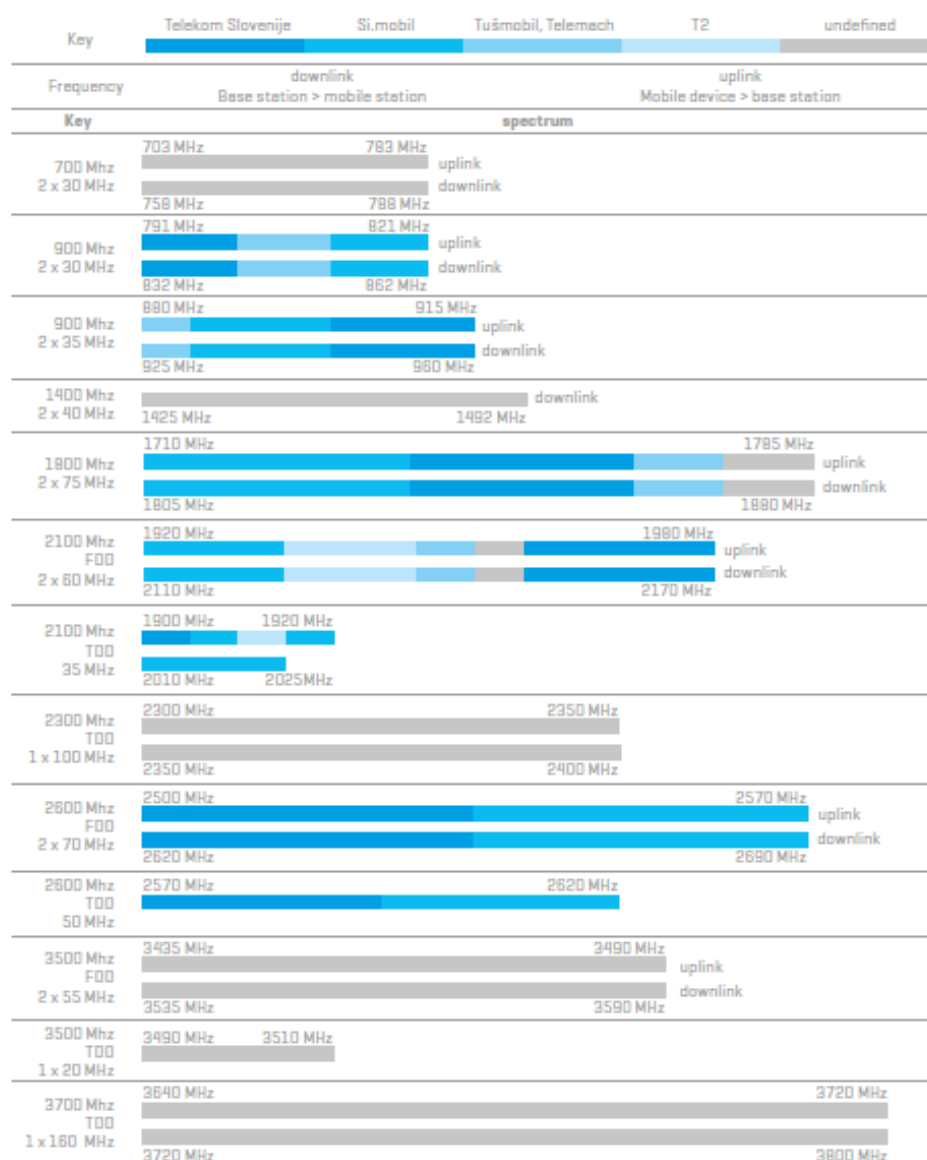
### **Frequencies**

The Ministry of Education, Science and Sport issued strategic policies for AKOS in connection with the management of the radio spectrum for mobile communications and terrestrial broadcasting, and for the reduction of the costs of the construction of the broadband infrastructure.

The AKOS published a draft information memorandum for a public tender for the allocation of radio frequencies intended for public communication services in the 1800 and 2100 MHz frequency bands. On 3 June 2016, the Resolution of the initiation of public tender with public auction for award of radiofrequencies for providing public communication services in the radiofrequencies band 1800 MHz and 2100 MHz was announced in the Official Gazette of the Republic of Slovenia. Telekom Slovenije submitted an offer for the allocation of additional 5 MHz frequencies in the frequency band 2100 MHz. On 8 July 2016, AKOS announced the annulation of the public tender and at the same time it announced a new Resolution of the initiation of public tender with public auction. The deadline for the submission of offers is 8 August 2016.

At the request of AKOS, Telekom Slovenije and operators in neighbouring countries began harmonising 800 MHz agreements on the coordination of the use of frequencies in border regions and has already entered into an agreement with the Austrian operator A-1.

## Distribution of allocated frequency bands by operator in Slovenia



## Regulatory developments in South-East Europe

### Kosovo

The Telekom Slovenije sector in Kosovo achieved a major breakthrough in 2015, as the governments of Kosovo and Serbia reached an agreement on the regulation of the telecommunications sector. In the future, Kosovo will thus be allocated a separate three-digit calling code in accordance with ITU standards, principles and rules.

In December 2015 the regulatory body in Kosovo allocated two blocks (2 x 10 MHz) in the 1720–1730 MHz and 1815–1825 MHz frequency bands for the needs of GSM, UMTS, LTE and WiMax (technologically neutral use) to Ipko for the period December 2016 to July 2019. In accordance with allocation conditions, Ipko must achieve the following levels of coverage of the population: 50% within 12 months, 70% after months and 90% after 36 months. Ipko has started to implement a platform for lawful interception and an access point to data storage for fixed services.

PTK is an operator with significant market power on the majority of markets in Kosovo, while Ipko is an operator with significant market power on the fixed call termination market. The regulatory agency continued with the analysis of markets, in particular of the mobile network call termination market.

#### **Bosnia and Herzegovina**

The national regulatory body in Bosnia and Herzegovina (RAK) issued a decision in 2014 on the call termination market in individual public telephone networks at a fixed location, in which it identified Blicnet as an operator with significant market power and tasked the aforementioned company with price controls. In that respect it envisaged a general reduction in call termination prices, with asymmetry in favour of alternative operators. Asymmetry will remain in place until 1 July 2017.

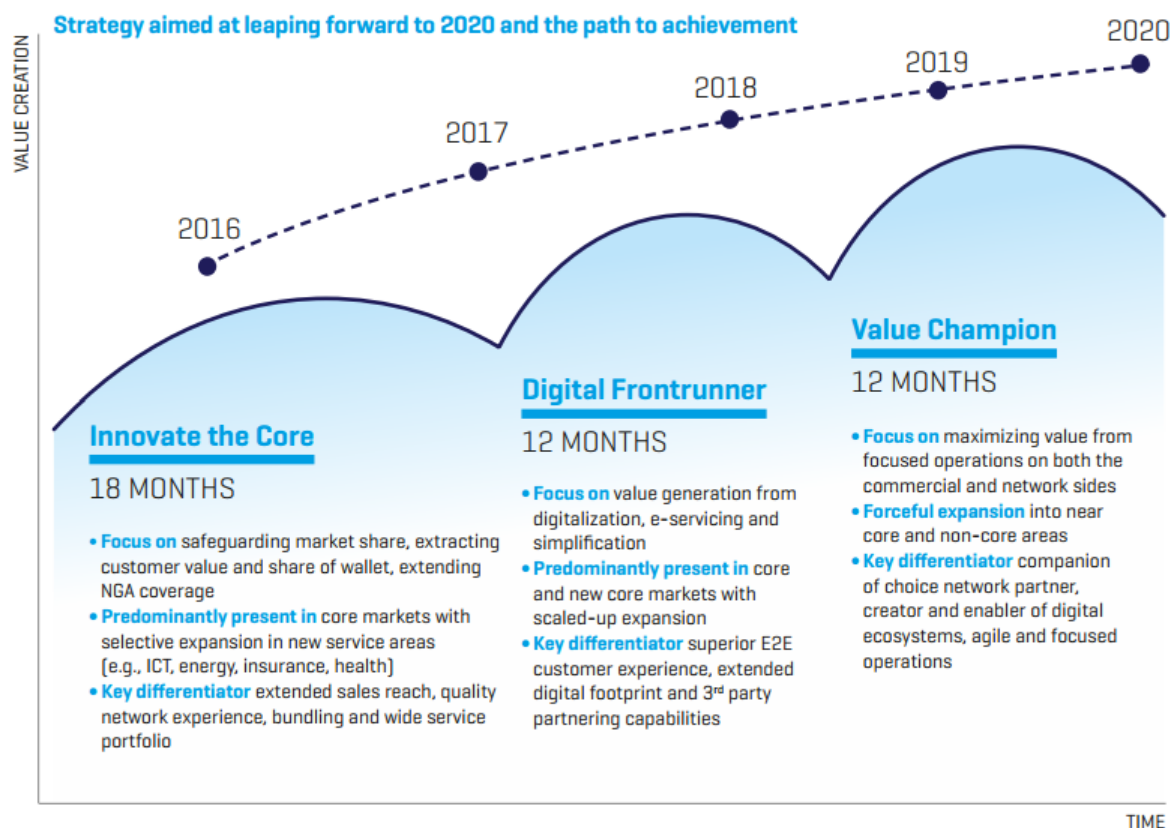
Due to the location of the network interconnection transit point, the RAK continues to refuse to confirm Blicnet's sample offer for network interconnection (RIO document).

Public debate regarding the proposed analyses of markets 4 and 5 was completed in February 2015, but we have still not received final documents or data. The period for the submission of comments regarding the proposed analyses was extended until 8 July 2016.

### **12.3. Strategic Business Plan of the Telekom Slovenije Group for the period 2016-2020**

The Telekom Slovenije Group operates on markets characterised by a high level of competition, while markets are becoming increasingly saturated. The ability to attract new users is thus constantly diminishing. Users are becoming increasingly price sensitive on the one hand, while demanding superior quality services on the other. According to the forecasts of analysts, incumbent operators, such as Telekom Slovenije, are and will continue to be exposed to the continuing decline in revenues from basic telecommunications services (traditional voice telephony) and declining market shares. The management of such trends and the further development of the Telekom Slovenije Group are outlined in the Strategic Business Plan for the period 2016–20 and in the Annual Business Plan for 2016.

The strategy will be implemented gradually, in three phases. During the first phase, the focus will be on innovation and development of the Group's core activity. The focus of the second phase will be on digitalisation, while the aim of the third phase is to generate value from the activities carried out in the first two phases.



The Company's Management Board presented key strategic policies and expectations linked to the future development of Telekom Slovenije to employees in February 2016.

### Key strategic policies of the Telekom Slovenije Group for the period 2016–20

- **Consolidation on individual markets**

In accordance with its Strategic Business Plan for the period 2015–19, Telekom Slovenije Group has already carried out activities aimed at consolidation on certain markets. Activities will continue in the future, either through expansion or divestment on specific markets.

- **Accelerated construction of the fibre optic access network**

Telekom Slovenije will strengthen its market position by expanding the fibre optic access network, which will provide users high-speed internet access and a superior user experience in terms of broadband content. Significant investments in fibre optic access are thus planned in the coming years.

- **Optimisation of processes and the IT infrastructure**

Through the optimisation of business processes and the IT infrastructure, Telekom Slovenije will transform itself into a dynamic company that will actively adapt to the demands and needs of its users.

- **Growth in the number of broadband in IPTV connections**

Telekom Slovenije Group will increase market share in the broadband and IPTV connection segment by accelerating construction of fibre optic access networks, through a range of convergent packages and by expanding the range of services outside the basic telecommunications activity.

- **Restructuring of personnel**

Telekom Slovenije Group will continue to optimise labour costs and ensure the optimal number of employees, taking into account the needs of the work process at individual companies.

- **New revenue sources**

Telekom Slovenije will offer our users the option of leasing a wide range of services in one place. By increasing revenues from ICT services, we will also expand our operations to new areas such as energy, insurance, smart home services, e-m-health, e-m-citizen, e-m-security and e-m-mobility services, big data services, etc.

- **Financial stability**

The financial stability of the Telekom Slovenije Group will be achieved by securing sources to refinance bonds in a timely manner and by securing other sources of financing required to maintain liquidity, by monitoring trends on the financial markets, by further centralising the cash flow of the Group, by establishing effective corporate governance mechanisms, and through the effective management of working capital.

- **Quality**

The quality of services is one of the comparative advantages of Telekom Slovenije Group companies. Telekom Slovenije Group will continue to ensure quality through constant development and a comprehensive range of the most state-of-the-art services and solutions.

- **Social responsibility**

The principles of sustainable development are built into the operations, products, services and content of Telekom Slovenije Group companies, while Group responsibly manage the economic, social and environmental impacts of our operations. To that end, Group actively identify opportunities where can contribute to the development of the social and economic environment in which operate through various resources.

## Key strategic pillars

Telekom Slovenije will implement its strategy in the scope of the following four pillars:

EXCEED customer expectations	MASTER digital company	DIVERSIFY beyond core	TRANSFORM to agile operations
<b>Customers rule</b> Delighting our customers is our highest priority	<b>Bridge digital divide</b> We enable all Slovenes to interact digitally independent on location and access technology	<b>Increase relevance to customers</b> We leverage our assets to strengthen our core & venture in new businesses relevant to our customers	<b>Our people are our treasure</b> We invest in our people and foster competency build-up to enable the transformation
<b>Do what we do great</b> Our people thrive for excellence in any action they do	<b>Digitalize frontend</b> We are leading the take-off for digital customer interactions and customer convenience	<b>Pioneer the home</b> We are the leader of the household and we develop the Digital Home ecosystem and increase our share of wallet	<b>Simplify and automate</b> We ruthlessly streamline any process, procedure and guideline to make Telekom Slovenije more agile
<b>Companion of choice</b> We are a true companion of our customers and put long term impact over short term financial gains	<b>Go digital</b> Digital is fully integrated into our people mindset and approach – any customers, any channel, anything	<b>Partner of choice for businesses</b> We understand our role as enabler – therefore we need to continuously challenge our value chain positioning	<b>Efficient infrastructure</b> We opt for most efficient delivery model for any part of our infrastructure

## 13. PROFIT FORECASTS OR ESTIMATES

The Issuer did not include any profit forecast or estimate in the Prospectus.

## 14. MANAGEMENT AND SUPERVISORY BODIES

### 14.1. Management Board

Pursuant to the Company's Articles of Association Company is managed by five-member Management Board, comprising the following members:

- Rudolf Skobe, MSc, President
- Tomaž Seljak, MSc, Vice-President
- Aleš Aberšek, member
- Ranko Jelača, member
- Vesna Lednik, member and Workers Director

Members of the Management Board are appointed for a term of four years from nomination. Mr Skobe began his term of office as President of the Management Board on 1 September 2012 (reappointed to a new four-year term of office by the Supervisory Board; new term of office will begin on 1 September 2016), Vice-President on 1 May 2014, Workers Director on 23 April 2014. Mr Aleš Aberšek and Mr Ranko Jelača began their term of office on 15 March 2016.

### 14.2. Supervisory Board

Telekom Slovenije's Supervisory Board comprises nine members, six of whom are shareholder representatives and three of whom are employee representatives. Shareholder representatives were appointed based on the proposal of owners and selected via public tender, while employee representatives were elected by the Works Council. All members of the Supervisory Board submitted statements of compliance with the criteria of independence in accordance with the Corporate Governance Code.

Shareholders representatives:

- Borut Jamnik, President
- mag. Adolf Zupan, Vice-President
- Dimitrij Marjanović, member
- dr. Marko Hočevár, member
- mag. Tomaž Berložnik, member
- mag. Bernarda Babič, member.

Employee representatives:

- Dean Žigon, Vice-President
- Samo Podgornik, member
- Primož Per, member.

Members of the Supervisory board are elected for a term of four years.

The shareholder representatives whose four-year mandate started running on 27 April 2013 following the expiry of the mandate of the previous members of the supervisory board are: Borut Jamnik, Adolf Zupan, MSc, Tomaž Berložnik, MSc and Bernarda Babič, MSc.

The shareholder representatives who were elected on the general assembly on 1 July 2013 and whose mandate started running as of the election at the shareholders meeting lasts until 27 April 2017, were Marko Hočevár, PhD and Matej Golob Matzele. Matej Golob Matzele rendered his notice of resignation on 31 March 2016 and remained a member until the election of the new member Dimitrij Marjanović, who was elected at the 27<sup>th</sup> general assembly of shareholders on 13 May 2016 and whose four-year mandate started running from the date of election.

The four-year mandate of employee representatives shall run until 14 November 2017.

### **14.3. Conflicts of Interest Involving Management and Supervisory Bodies**

The Issuer did not conclude any transactions with the members of the Management Board or Supervisory Board during the previous financial year. Accordingly, the Issuer hereby declares that it is not aware of any conflicts of interest or potential conflicts of interest between the members of the Management Board and Supervisory Board in terms of the performance of their functions and personal benefits.



## 15. BOARD PRACTICES

### 15.1. Information about the Issuer's Audit Committee

The Supervisory Board has four committees that discuss individual areas of expertise in accordance with their respective competences and tasks defined in the Company's Corporate Governance Policy. Committees of the Supervisory Board are:

- Audit Committee,
- Technical Committee,
- Human Resource Committee,
- Committee to Monitor Strategic Projects and the Drafting of the Strategic Plan.

The Audit Committee functioned in accordance with the Companies Act, the Rules of Procedure of Telekom Slovenije, d. d.'s Audit Committee and the recommendations for audit committees. The Audit Committee met at 12 sessions in 2015, one of which was a correspondent session.

The committee's members are as follows:

- Bernarda Babič, MSc (chair),
- Marko Hočevár, PhD
- Matej Golob Matzele,
- Dean Žigon, and
- Barbara Nose (external committee member)

Matej Golob Matzele was a member of the aforementioned committee until 13 May 2016, when his term of office as member of the Supervisory Board expired.

### 15.2. Agreements regarding the Services of Members of the Management Board and Supervisory Board

The Issuer hereby declares that no agreements have been concluded for the services of members of the Management Board or Supervisory Board with the Issuer itself or any of its subsidiaries with regard to extraordinary contributions arising from the termination of an employment relationship.

### 15.3. Statement concerning Issuer Compliance with the Corporate Governance Regimes of its Country of Incorporation

The Issuer complies with the corporate governance policies. The Issued complies with the recommendations of the Corporate Governance Code of companies with capital assets of the state, Slovenian Sovereign Holding's Recommendations and Expectations as well as Management code for publicly traded companies. Any activities in which the Issuer deviates or partly deviates from the recommendations of the code are clearly disclosed in the annual reports of the Issuer.

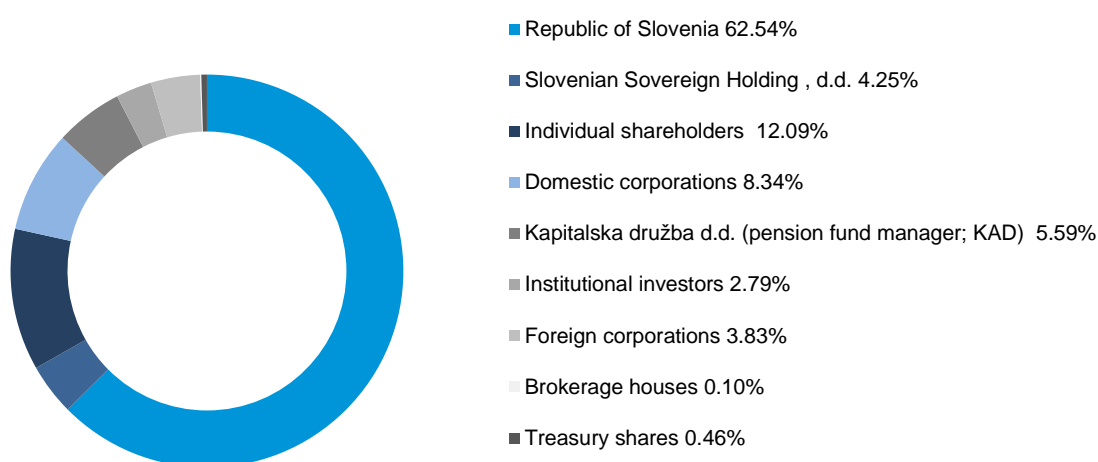
## 16. MAJOR SHAREHOLDERS

### Ownership structure and largest shareholders

As at 30 June 2016 there were 10,666 shareholders entered in Telekom Slovenije's register of shareholders, a decrease of 92 on the end of 2015. The most significant decline (of 78) was recorded by the category of individual shareholders.

There were also no significant changes in the ownership structure during the first half of 2016. Individual shareholders increased their share by 0.35 percentage points, domestic legal entities increased it by 0.01, while foreign legal entities reduced it by 0.27 and institutional investors reduced it by 0.09 percentage points.

### Ownership structure as at 30 June 2016



### Ten largest shareholders

At the end of Q2 2016, the 10 largest shareholders held 77.45% of the Company's share capital. In the structure of the first ten entered Kritni sklad prvega pokojninskega skalda, Modra zavarovalnica reduced its share by 0.18 percentage points.

Shareholder as at 30 June 2016		%	Shareholder as at 31 December 2015		%
1	Republic of Slovenia	62.54	Republic of Slovenia		62.54
2	Kapitalska družba, d. d.	5.59	Kapitalska družba, d. d.		5.59
3	Slovenian Sovereign Holding	4.25	Slovenian Sovereign Holding		4.25
4	Modra zavarovalnica, d. d.. – PPS	1.26	Modra zavarovalnica, d. d.– PPS		1.44
5	Perspektiva FT, d. o. o.	1.21	Perspektiva FT, d. o. o.		1.21
6	DBS, d. d.	0.56	DBS, d. d.		0.57
7	NLB, d. d.	0.55	NLB, d. d.		0.55
8	Triglav vzajemni skladi – delniški Triglav	0.51	Triglav vzajemni skladi – delniški Triglav		0.51
9	Kritni sklad prvega pokojninskega skalda	0.51	KD Galileo, mešani fleksibilni sklad		0.47
1	The Bank of New York Mellon – fiduciary	0.47	The Bank of New York Mellon – fiduciary		0.47
Total		77.45	Total		77.60

## 17. FINANCIAL INFORMATION

### 17.1. Historical Financial Information

The financial statements of the Telekom Slovenije Group include the parent company and its subsidiaries, as well as participating interests in associates (hereinafter: the Group).

The financial statements of the Telekom Slovenije Group and Telekom Slovenije, d. d. for the periods ending 31 December 2015 and 31 December 2014 were compiled in accordance with the IFRS, as adopted by the European Union, and in accordance with the Companies Act.

The financial statements of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2015 have been audited. The auditor's reports of 4 March 2016 include an unqualified opinion.

The financial statements of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2014 have been audited. The auditor's reports of 10 March 2015 include an unqualified opinion.

Significant accounting policies applied in the compilation of the consolidated financial statements and the explanatory notes to individual items of the audited consolidated financial statements, as presented in Point 17.2 of the Prospectus, are stated in the annual reports of the Telekom Slovenije Group and Telekom Slovenije, d. d. for 2014 and 2015, which are published on SEOnet and the Issuer's website.

## 17.2. Audited Financial Statements

### 17.2.1. Consolidated financial statements of the Telekom Slovenije Group for the year 2015

#### Consolidated Income Statement of Telekom Slovenije Group

EUR thousand	2015	2014 – adjusted*
Revenue	729,543	756,454
Other operating income	17,663	8,442
Share of profit or loss in joint ventures	0	4,058
Cost of goods and materials sold	-65,486	-73,120
Cost of materials and energy	-16,312	-14,877
Cost of services	-321,246	-324,971
Employee benefits expense	-130,215	-138,887
Amortisation and depreciation expense	-151,494	-158,633
Other operating expenses	-13,188	-47,048
<b>Total operating expenses</b>	<b>-697,941</b>	<b>-757,536</b>
<b>Profit or loss from operations</b>	<b>49,265</b>	<b>11,418</b>
Finance income	39,224	17,104
Finance costs	-18,805	-20,495
Share of profit or loss of associates and jointly controlled entities	-5,684	-5,395
<b>Profit or loss before tax</b>	<b>64,000</b>	<b>2,632</b>
Income tax expense	-243	-286
Deferred tax	4,338	-840
<b>Net profit or loss for the period</b>	<b>68,095</b>	<b>1,506</b>

\* Changes in accounting policies are disclosed in the Annual Report of Telekom Slovenije Group and Telekom Slovenije, d. d. 2015, namely in point 3.2.2. Notes to the Consolidated Financial Statements / 2. Basis of preparation / e. Changes in accounting policies and retrospective restatement. Notes to the financial statements given on pages from 173 to 238 of the Annual report for 2015 of the Telekom Slovenije Group and Telekom Slovenije, d. d. are a constituent part thereof and must be read in conjunction therewith.

## Consolidated Statement of Comprehensive Income

EUR thousand	2015	2014 – adjusted*
<b>Net profit or loss for the period</b>	<b>68,095</b>	<b>1,506</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		
<b>Translation reserves</b>	<b>1,205</b>	<b>270</b>
<b>Change in revaluation of actuarial deficits and surpluses</b>	<b>-395</b>	<b>-2,280</b>
Change in revaluation of available-for-sale financial assets	-14	289
Deferred tax	3	-49
<b>Change in revaluation surplus of available-for-sale financial assets (net)</b>	<b>-11</b>	<b>240</b>
<b>Other comprehensive income for the period after tax</b>	<b>799</b>	<b>-1,770</b>
<b>Total comprehensive income for the period</b>	<b>68,894</b>	<b>-264</b>

\* Changes in accounting policies are disclosed in the Annual Report of Telekom Slovenije Group and Telekom Slovenije, d. d. 2015, namely in point 3.2.2. Notes to the Consolidated Financial Statements / 2. Basis of preparation / e. Changes in accounting policies and retrospective restatement. Notes to the financial statements given on pages from 173 to 238 of the Annual report for 2015 of the Telekom Slovenije Group and Telekom Slovenije, d. d. are a constituent part thereof and must be read in conjunction therewith.

## Consolidated Balance Sheet as at 31 December 2015

EUR thousand	31. 12. 2015	31. 12. 2014 adjusted*	1. 1. 2014 adjusted*
<b>ASSETS</b>			
Intangible assets	191,404	187,537	149,163
Property, plant and equipment	721,080	751,264	839,259
Investments in joint ventures	141	127	44,576
Derivatives	20,698	0	0
Other investments	88,876	13,440	10,168
Other non-current assets	29,238	28,027	27,447
Investment property	5,021	4,076	4,119
Deferred tax assets	30,100	24,843	24,035
<b>Total non-current assets</b>	<b>1,086,558</b>	<b>1,009,314</b>	<b>1,098,767</b>
Assets held for sale	913	95,338	4,478
Inventories	27,134	29,837	23,876
Trade and other receivables	152,530	150,888	155,614
Deferred expenses and accrued revenues	34,755	32,321	38,278
Income tax credits	128	69	618
Current financial assets	3,356	1,320	10,566
Cash and cash equivalents	10,614	23,902	59,234
<b>Total current assets</b>	<b>229,430</b>	<b>333,675</b>	<b>292,664</b>
<b>Total assets</b>	<b>1,315,988</b>	<b>1,342,989</b>	<b>1,391,431</b>
<b>EQUITY AND LIABILITIES</b>			
Called-up capital	272,721	272,721	272,721
Capital surplus	181,488	181,488	181,488
Revenue reserves	218,543	218,492	265,210
<i>Legal reserves</i>	<i>51,612</i>	<i>51,561</i>	<i>51,630</i>
<i>Reserves for own shares and interests</i>	<i>3,671</i>	<i>3,671</i>	<i>3,761</i>
<i>Own shares and interests</i>	<i>-3,671</i>	<i>-3,671</i>	<i>-3,761</i>
<i>Statutory reserves</i>	<i>54,854</i>	<i>54,854</i>	<i>54,854</i>
<i>Other revenue reserves</i>	<i>112,077</i>	<i>112,077</i>	<i>158,726</i>
Retained earnings	26,567	23,681	39,961
<i>Retain earnings from previous periods</i>	<i>-41,528</i>	<i>22,175</i>	<i>-120</i>
<i>Profit or loss for the period</i>	<i>68,095</i>	<i>1,506</i>	<i>40,081</i>
Revaluation surplus	-604	-198	1,843
Translation reserve	-23	-1,228	-1,498
<b>Total capital and reserves</b>	<b>698,692</b>	<b>694,956</b>	<b>759,725</b>
Long-term deferred income	10,474	11,545	9,800
Provisions	43,992	78,299	40,421
Non-current operating liabilities	5,926	7,663	3,435
Interest bearing borrowings	5,604	35,827	59,586
Other non-current financial liabilities	682	309,589	317,124
Deferred tax liabilities	193	196	147
<b>Total non-current liabilities</b>	<b>66,871</b>	<b>443,119</b>	<b>430,513</b>
Assets and liabilities held for sale	0	22,592	0
Trade and other payables	126,143	120,229	126,249
Income tax payable	82	161	40
Interest-bearing borrowings	80,747	23,765	33,012
Other current financial liabilities	303,194	98	1,885
Short-term deferred income	9,155	10,878	10,794
Accrued costs and expenses	31,104	27,191	29,213
<b>Total current liabilities</b>	<b>550,425</b>	<b>204,914</b>	<b>201,193</b>
<b>Total liabilities</b>	<b>617,296</b>	<b>648,033</b>	<b>631,706</b>
<b>Total equity and liabilities</b>	<b>1,315,988</b>	<b>1,342,989</b>	<b>1,391,431</b>

\* Changes in accounting policies are disclosed in the Annual Report of Telekom Slovenije Group and Telekom Slovenije, d. d. 2015, namely in point 3.2.2. Notes to the Consolidated Financial Statements / 2. Basis of preparation / e. Changes in accounting policies and retrospective restatement. Notes to the financial statements given on pages from 173 to 238 of the Annual report for 2015 of the Telekom Slovenije Group and Telekom Slovenije, d. d. are a constituent part thereof and must be read in conjunction therewith.

## Consolidated Statement of Cash Flows

EUR thousand	2015	2014 adjusted*
<b>Cash flows from operating activities</b>		
<b>Net profit for the period</b>	<b>68,095</b>	<b>1,506</b>
Adjustments for:		
Depreciation and amortisation expense associated with intangible assets and property, plant and equipment	151,494	158,633
Impairment and write-offs of property, plant and equipment, intangible assets, and investment property	1,386	872
Gain or loss on disposal of property, plant and equipment	-3,470	468
Finance income	-39,224	-17,104
Finance costs	24,489	25,890
Tax on profit with deferred taxes	-4,095	1,126
<b>Cash flows from operating activities prior to changes in current operating assets and provisions</b>	<b>198,675</b>	<b>171,391</b>
Change in assets held for sale	0	-1,786
Change in trade and other receivables	1,578	-5,829
Change in deferred costs and accrued income	-2,434	-5,479
Change in other non-current assets	-1,211	-599
Change in inventories	3,264	-8,218
Change in provisions	-34,307	38,065
Change in long-term and short-term deferred income	-2,794	4,378
Change in accrued costs and expenses	3,913	2,511
Change in trade and other payables	2,933	5,948
Income tax paid	-661	342
<b>Net cash from operating activities</b>	<b>168,956</b>	<b>200,724</b>
<b>Cash flows from investing activities</b>		
<b>Receipts from investing activities</b>	<b>58,695</b>	<b>61,900</b>
Proceeds from sale of property, plant and equipment	5,552	459
Dividends received	174	3,756
Interest received	1,267	330
Disposal of non-current investments	51,068	48,403
Disposal of current investments	634	8,952
<b>Disbursements from investing activities</b>	<b>-186,516</b>	<b>-182,015</b>
Acquisition of property, plant and equipment	-82,076	-80,178
Acquisition of intangible assets	-30,885	-96,394
Acquisition of investment property	-2	0
Investment in subsidiary Debitel	-14,715	0
Investments in other subsidiaries and associates	-52,104	-1,226
Interest bearing loans	-6,734	-4,217
<b>Net cash used in investing activities</b>	<b>-127,821</b>	<b>-120,115</b>
<b>Cash flows from financing activities</b>		
<b>Receipts from financing activities</b>	<b>273,000</b>	<b>85,900</b>
Current borrowings	273,000	37,000
Issue of current commercial paper	0	48,900
<b>Disbursements from financing activities</b>	<b>-327,423</b>	<b>-201,841</b>
Maturity of current commercial paper	-44	-48,856
Repayment of current borrowings	-222,500	-37,000
Repayment of non-current borrowings	-23,760	-32,949
Interest paid	-15,967	-17,990
Dividends paid	-65,152	-65,046
<b>Cash flow used in financing activities</b>	<b>-54,423</b>	<b>-115,941</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-13,288</b>	<b>-35,332</b>
<b>Closing balance of cash</b>	<b>10,614</b>	<b>23,902</b>
<b>Opening balance of cash</b>	<b>23,902</b>	<b>59,234</b>

\* Changes in accounting policies are disclosed in the Annual Report of Telekom Slovenije Group and Telekom Slovenije, d. d. 2015, namely in point 3.2.2. Notes to the Consolidated Financial Statements / 2. Basis of preparation / e. Changes in accounting policies and retrospective restatement. Notes to the financial statements given on pages from 173 to 238 of the Annual report for 2015 of the Telekom Slovenije Group and Telekom Slovenije, d. d. are a constituent part thereof and must be read in conjunction therewith.

## 17.2.2. Consolidated financial statements of the Telekom Slovenije Group for the year 2014

### Consolidated Income Statement of the Telekom Slovenije Group

EUR thousand	2014	2013 adjusted*
Revenue	756,454	779,360
Other operating income	8,442	19,819
Share of profit or loss in joint ventures	4,058	5,097
Cost of goods and materials sold	-73,120	-66,804
Cost of materials and energy	-14,877	-19,260
Cost of services	-324,971	-318,886
Employee benefits expense	-138,887	-142,440
Amortisation and depreciation expense	-158,639	-168,328
Other operating expenses	-47,048	-17,018
<b>Total operating expenses</b>	<b>-757,542</b>	<b>-732,736</b>
<b>Profit or loss from operations</b>	<b>11,412</b>	<b>71,540</b>
Finance income	17,104	4,961
Finance costs	-20,495	-22,708
Share of profit or loss of associates and jointly controlled entities	-5,395	-4,930
<b>Profit or loss before tax</b>	<b>2,626</b>	<b>48,863</b>
Income tax expense	-286	-143
Deferred tax	-746	2,337
<b>Net profit or loss for the period</b>	<b>1,594</b>	<b>51,057</b>
<b>Earnings per share – basic and diluted (in EUR)</b>	<b>0.25</b>	<b>7.85</b>



## Consolidated Statement of Other Comprehensive Income

EUR thousand	2014	2013 adjusted*
<b>Net profit or loss for the period</b>	<b>1,594</b>	<b>51,057</b>
<b>Translation reserves</b>	<b>270</b>	<b>267</b>
<b>Change in revaluation of actuarial deficits and surplus</b>	<b>-2,280</b>	<b>600</b>
Change in revaluation of available-for-sale financial assets	289	141
Deferred tax	-49	-24
Change in deferred tax due to restatement of tax rate	0	-14
<b>Change in revaluation surplus of available-for-sale financial assets (net)</b>	<b>240</b>	<b>103</b>
<b><i>Other comprehensive income that will not be reclassified subsequently to profit or loss</i></b>		
Change in deferred tax due to restatement of tax rate	0	-197
<b>Change in revaluation surplus on property, plant and equipment (net)</b>	<b>0</b>	<b>-197</b>
<b>Other comprehensive income for the period after tax</b>	<b>-1,770</b>	<b>773</b>
<b>Total comprehensive income for the period</b>	<b>-176</b>	<b>51,830</b>

## Consolidated Balance Sheet as at 31 December 2014

EUR thousand	31. 12. 2014	31. 12. 2013 adjusted*	1. 1. 2013 adjusted*
<b>ASSETS</b>			
Intangible assets	187,537	149,163	154,663
Property, plant and equipment	751,307	839,308	900,871
Investments in joint ventures	127	44,576	42,914
Other investments	13,440	10,168	7,516
Other non-current assets	28,027	27,447	19,482
Investment property	4,076	4,119	6,378
Deferred tax assets	25,232	24,424	21,222
<b>Total non-current assets</b>	<b>1,009,746</b>	<b>1,099,205</b>	<b>1,153,046</b>
Assets held for sale	95,338	4,478	3,846
Inventories	29,837	23,876	22,386
Trade and other receivables	150,888	155,614	187,888
Deferred expenses and accrued revenues	32,321	38,278	33,105
Income tax credits	69	618	17,567
Current financial assets	1,320	10,566	61,807
Cash and cash equivalents	23,902	59,234	44,074
<b>Total current assets</b>	<b>333,675</b>	<b>292,664</b>	<b>370,673</b>
<b>Total assets</b>	<b>1,343,421</b>	<b>1,391,869</b>	<b>1,523,719</b>
<b>EQUITY AND LIABILITIES</b>			
Called-up capital	272,721	272,721	272,721
Capital surplus	169,459	169,459	172,910
Revenue reserves	218,492	265,210	254,014
<i>Legal reserves</i>	<i>51,561</i>	<i>51,630</i>	<i>51,612</i>
<i>Reserves for own shares and interests</i>	<i>3,671</i>	<i>3,671</i>	<i>3,671</i>
<i>Own shares and interests</i>	<i>-3,671</i>	<i>-3,671</i>	<i>-3,671</i>
<i>Statutory reserves</i>	<i>54,854</i>	<i>54,854</i>	<i>54,924</i>
<i>Other revenue reserves</i>	<i>112,077</i>	<i>158,726</i>	<i>147,478</i>
Retained earnings	27,391	43,126	78,574
<i>Retain earnings from previous periods</i>	<i>25,797</i>	<i>2,960</i>	<i>58,490</i>
<i>Profit or loss for the period</i>	<i>1,594</i>	<i>40,166</i>	<i>20,084</i>
Revaluation surplus	7,066	9,564	9,498
Translation reserve	-1,228	-1,498	-1,765
<b>Total capital and reserves</b>	<b>693,901</b>	<b>758,582</b>	<b>785,952</b>
Long-term deferred income	11,545	9,800	7,747
Provisions	78,299	40,421	45,706
Non-current operating liabilities	7,663	3,435	2,938
Interest bearing borrowings	35,827	59,586	92,534
Other non-current financial liabilities	309,589	317,124	315,278
Deferred tax liabilities	1,683	1,728	1,583
<b>Total non-current liabilities</b>	<b>444,606</b>	<b>432,094</b>	<b>465,786</b>
Assets and liabilities held for sale	22,592	0	0
Trade and other payables	120,229	126,249	193,030
Income tax payable	161	40	230
Interest-bearing borrowings	23,765	33,012	35,284
Other current financial liabilities	98	1,885	8,834
Short-term deferred income	10,878	10,794	10,621
Accrued costs and expenses	27,191	29,213	23,982
<b>Total current liabilities</b>	<b>204,914</b>	<b>201,193</b>	<b>271,981</b>
<b>Total liabilities</b>	<b>649,520</b>	<b>633,287</b>	<b>737,767</b>
<b>Total equity and liabilities</b>	<b>1,343,421</b>	<b>1,391,869</b>	<b>1,523,719</b>

## Consolidated Statement of Cash Flows

EUR thousand	2014	2013
<b>Cash flows from operating activities</b>		
<b>Net profit for the period</b>	<b>2,626</b>	<b>48,863</b>
Adjustments for:		
Depreciation and amortisation expense associated with intangible assets and property, plant and equipment	158,639	168,328
Impairment and write-offs of property, plant and equipment, intangible assets, and investment property	872	2,427
Gain or loss on disposal of property, plant and equipment	468	-23
Gain on disposal of investment property	0	258
Finance income	-17,104	-4,961
Finance costs	25,891	26,338
Change in assets held for sale	-1,786	-632
Change in trade and other receivables	-5,829	32,274
Change in deferred costs and accrued income	-5,479	-5,172
Change in other non-current assets	-599	-5,756
Change in inventories	-8,218	-1,490
Change in provisions	38,065	-5,285
Change in long-term and short-term deferred income	4,378	2,226
Change in accrued costs and expenses	2,511	5,231
Change in trade and other payables	5,947	-65,357
Income tax paid	342	15,134
<b>Net cash from operating activities</b>	<b>200,724</b>	<b>212,404</b>
<b>Cash flows from investing activities</b>		
<b>Receipts from investing activities</b>	<b>61,900</b>	<b>71,046</b>
Proceeds from sale of property, plant and equipment	459	2,480
Dividends received	3,756	3,581
Interest received	330	1,529
Proceeds from disposal of investment property	0	990
Disposal of non-current investments	48,403	1,288
Disposal of current investments	8,952	61,178
<b>Disbursements from investing activities</b>	<b>-182,015</b>	<b>-136,755</b>
Acquisition of property, plant and equipment	-80,178	-78,936
Acquisition of intangible assets	-96,394	-34,518
Acquisition of investment property	0	-5,469
Investments in other subsidiaries and associates	-1,226	-8,061
Interest bearing loans	-4,217	-9,771
<b>Net cash used in investing activities</b>	<b>-120,115</b>	<b>-65,709</b>
<b>Cash flows from financing activities</b>		
<b>Receipts from financing activities</b>	<b>85,900</b>	<b>0</b>
Current borrowings	37,000	0
Issue of current commercial paper	48,900	0
<b>Disbursements from financing activities</b>	<b>-201,841</b>	<b>-131,535</b>
Maturity of current commercial paper	-48,856	0
Repayment of current borrowings	-37,000	0
Repayment of non-current borrowings	-32,949	-35,260
Interest paid	-17,990	-17,616
Dividends paid	-65,046	-78,658
<b>Cash flow used in financing activities</b>	<b>-115,941</b>	<b>-131,535</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>-35,332</b>	<b>15,160</b>
<b>Closing balance of cash</b>	<b>23,902</b>	<b>59,234</b>
<b>Opening balance of cash</b>	<b>59,234</b>	<b>44,074</b>

### 17.3. Auditing of Historical Annual Financial Information

Financial statements for the business years 2014 and 2015 were audited by KPMG SLOVENIJA, d. o. o., Železna cesta 8A, 1000 Ljubljana.

The auditor reports following audits of the annual report for 2015 and the annual report for 2014 expressed an unqualified opinion. The auditor's reports are set out in the annual reports of the Telekom Slovenije Group and Telekom Slovenije, d. d., for the years 2015 and 2014, which are available at the registered office of the Issuer and on the website of the Issuer.

### 17.4. Unaudited Interim Financial Statements of the Telekom Slovenije Group and Telekom Slovenije, d. d., for the Period January to March 2016

The consolidated financial statements of the Telekom Slovenije Group and the financial statements of the parent company Telekom Slovenije for the period January to March 2016 and the comparative period January to March 2015 were compiled in accordance with the provisions of the Companies Act, the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The condensed interim financial statements for the period ending 31 March 2016 were compiled in accordance with IAS 34 Interim Financial Reporting, and must be read in conjunction with the annual financial statements compiled for the financial year ending 31 December 2015. The financial statements for the period January to March 2016 and for the comparative period January to March 2015 have not been audited. The financial statements as at 31 December 2015 have been audited and adjusted for the change in accounting policy.

The accounting policies used in the compilation of the interim condensed financial statements are the same as those applied in the compilation of the financial statements for the financial year ending 31 December 2015, with the exception of an amended accounting policy governing the recording of sales commissions that was amended by the Group on 1 January 2016.

According to the new regulation, the Group records the costs of sales commission for newly concluded subscription contracts as an intangible asset. Prior to the change, the Group recorded the sales commissions under costs of services.

IAS 8 allows companies to amend their accounting policy if the application of that policy ensures more reliable and relevant information regarding the effects of transactions, other business events and balances on their financial standing, financial performance and cash flows.

Telekom Slovenije Group observed the provisions of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, and adjusted its financial statements for previous periods in accordance with the requirements of IAS 1 – Presentation of Financial Statements. The change to the accounting policy was applied retroactively which is why the Group recalculated financial statements for previous periods from 1 May 2014 on.

The results of the change to the accounting policy on the financial statements of Telekom Slovenije and thus the consolidated financial statements were as follows:

Balance as at 1 January 2015	EUR thousand
Increase in the value of intangible assets	4,332
Increase in the value of deferred tax assets	93
Change in retained earnings	4,425
Balance as at 31 December 2015	
Increase in the value of intangible assets	7,204
Increase in the value of deferred tax assets	-395
Change in net profit for the period	2,384
Change in retained earnings	4,425
Earnings per share – basic and adjusted EPS were up by EUR 0.37.	
Impact of the changes in accounting policy on profit and loss statement for the period I - III 2016	
Decrease in costs of sales provisions	2,166
Increase of amortisation of intangible assets	-1,581
Change in deferred tax	230
Increase in net profit	815
Earnings per share – basic and adjusted EPS were up by EUR 0.13.	

The financial statements have been compiled on a historical cost basis, except for available-for-sale derivative financial instruments and assets, which are disclosed at fair value.

The compilation of the financial statements requires of management certain estimates, assessments and assumptions that affect the carrying amount of the assets and liabilities of Group companies, the disclosure of contingent liabilities as at the balance-sheet date and the amount of revenues and expenses of companies in the period ending on the balance-sheet date.

Management's estimates did not change during the accounting period and include the following assumptions:

- the depreciation/amortisation period and residual value of property, plant and equipment and intangible assets,
- adjustments to the value of doubtful receivables,
- deferred taxes,
- international links, and
- provisions and contingent liabilities,
- other current financial liabilities.

There was no authorised capital or conditional share capital increase during the reporting period.

The operations of the Telekom Slovenije Group and Telekom Slovenije are not seasonal.

All items in the financial statements of the Telekom Slovenije Group and Telekom Slovenije are disclosed in euro, rounded to thousand euro units.

## Condensed interim financial statements of the Telekom Slovenije Group for the period from January to March 2016

### Consolidated income statement

EUR thousand	I - III 2016	I - III 2015 - adjusted	Ind 16/15
Revenue	175,991	181,821	97
Other operating income	2,029	1,326	153
Cost of goods and materials sold	-15,383	-15,216	101
Cost of materials and energy	-3,561	-4,218	84
Cost of services	-74,619	-77,451	96
Employee benefits expense	-27,879	-29,693	94
Amortisation and depreciation expense	-38,925	-39,999	97
Other operating expenses	-4,723	-3,108	152
<b>Total operating expenses</b>	<b>-165,090</b>	<b>-169,685</b>	<b>97</b>
<b>Profit or loss from operations</b>	<b>12,930</b>	<b>13,462</b>	<b>96</b>
Finance income	1,355	498	272
Finance costs	-4,091	-4,390	93
Share of profit or loss of associates and jointly controlled entities	-1,392	-1,485	94
<b>Profit or loss before tax</b>	<b>8,802</b>	<b>8,085</b>	<b>109</b>
Income tax expense	-26	-33	79
Deferred tax	1,018	416	245
<b>Net profit or loss for the period</b>	<b>9,794</b>	<b>8,468</b>	<b>116</b>

### Consolidated statement of other comprehensive income

EUR thousand	I - III 2016	I - III 2015 - adjusted	Ind 16/15
<b>Net profit or loss for the period</b>	<b>9,794</b>	<b>8,468</b>	<b>116</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>			
<b>Translation reserves</b>	<b>6</b>	<b>128</b>	<b>5</b>
Change in revaluation of available-for-sale financial assets	212	245	87
Deferred tax	-36	-42	86
<b>Change in revaluation surplus of available-for-sale financial assets (net)</b>	<b>176</b>	<b>203</b>	<b>87</b>
<b>Other comprehensive income for the period after tax</b>	<b>182</b>	<b>331</b>	<b>55</b>
<b>Total comprehensive income for the period</b>	<b>9,976</b>	<b>8,799</b>	<b>113</b>

## Consolidated Balance Sheet as at 31 March 2016

EUR thousand	31.3.2016	31.12.2015 adjusted	1.1.2015 adjusted	Ind 16/15
<b>ASSETS</b>				
Intangible assets	193,734	198,608	191,869	98
Property, plant and equipment	703,711	721,080	751,264	98
Investments in joint ventures	144	141	127	102
Derivatives	20,698	20,698	0	100
Other investments	90,930	88,876	13,440	102
Other non-current assets	29,113	29,238	28,027	100
Investment property	4,836	5,021	4,076	96
Deferred tax assets	30,722	29,705	24,936	103
<b>Total non-current assets</b>	<b>1,073,888</b>	<b>1,093,367</b>	<b>1,013,739</b>	<b>98</b>
Assets held for sale	886	913	95,338	97
Inventories	26,389	27,134	29,837	97
Trade and other receivables	138,566	152,530	150,888	91
Deferred expenses and accrued revenues	49,044	34,755	32,321	141
Income tax credits	292	128	69	228
Current financial assets	3,462	3,356	1,320	103
Cash and cash equivalents	7,786	10,614	23,902	73
<b>Total current assets</b>	<b>226,425</b>	<b>229,430</b>	<b>333,675</b>	<b>99</b>
<b>Total assets</b>	<b>1,300,313</b>	<b>1,322,797</b>	<b>1,347,414</b>	<b>98</b>
<b>EQUITY AND LIABILITIES</b>				
Called-up capital	272,721	272,721	272,721	100
Capital surplus	181,488	181,488	181,488	100
Revenue reserves	218,543	218,543	218,492	100
<i>Legal reserves</i>	<i>51,612</i>	<i>51,612</i>	<i>51,561</i>	<i>100</i>
<i>Reserves for own shares and interests</i>	<i>3,671</i>	<i>3,671</i>	<i>3,671</i>	<i>100</i>
<i>Own shares and interests</i>	<i>-3,671</i>	<i>-3,671</i>	<i>-3,671</i>	<i>100</i>
<i>Statutory reserves</i>	<i>54,854</i>	<i>54,854</i>	<i>54,854</i>	<i>100</i>
<i>Other revenue reserves</i>	<i>112,077</i>	<i>112,077</i>	<i>112,077</i>	<i>100</i>
Retained earnings	43,171	33,376	28,106	129
<i>Retain earnings from previous periods</i>	<i>33,377</i>	<i>-37,103</i>	<i>22,175</i>	<i>-</i>
<i>Profit or loss for the period</i>	<i>9,794</i>	<i>70,479</i>	<i>5,931</i>	<i>14</i>
Revaluation surplus for financial instruments	1,119	943	954	119
Revaluation surplus on actuarial deficits and surpluses	-1,547	-1,547	-1,152	100
Translation reserve	-17	-23	-1,228	74
<b>Total capital and reserves</b>	<b>715,478</b>	<b>705,501</b>	<b>699,381</b>	<b>101</b>
Long-term deferred income	10,069	10,474	11,545	96
Provisions	43,590	43,992	78,299	99
Non-current operating liabilities	5,685	5,926	7,663	96
Interest bearing borrowings	2,911	5,604	35,827	52
Other non-current financial liabilities	2,077	682	309,589	305
Deferred tax liabilities	230	193	196	119
<b>Total non-current liabilities</b>	<b>64,562</b>	<b>66,871</b>	<b>443,119</b>	<b>97</b>
Liabilities held for sale	0	0	22,592	-
Trade and other payables	87,281	126,143	120,229	69
Income tax payable	3	82	161	4
Interest-bearing borrowings	76,830	80,747	23,765	95
Other current financial liabilities	306,960	303,194	98	101
Short-term deferred income	8,252	9,155	10,878	90
Accrued costs and expenses	40,947	31,104	27,191	132
<b>Total current liabilities</b>	<b>520,273</b>	<b>550,425</b>	<b>204,914</b>	<b>95</b>
<b>Total liabilities</b>	<b>584,835</b>	<b>617,296</b>	<b>648,033</b>	<b>95</b>
<b>Total equity and liabilities</b>	<b>1,300,313</b>	<b>1,322,797</b>	<b>1,347,414</b>	<b>98</b>



## 17.5. Legal and Arbitration Proceedings

By the end of 2015 lawsuits in the total amount of EUR 308,629 thousand had been filed against Telekom Slovenije Group companies (2014: EUR 298,774 thousand). That amount does not include potential fines imposed by the CPA and that could range from 0.5–10% of annual revenues.

Provisions for liabilities arising from lawsuits are created based on an assessment of the likely outcome, which is made with a high degree of prudence. Those provisions totalled EUR 20,689 thousand at the end of 2015 (compared with EUR 55,276 thousand at the end of 2014). The maturity of liabilities is impossible to define. Lawsuits due to the suspected abuse of a dominant position on the markets where Telekom Slovenije operates primarily comprise claims for damages. The Slovenian Competition Protection Agency (CPA) also initiated several proceedings against Telekom Slovenije *ex officio* due to the suspected abuse of a dominant market position. Proceedings regarding matters for which provisions have been created are in various phases of completion. The Telekom Slovenije Group has been largely successful in the majority of matters that have been officially concluded, and publishes the outcomes of proceedings as they are concluded based on stock exchange rules.

### Review of significant legal proceedings to which the Issuer is party

#### Competition protection

In 2015 there were two significant proceedings against Telekom Slovenije before the Competition Protection Agency (CPA) regarding the alleged abuse of a dominant position. No new proceedings were initiated against Telekom Slovenije during the year.

Based on Telekom Slovenije's request, the CPA assessed the Company's concentration and the takeover of Debitel telekomunikacije in 2015. On 10 September 2015 the CPA issued a decision declaring that Telekom Slovenije's concentration is in line with competition rules, provided that the corrective measures set out in the aforementioned decision are implemented.

#### Proceedings before the courts

Telekom Slovenije and its subsidiaries were party to the following significant proceedings before the courts in 2015:

- Telekom Slovenije received a proposal from the Ljubljana District Court on 6 January 2015 to retry the case concluded in 2013, in which T-2 filed a claim for the payment of damages of EUR 129,556,756.00 with appertaining amounts. The aforementioned court rejected the plaintiff's claim at that time. Because T-2 filed a request for the review of the final ruling (regarding which the Supreme Court has not yet issued a decision), the Ljubljana District Court issued a decision on 4 April 2015 halting the review proceedings until a final ruling has been made regarding the proposed retrial. The Ljubljana District Court issued a ruling on 3 February 2016, rejecting T-2's proposal for a retrial. The competent court also ordered T-2 to repay Telekom Slovenije's legal costs in the amount of EUR 152,457.50 within 15 days, plus legally prescribed default interest following the expiration of that deadline.
- Telekom Slovenije received a ruling from the Ljubljana District Court on 6 January 2015 in connection with the payment of EUR 2,604,506.36 with appertaining amounts to the company Akton. The court rejected the plaintiff's claim in full and ordered Akton to reimburse Telekom Slovenije for the costs of proceedings in the amount of EUR 24,752.15. Akton filed an appeal against the aforementioned decision, to which Telekom Slovenije submitted its response in a timely manner. The higher court has not yet issued a decision regarding the appeal. Akton has filed another lawsuit against Telekom Slovenije in which it is claiming the payment of EUR 8,204,341.50. The main hearing in the aforementioned case was held again before the Ljubljana



District Court on 23 April 2015. The hearing was concluded on the same day. We are still waiting for the delivery of the court's written decision.

- Telekom Slovenije received a ruling on 1 January 2015 from the Administrative Court (in the ISDN/ADSL matter), against which the Company filed a request for review before the Supreme Court. The Supreme Court ruled in favour of the review and reversed the Administrative Court's decision due to the erroneous application of substantive law. It also ordered the Administrative Court to hold a main hearing in the retrial process. The Administrative Court then ruled in favour of the plaintiff's action to reverse the CPA's decision no 3072-2/2004/132 of 25 October 2013, and returned the matter to the aforementioned body for retrial. It also ordered the CPA to reimburse Telekom Slovenije for the costs of proceedings in the amount of EUR 691.74.
- Telekom Slovenije received a ruling from the Higher Court in Ljubljana on 8 January 2015 in connection with SKY NET's amended claim against Telekom Slovenije (previously Mobitel) for the payment of EUR 25,959,896.34 with appertaining amounts. The aforementioned court rejected SKY NET's original claim in full. SKY NET then filed a request for the review of the ruling of the Higher Court in Ljubljana, which the Supreme Court rejected on 29 September 2015 and ordered SKY NET to reimburse Telekom Slovenije for the costs of the response to the request for review in the amount of EUR 2,519.91. The court has yet to decide on the subordinated claim (contract fulfilment).
- On 27 January 2015 Telekom Slovenije received a ruling from the Ljubljana District Court in connection with Si.mobil's claim against Telekom Slovenije for the payment of EUR 286,392,223.00 with appertaining amounts, in which the court halted the aforementioned proceedings.
- On 4 February 2015 Telekom Slovenije received decision no 306-23/2013 of 2 February 2015 from the CPA in connection with the determination of abuse of its dominant position on the inter-operator broadband access market with bit-streaming and the inter-operator market for access to the fixed network infrastructure. Telekom Slovenije filed an appeal before the Administrative Court on 6 March 2015 and informed the CPA of measures it adopted with the aim of fulfilling the obligations imposed on it in the aforementioned decision.
- Telekom Slovenije received a ruling from the Ljubljana District Court on 5 May 2015 in connection with the claim of Tušmobil (now Telemach) for the payment of EUR 28,176,227.00 with appertaining amounts. The Ljubljana District Court ruled that Telekom Slovenije is obliged to pay Tušmobil, d. o. o. EUR 1,709,000.00 plus legally prescribed default interest from 11 September 2007 until payment, within 15 days. The court rejected the remainder of the claim in the amount of EUR 26,467,227.00 plus default interest. Telekom Slovenije filed an appeal against the aforementioned ruling. The Higher Court in Ljubljana issued a decision on 13 May 2016, in which it ruled in favour of Telekom Slovenije's appeal by rejecting the claim in the amount of EUR 316,847.00 and reversing the decision regarding the payment of EUR 1,392,153.00. The latter was sent back to the court of the first instance for retrial before a different judge.
- On 7 September 2015 Telekom Slovenije received a lawsuit from AGICOA (Association of International Collective Management of Audiovisual Works), with its registered office in Luxembourg, in which it is claiming payment from Telekom Slovenije and TSmedia in the amount of EUR 2,400,000.00 with appertaining amounts. Telekom Slovenije filed an appeal against the lawsuit, as well as a countersuit.
- On 19 November 2015 the Administrative Court sent Telekom Slovenije a copy of T-2's appeal against the CPA's decision no 306-23/2013-152 of 2 February 2015. The Company was asked to respond to the aforementioned appeal due to the potential rectification of a contested administrative act that could cause it damage. Telekom Slovenije submitted an appropriate response by the prescribed deadline.

- Telekom Slovenije received 35 lawsuits from consumers in 2015 in connection with the ISDN/ADSL matter, nine of which were withdrawn by plaintiffs. As a result, the competent court has already issued decisions to halt proceedings and ordered the reimbursement of Telekom Slovenije's legal costs. In other matters, the court itself halted proceedings before the Administrative Court prior to the final resolution of the matter in question. The Administrative Court overturned the CPA's decision in the ISDN/ADSL matter and returned the matter to the CPA to repeat proceedings.
- Telekom Slovenije has filed two appeals before the Administrative Court against decisions of the Information Commissioner in connection with the following requests for access to information of a public nature:
  - a request from an RTV SLO journalist for data regarding sponsorships, and donations to journalists, political parties and public-sector employees (the request relates to the distribution of test telephones and connections for journalists); and
  - a request from a POP TV journalist for data regarding transactions concluded under consultancy, legal, copyright and subcontracting agreements for the last five years.

Significant proceedings before the courts in 2016:

- Telekom Slovenije received a decision issued on 3 February 2016 by the Ljubljana District Court in which the aforementioned court rejected T-2's motion to reopen the case decided by way of final ruling of the Ljubljana District Court in case no VIII Pg 54/2007 of 21 January 2013 in the commercial dispute involving the plaintiff T2 and the defendant Telekom Slovenije for the payment of damages of EUR 129,556,756.00 with appertaining amounts, in which the court rejected the plaintiff's claim and ordered T-2 to pay Telekom Slovenije's legal costs in the amount of EUR 152,457.50 within 15 days, plus legally prescribed default interest, accruing from the first day following the expiration of the deadline for the fulfilment of obligations until payment. T-2 appealed the court's decision. The higher court has not yet issued a decision regarding the appeal.
- Telekom Slovenije received a lawsuit on 1 April 2016 from the SAZAS for the payment of EUR 1,411,397.90 with appertaining amounts. In its lawsuit, the plaintiff claims the payment of the fee for the collective management of copyright and related rights (small rights) in the retransmission of television programmes in the Republic of Slovenia for the period from January 2011 to June 2012 and for December 2012. Telekom Slovenije will prove in the course of proceedings that the plaintiff's lawsuit is completely baseless.
- Telekom Slovenije received a lawsuit on 26 April 2016 from the SAZAS for the payment of EUR 331,112.23 with appertaining amounts. In its lawsuit, the plaintiff claims the payment of the fee for the collective management of copyright and related rights (small rights) in the retransmission of radio programmes in the Republic of Slovenia for the period from January 2011 to June 2012 and from December 2012 to December 2015. Telekom Slovenije will prove in the course of proceedings that the plaintiff's lawsuit is completely baseless.
- On 24 June 2016 Telekom Slovenije received a decision issued by the Supreme Court of the Republic of Slovenia on 1 June 2016 in the commercial dispute between the plaintiff Odvetniška družba Rojs, Peljhan, Prelesnik & partnerji, o. p., d. o. o. and the defendant Telekom Slovenije, d. d. for the payment of EUR 5,090,999.47 and appertaining amounts (subject to review due to the payment of EUR 4,532,542.84 with appertaining amounts), whereby the Supreme Court ruled in favour of the plaintiff's motion for review and overturned the ruling of the court of the second instance in points I., III. and IV. of the operative section of former's ruling, and sent the matter back to the court of the second instance for retrial. A decision regarding the costs of the review procedure was postponed until the new trial.

- On 5 July 2016 Telekom Slovenije received a lawsuit by B-S TELEFONIJA d. o. o. from Slovenske Konjice, for the payment of EUR 1,884,867.01 with appertaining costs. According to the lawsuit, the plaintiff claims the payment for alleged unjustified termination of a Contract on the sale and resale of services and terminal equipment from 2011 and breach of contractual obligations. Telekom Slovenije, d. d., considers the claim to be completely unfounded.

## 17.6. Compliance and Anti-corruption

In November 2015 Telekom Slovenije adopted the Compliance Management Policy of the Telekom Slovenije Group, under which a compliance system was established. Bodies were established for the adoption, maintenance and implementation of compliance and integrity-related acts.

In accordance with best practices and Slovenian guidelines on corporate integrity, a system is also in place for reporting irregularities and corruption. Persons reporting such cases may do so via ordinary post or email, or using an in-house online form. The Issuer studies all received reports carefully, and takes the appropriate action with regard to content. In this way, it strives for efficient and fair operations based on competitiveness. The Whistleblowing Committee handled two reports in 2015, one of which was anonymous. The aforementioned committee determined that the allegations in one case were unfounded, and took the appropriate measures in the other case. Telekom Slovenije respects laws and codes of ethics governing the prevention and mitigation of risks associated with corruption, and expects the same from its employees and contractual partners. The corporate governance statement lists the codes and recommendations that Telekom Slovenije complies with to the greatest extent possible in its operations.

Potential risks associated with corruption in sponsorship and donation activities are managed by acting in accordance with external regulations and internal acts, in particular the Rules on the Treatment and Approval of Sponsorships and Donations. Telekom Slovenije does not approve funds for the sponsorship of or donations to political parties, as this is not permitted due to the government's stake in the Company, and because the aforementioned rules forbid such activity. The provisions of those rules are applied *mutatis mutandis* by Telekom Slovenije Group subsidiaries that have adopted their own internal acts. The internal acts of TSmedia, Avtenta and Blicnet explicitly forbid the sponsorship of political parties, while Soline likewise does not approve funds for such purposes. Subsidiaries regularly report all sponsorships and donations that exceed the value set out in the Corporate Governance Rules. Slovenian companies are also bound to the publications set out in the ZDIJZ.

There were no confirmed cases of corruption in the Telekom Slovenije Group in 2015.

## 17.7. Significant Changes to the Issuer's Financial and Market Position

The Issuer does not expect any significant changes to its financial and market positions.

## 18. ADDITIONAL INFORMATION

### 18.1. Shareholder's equity

#### 18.1.1. Share Capital

On the day of publication of this Prospectus, the Issuer's subscribed share capital entered in the companies register amounted to EUR 272,720,664.33. The subscribed share capital is paid up in full.

#### 18.1.2. Issued Shares

##### General information regarding Telekom Slovenije shares as at 30 June 2016

General information regarding shares	
Ticker symbol	TLSG
Listing	Ljubljana Stock Exchange, prime market
Share capital (EUR)	272,720,664.33
Number of ordinary registered no-par value shares	6,535,478
Number of treasury shares	30,000
Number of shareholders as at 30 June 2016	10,666

The Issuer's shares are listed on the prime securities market of the Ljubljana Stock Exchange.

#### 18.1.3. Treasury Shares

The Issuer held 30,000 treasury shares as at 30 June 2016, representing 0.46% of equity

#### 18.1.4. Memorandum of Association and Articles of Association

The Issuer's underlying legal act is Telekom Slovenije, d. d.'s Articles of Association, which were adopted by the Issuer's General Meeting of Shareholders on 10 August 2001 and entered into force on 31 August 2001. The most recent amendments to the Articles of Association were adopted at the Issuer's 27th General Meeting of Shareholders held on 13 May 2016 and entered into force on 23 May 2016. In notarial certificate no SV 441/16, the notary Bojan Podgoršek, Dalmatinova ulica 2, Ljubljana, confirmed that the amendments to the Articles of Association were in line with the resolution of the General Meeting of Shareholders. The original of that certificate is kept by the aforementioned notary, together with the fair copy of the Articles of Association.

The Company is entered in the companies register at the Ljubljana District Court under entry no 12462400 and in the Business Register of Slovenia (BRS), which is in line with the Act Governing the Business Register of Slovenia (ZPRS-1; UL RS Nos 49/2006 and 33/2007). Other relevant data regarding the Company, including the currently valid wording of the Articles of Association, are entered in the central database of all business entities with a registered office in the Republic of Slovenia (<http://www.ajpes.si/prs/podjetjeSRG.asp?s=1&e=117249>).

In accordance with Article 3 of the ZGD-1, the objective and purpose of the Issuer, which is a commercial entity in the form of a public limited company, is the pursuit of activities on the market for the purpose of profit.

## 19. MATERIAL CONTRACTS

The Issuer hereby declares that there are no significant agreements that were concluded outside the scope of its regular operations and that could result in any Group company having an obligation or disclosing an entitlement material to the Issuer's ability to fulfil its obligations to the holders of the securities that are the subject of this Prospectus.

## 20. INFORMATION REGARDING THIRD PARTIES, EXPERT OPINIONS AND DECLARATIONS OF INTEREST

This Prospectus does not include information regarding third parties, expert opinions or declarations of interest of any kind.

## 21. DOCUMENTS AVAILABLE FOR VIEWING

The following documents are available for viewing, as required, for the duration of the registration document:

- the Issuer's Articles of Association, and
- past financial information regarding the Issuer for each financial year for the two years prior to the publication of the registration document.

The aforementioned documents may be viewed at the Issuer's registered office every business day from 10 am to 12 pm, while previous annual reports and audited financial statements are also published on the Issuer's website (see the List of references).

## ANNEX: TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which is applicable to each Note (the Slovenian language version is included in the Registration Order and shall prevail over the English language version).

### 1. FORM, DENOMINATION AND TITLE; CURRENCY OF PAYMENT

The EUR 100,000,000.00 1.95% Notes due 2021 (the "**Notes**", which includes any further notes issued pursuant to Condition 13 and forming a single series therewith) of Telekom Slovenije, d. d.. (hereinafter: the **Issuer**) are in uncertified and dematerialised registered form in the denomination of EUR 1,000.00.

The Notes are issued in accordance with the provisions of the Book Entry Securities Act (Zakon o nematerializiranih vrednostnih papirjih, UL RS No 75/2015, hereinafter: the **ZNVP-1**) as entries in the central register (hereinafter: the **Central Register**) maintained by KDD d. d., Tivolska cesta 48, SI-1000 Ljubljana, Slovenia (hereinafter: CDD). No global or definitive Notes or interest coupons will be issued in respect of the Notes in any circumstances.

The Notes are transferable in accordance with the provisions of the ZNVP-1, other applicable Slovenian legislation and the rules and regulations applicable to and/or issued by CDD. Title to the Notes will pass by registration in the Central Register.

Each person that is for the time being recorded in the Central Register as the holder of a particular number of the Notes (in which regard any certificate or other document issued by CDD as to the number of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer as the legal holder of such number of Notes for all purposes (and the expressions "**Note holder**" and the "**holder of Notes**" and related expressions shall be construed accordingly).

The legal holder of any Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein) and no person shall be liable for so treating such holder.

No person other than the Issuer and the respective Note holder shall have any right to enforce any term or condition of any Note. Notwithstanding the aforesaid, the right to receive payments in respect of a Note may be enforced by the Beneficiary (as defined in Condition 5.1) of such payments or by an Accountholder (as defined in Condition 5.3).

"**EUR**" or "**euro**" means currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

### 2. STATUS OF THE NOTES

The Notes constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves and at least equally with all the other present and future unsecured and unsubordinated indebtedness of the Issuer.



### 3. INTEREST

The Notes bear interest from 10 June 2016 (the "**Issue Date**") at the Interest Rate, payable in arrears on 10 June in each year commencing 10 June 2017 (each, an "**Interest Payment Date**"), subject as provided in Condition 5.

Each Note will cease to bear interest from the due date for final redemption. If payment of principal is improperly withheld or refused, the Beneficiary of such payment will be entitled to receive interest at the rate specified above (after as well as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Beneficiary (as defined in Condition 5.1) or (b) the day which is five business days after the Issuer has notified the Beneficiaries that all sums due in respect of such principal and interest will be paid subject only to the receipt by the Issuer of a notice specifying the details of the euro account of the relevant Beneficiary in accordance with Condition 5.2 (except to the extent that there is any subsequent default in payment).

The amount of interest due in respect of any Notes will be calculated by reference to the aggregate principal amount of Notes held by the relevant holder according to a linear method, which means that the Interest Rate shall be multiplied by the nominal value of the Note, taking into account the actual number of days in the interest-accruing period (from and including the first day of such period to but excluding the last day of such period) and actual number of days in the year. The amount of such payment shall be rounded down to the nearest EUR 0.01.

As used herein:

- (i) "**Business Day**" means any day which is a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) payment system which utilises a single shared platform and which was launched on 19 November 2007 is operating;
- (ii) "**Interest Rate**" means 1.95% per annum up to and including the Release Day (as defined in Condition 7.1) and 2.35% per annum at any time thereafter; and
- (iii) "**Interest Period**" means the period from and including the Issue Date to but excluding the first Interest Payment Date and each period from and including an Interest Payment Date to but excluding the next Interest Payment Date.

### 4. REDEMPTION AND PURCHASE

#### 4.1 Principal amount of the Notes

The principal of a Note at any given time is equal to the nominal amount of such Note.

#### 4.2 Scheduled redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 10 June 2021, subject as provided in Condition 5.

#### 4.3 Purchase and cancellation

The Issuer may at any time purchase Notes in the regulated market or after-market, at any price. Any Notes so purchased may be cancelled or held and resold.

## 5. PAYMENTS

### 5.1 Principal and interest

Payments of principal and interest shall be transferred in euros to the euro accounts of the Beneficiaries (as defined below) of such payments. Each payment so made will discharge the Issuer's obligation in respect thereof.

In this Condition 5:

- (i) "**Beneficiary**" means, in relation to any amount payable in respect of a Note, the person registered at the Relevant Time (as defined below) in the Central Register as the person entitled to receive such amount;
- (ii) "**Relevant Time**" means, in relation to any amount payable in respect of a Note, the end of the third CDD Business Day (as defined below) prior to the due date for such amount;
- (iii) "**CDD Business Day**" means any day which is a day on which CDD is open for business; and
- (iv) "**euro account**" means, in relation to a person, an account nominated by or on behalf of such person pursuant to Condition 5.2 and into which euro payments in respect of the Notes may be credited or transferred.

### 5.2 Notification of euro account

Each Note holder or Beneficiary shall nominate its euro account by notifying details in respect thereof to the Issuer either (a) in the manner notified to the Note holder or Beneficiary by the Issuer or its paying agent (if any) appointed in accordance with Condition 5.6 following a request from such Note holder or Beneficiary in accordance with Condition 14 or (b) in such other manner as may from time to time be specified in a notice given by or on behalf of the Issuer in accordance with Condition 14.

If a Beneficiary of any amount payable in respect of a Note fails to nominate its euro account in accordance with the foregoing before the third CDD Business Day prior to the due date for payment of such amount, such Beneficiary shall not be entitled to payment of the amount due until the fifth business day after details of its euro account have been properly nominated in accordance with the foregoing, and the relevant Beneficiary shall not be entitled to any interest or other payment in respect of any such delay.

### 5.3 Assignment of Clearing Systems' rights

In the case of an Event of Default described in Condition 8.1, any right to receive payment in respect of a Note held at the Relevant Time by Clearstream Banking, société anonyme or Euroclear Bank SA/NV (each a "**Clearing System**", and together the "**Clearing Systems**") or by any other person on behalf of a Clearing System (each such person a "**Fiduciary**") shall be deemed assigned on the due date for such payment to the person recorded in the records of the relevant Clearing System as the holder of such Note at the Relevant Time (the "**Accountholder**") (in which regard a statement of accounts issued by the relevant Clearing System and, where applicable, its Fiduciary as to the nominal amount of Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding evidence of a right to receive such payment) and such Accountholder shall be entitled to enforce the obligation of the Issuer to make such payment (including any further interest due in accordance with Condition 3 to the euro account of the Beneficiary of such payment (being the relevant Clearing System or, where applicable, its Fiduciary)).

## 5.4 Payments subject to fiscal and other laws and costs of the payment services provider

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 6. The Issuer shall bear all commissions or expenses charged by its payment services provider in respect of such payments.

## 5.5 Payments on business days

If the due date for payment of any amount in respect of any Note is not a business day, the Beneficiary shall not be entitled to payment of the amount due until the next business day and shall not be entitled to any interest or other payment in respect of any such delay.

## 5.6 Paying agent

The Issuer reserves the right at any time to appoint or terminate the appointment of a paying agent who acts solely as an agent of the Issuer and does not assume any obligations towards or relationship of agency or trust either for or with any of the Note holders or Beneficiaries.

# 6. TAXATION

All payments of principal and interest in respect of the Notes by the Issuer shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Republic of Slovenia or any political subdivision or any authority thereof or therein having power to tax (a "**Tax**"), unless such withholding or deduction is required by law.

In the event of such, the Issuer shall pay such additional amounts that will result in the Beneficiaries receiving the amounts they would have received if no such withholding or deduction been required, but that no such additional amounts shall be payable in the following circumstances:

- (i) in respect of any amount payable in respect of a Note received by or on behalf of a person who is subject to such Tax in respect of such payment by reason of his being connected with the Republic of Slovenia (or any political subdivision thereof) other than merely by holding such Note or receiving principal or interest in respect thereof; or
- (ii) in respect of any amount payable in respect of a Note received by or on behalf of a person who would not be liable for or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the Issuer or relevant tax authority if, after having been requested to make such a declaration or claim, such person fails to do so; or
- (iii) in respect of any amount payable in respect of a Note received more than 30 days after the Relevant Date (as defined below) except to the extent that the recipient thereof would have been entitled to such additional payment on the last day of such 30-day period; or
- (iv) if and to the extent that such withholding or deduction would have been required to be made pursuant to the laws applicable on the Issue Date.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the payment in question is improperly withheld or

refused, the day on which the Issuer notified the relevant Beneficiary that the amount in question would be paid subject only to the Issuer receiving a notice specifying the details of its euro account in accordance with Condition 5.2 (except to the extent that there is any subsequent default in payment).

Any reference in these Conditions to principal or interest in respect of the Notes shall be deemed to include any additional amounts in respect of the principal or interest (as the case may be) which may be payable under this Condition 6.

## 7. COVENANTS

### 7.1 Interpretation

For the purposes of these Conditions:

- (a) **"Release Date"** means the day on which the purchase price for the Notes is paid to the Note holders who accepted the Tender Offer (as defined below);
- (b) **"Existing Loans"** means loans as presented in consolidated statement of comprehensive income of the Group for the year 2015 up to the amount of EUR 9,473,000 or potential loans made to renew or replace such loans.
- (c) **"Holding Company"** means, in relation to a company (Company A), any person in respect of which Company A is a Subsidiary.
- (d) **"Tender Offer"** means a notice of the Issuer given to all Note holders in accordance with Condition 14, containing a binding offer for the purchase of all Notes, which meets the following requirements:
  - (i) the offer is valid for at least 14 days after the date of such notice; and;
  - (ii) the price offered for each Note is equal to or higher than the sum of its nominal amount and accrued interest calculated for the period from the most recent Interest Payment Date up to the Release Day.
- (e) **"Subsidiary"** means, in relation to a person (Person A), each company which is (or would be, if Person A would be a company) considered, in accordance with the Slovenian Companies Act (Zakon o gospodarskih družbah, ZGD-1), to be a subsidiary ("odvisna družba") of either Person A or of another Subsidiary of Person A.
- (f) **"Affiliate"** means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.
- (g) **"Merger"** means amalgamation, demerger, merger or any other transaction for which a resolution of the Issuer's shareholders must be passed with a majority in accordance with the Slovenian Companies Act (Zakon o gospodarskih družbah, ZGD-1).
- (h) **"Associated Companies"** means associated companies of the Issuer (according to the definition in ZGD-1), presented in the consolidated statement of comprehensive income of the Group for the year 2015.
- (i) **"Prospectus"** means the prospectus published by the Issuer in relation to the admission of the Notes to trading on the stock exchange market of Ljubljanska borza vrednostnih papirjev, d. d., Ljubljana;

- (j) **"Relevant Indebtedness"** means any obligations having an original maturity of more than one year arising out of debt financial instruments which are or are intended to be or are capable of being listed, quoted or dealt in or traded on any stock exchange or other organised market for securities (whether or not initially distributed by way of public offering);
- (k) **"Group"** means the Issuer and each of its Subsidiaries from time to time.
- (l) **"Security"** means a mortgage, pledge, lien, assignment or other security interest over any asset of any member of the Group, securing any obligation of any person or any other agreement or arrangement having a similar effect (excluding, for the avoidance of doubt, guarantees, indemnities or pledge over, or assignment of receivables payable by members of the Group).

## 7.2 Negative Pledge

- (a) Except as permitted under paragraph (b) of this Condition 7.2, the Issuer shall not, and shall ensure that no other member of the Group will, create or permit any Security over any of its assets to exist unless equivalent Security is also be created for the Issuer's obligations under the Notes.
- (b) Paragraph (a) above does not apply to:
  - (i) Security securing liabilities towards members of the Group arising from their intergroup financing.
  - (ii) Security arising by operation of law in the ordinary course of business and securing obligations other than Relevant Indebtedness;
  - (iii) Security over goods, documents of title to goods and related documents and insurances and their proceeds to secure liabilities of any member of the Group in respect of a letter of credit issued for all or part of the purchase price and costs of shipment, insurance, cash deposits and storage of goods acquired by any member of the Group in the ordinary course of trading as inventory;
  - (iv) Security over goods and their proceeds and arising by virtue of the supplier's retention of title clause to secure only the purchase price of the goods, but only if the goods are inventory purchased by any member of the Group in the ordinary course of trading;
  - (v) Security over cash deposits or marketable investment securities securing the performance by a member of the Group of bid, tender, advance payment, retention money, performance bonds issued in the ordinary course of the contracting business of such member of the Group;
  - (vi) Security over an asset:
    - (a) acquired by a member of the Group after the Issue Date, to the extent that such Security is existing at the time of such acquisition; or
    - (b) of a company which became a member of the Group after the Issue Date, to the extent that such Security is existing at the time when such company becomes a member of the Group;

in each case to the extent that neither such Security was created nor the secured amount increased in contemplation of the acquisition of that asset by a member of the Group or of such company becoming a member of the Group;

- (vii) any Security created over any asset acquired after the Issue Date to secure indebtedness incurred solely for the purpose of financing all or any part of the purchase price or acquisition cost of that asset;
- (viii) Security securing the liabilities other than Relevant Indebtedness provided that the amount of such securities does not, in aggregate, exceed EUR 1,000,000.00;
- (ix) at any time after the Release Date, any other Security securing any indebtedness other than Relevant Indebtedness.

### 7.3 Mergers

- (a) Except as permitted under paragraph (b) of this Condition 7.3, the Issuer shall not, and shall ensure that no other member of the Group will, enter into any Merger.
- (b) Paragraph (a) above does not apply to:
  - (i) any Merger where all participants are the members of the Group; or
  - (ii) any Merger which occurs after Release Date.

### 7.4 Loans

- (a) Except as permitted under paragraph (b) of this Condition 7.4, the Issuer shall not, and shall ensure that no other member of the Group will, enter into any loans
- (b) Paragraph (a) above does not apply to:
  - (i) Existing Loans;
  - (ii) any advance payment, payment in instalments or any trade credit extended by any member of the Group to its customers and/or suppliers on normal commercial terms and in the ordinary course of its trading activities; or
  - (iii) a loan made by any member of the Group to another member of the Group or to Associated Companies;
  - (iv) cash deposits at bank or investments on money market instruments; or
  - (v) any loans, in aggregate, not exceeding EUR 1,000,000.00; or
  - (vi) any loans made after the Release Date.

### 7.5 No Guarantees

- (a) Except as permitted under paragraph (b) of this Condition 7.5, the Issuer shall not, and shall ensure that no other member of the Group will, incur or allow to remain outstanding any guarantee in respect of any obligation of any person.
- (b) Paragraph (a) does not apply to a guarantee which is:

- (i) guaranteeing liabilities of a member of the Group under any contract entered into in the ordinary course of its business; or
- (ii) guaranteeing liabilities of a person which is not a member of the Group, provided that the amount of such guarantees does not, in aggregate, exceed EUR 1,000,000.00; or
- (iii) issued after the Release Date.

## 7.6 No acquiring of the capital stakes outside the Issuer's core business

- (a) Except as permitted under paragraph (b) of this Condition 7.6, the Issuer shall not, and shall ensure that no other member of the Group will, acquire any stakes in other companies' capital.
- (b) Paragraph (a) does not apply to:
  - (i) acquisition of the stakes in the capital of the companies whose core business activity is the same as or complements the core business of the Issuer or other member of the Group; or
  - (ii) stakes acquired after the Release Date.

## 7.7 Publication of information

The Issuer shall publish the following information in accordance with Condition 14 as soon as it becomes aware of the relevant facts if it does so at any time before the Release Date:

- (a) in connection with any Security referred to in sub-paragraphs (vi) of paragraph (b) of Condition 7.2 over the assets of the Issuer or any other member of the Group, which was not disclosed in a prior notice given in accordance with this Condition 7.7:
  - (i) the description and the market value of the assets on which such Security exists;
  - (ii) the amount, final maturity and the debtor of the obligations secured by such Security;
  - (iii) an explanation for the exemption set out in sub-paragraph (vii) of paragraph (b) of Condition 7.2 applicable to such Security, allowing such exemption;
- (b) in connection with any Merger taking place after the date of the Prospectus:
  - (i) a description of such Merger;
  - (ii) an explanation as to any exemptions set out in paragraph (b) Condition 7.3 applicable to such Merger,
- (c) in connection with any loan made by the Issuer or by any other member of the Group, except the loans referred to in paragraph (b) of Condition 7.4:
  - (i) the amount, final maturity and the borrower of such loan;
- (d) in connection with any acquiring of the capital stakes outside the Issuer's core business referred to in paragraph (a) of Condition 7.6:
  - (i) a description of the acquisition of the stakes in capital of the other companies;



- (ii) an explanation as to any exemptions set out in sub-paragraph (i) of paragraph (b) Condition 7.6.

## 8. EVENTS OF DEFAULT

At the request of its holder, each Note shall become immediately due and repayable in its principal amount, together with interest accrued until the date of repayment, if any of the following events (each an "**Event of Default**") occurs and is continuing:

### 8.1 Non-payment

The Issuer fails to pay any amount of principal or interest in respect of the Notes within 5 days of the due date for payment thereof; or

### 8.2 Breach of other obligations

The Issuer does not perform or comply with any one or more of its other obligations under the Notes, which default is incapable of remedying or, if capable of remedying, is not remedied within 30 days after notice of such default has been given to the Issuer by any Note holder; or

### 8.3 Cross Default

Any of the following events occur in respect of financial indebtedness for borrowed money owed by the Issuer or any other member of the Group (save for the obligations towards members of the Group) either as a principal debtor or as a guarantor which, individually or in aggregate, exceeds the amount of EUR 10,000,000 (or its equivalent in any other currency):

- (a) such indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity by reason of an event of default (however described); or
- (b) the Issuer or any other member of the Group fails to make any payment in respect of such indebtedness when due nor within any originally applicable grace period; or

### 8.4 Change in shareholder's structure of the Issuer

The direct or indirect share owned by the Republic of Slovenia drops to 50% altogether and one share before the Release Date or the Republic of Slovenia loses its majority control over the Issuer in any other respect;

### 8.5 Insolvency, etc.

(i) The Issuer becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator (upravitelj prisilne poravnave) or liquidator (stečajni upravitelj) of the Issuer or the whole or a substantial part of the undertaking, assets and revenues of the Issuer is appointed (or an application for any such appointment is made), (iii) by reason of its financial difficulties the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or (iv) the Issuer ceases or threatens to cease to carry on all or any substantial part of its business; or

### 8.6 Winding up, etc.



An order is made or an effective resolution is passed by any competent authority for the winding up, liquidation or dissolution of the Issuer; or

## 8.7 Analogous event

Any event occurs which under the laws of the Republic of Slovenia has an analogous effect to any of the events referred to in paragraphs 8.5 (Insolvency, etc.) to 8.6 (Winding up, etc.) above.

## 9. PRESCRIPTION

Claims for principal shall become void unless claimed for payment within five years of the appropriate Relevant Date (as defined in Condition 6). Claims for interest shall become void unless claimed for payment within three years of the appropriate Relevant Date.

## 10. MEETINGS OF NOTE HOLDERS; MODIFICATION AND WAIVER

### 10.1 Definitions

In these Conditions, the following expressions have the following meanings:

- (a) **"Chairman"** means, in relation to any Meeting, the individual who takes the chair in accordance with Condition 10.4;
- (b) **"Extraordinary Resolution"** means a resolution passed at a Meeting duly convened and held in accordance with this Condition 10 by a majority of at least:
  - (i) in the case of a Reserved Matter, 75% of the aggregate principal amount of the outstanding Notes; or
  - (ii) in the case of a matter other than a Reserved Matter,  $66\frac{2}{3}\%$  of the aggregate principal amount of the outstanding Notes which are represented at that meeting;
- (c) **"Meeting"** means a meeting of Note holders (whether originally convened or resumed following an adjournment);
- (d) a Note shall be considered to be **"outstanding"** unless one or more of the following events has occurred:
  - (i) it has been redeemed in full or purchased under Condition 4, and if purchased under Condition 4, has been cancelled in accordance with Condition 4.3; or
  - (ii) for the purposes of Condition 10, it is being held by or on behalf of the Issue or an Affiliate of the Issuer (as defined in Condition 7.1);
- (e) **"Initiator"** means the Issuer in the capacity of the person convening the Meeting;
- (f) **"Proxy"** means, in relation to any Meeting, a person appointed to vote on behalf of one or more Note holders, other than:

- (i) any such person whose appointment has been revoked and in relation to whom the Issuer has been notified in writing of such revocation by the time which is at least 24 hours before the time fixed for such Meeting; and
  - (ii) any such person appointed to vote at a Meeting which has been adjourned for want of a quorum and who has not been re-appointed to vote at the Meeting when it is resumed;
- (g) **"Reserved Matter"** means, subject as provided in the paragraph below (Matters requiring unanimity), any proposal of the Initiator:
- (i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
  - (ii) to change the currency in which any amount due in respect of the Notes is payable or the manner in which any payment is to be made;
  - (iii) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution, Written Resolution or any other resolution of Note holders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Note holders or any of them;
  - (iv) to change this definition, the definition of "Extraordinary Resolution", the definition of "outstanding" or the definition of "Written Resolution";
  - (v) to change or waive the provisions of the Notes set out in Condition 2; or
  - (vi) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 8.
- (h) **"Matters requiring unanimity"**: means any proposal:
- (i) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes or the waiver of immunity by any of them, in respect of actions or proceedings brought by any Note holder, in each case set out in Condition 15;
  - (ii) to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer (except in the event that an exchange of Notes is to occur solely as a result of the operation of Condition 12) or any other person, which would result in the Conditions as so modified being less favourable to the holders of Notes which are subject to the Conditions as so modified than:
    - (A) the provisions of the other obligations or securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
    - (B) if more than one series of other obligations or securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series having the largest aggregate principal amount; or

- (iii) to modify the provisions of this paragraph above (Matters requiring unanimity), which may only be given effect with the consent of the Issuer and the holders of all of the outstanding Notes;
- (i) **"Modifications"** means a modification of these Conditions approved, subject as provided in the paragraph above (Matters requiring unanimity), by an Extraordinary Resolution or a Written Resolution as well as by the Issuer;
- (j) **"Voter"** means, in relation to any Meeting, any person registered in the Central Register as the holder of any Note 48 hours before the time fixed for such Meeting or a Proxy appointed by such Note holder;
- (k) **"Written Resolution"** means a resolution in writing signed by or on behalf of the holders of at least 75% of the aggregate principal amount of the outstanding Notes, in the case of a Reserved Matter, or  $66\frac{2}{3}\%$  of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Note holders;
- (l) **"24 hours"** means a period of 24 hours including all or part of a day upon which banks are open for business in the place where the relevant Meeting is to be held (disregarding for this purpose the day upon which such Meeting is to be held) and such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of a day upon which banks are open for business; and
- (m) **"48 hours"** means 2 consecutive periods of 24 hours.

## 10.2 Convening of Meeting

The Issuer may convene a Meeting at any time and the Issuer shall be obliged to do so upon a request in writing of Note holders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes.

## 10.3 Notice

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the relevant Meeting is to be held) specifying the date, time and place of the Meeting shall be given to the Note holders. The notice shall set out (i) the full text of any resolutions to be proposed, (ii) details of the manner in which Proxies may be appointed and the deadline for any such appointment, which shall be 24 hours before the time fixed for such Meeting and (iii) the name of the Chair appointed by the Initiator.

## 10.4 Chairman

An individual (who may, but need not, be a Note holder) appointed by the Initiator may take the chair at the respective Meeting. If the individual appointed is not present within 15 minutes after the time fixed for the Meeting, those present shall elect one from among themselves to take the chair, failing which the Initiator may appoint a Chairman.

## 10.5 Quorum

The quorum at any Meeting convened to vote on an Extraordinary Resolution will be:

- (i) one or more persons present and holding or representing more than 50% of the aggregate principal amount of the outstanding Notes; or
- (ii) where a Meeting is adjourned and rescheduled owing to a lack of quorum, at any rescheduled Meeting, one or more persons present and holding or representing at least 25% of the aggregate principal amount of the outstanding Notes,

provided, however, that any proposals relating to a Reserved Matter may only be approved by an Extraordinary Resolution passed at a Meeting at which one or more persons present and holding or representing at least 75% of the aggregate principal amount of the outstanding Notes form a quorum.

## 10.6 Adjournment for want of quorum

If within 15 minutes after the time fixed for any Meeting a quorum is not present, then:

- (i) in the case of a Meeting requested by Note holders, it shall be dissolved; and
- (ii) in the case of any other Meeting, it shall be adjourned for such period (which shall be not less than 14 days and not more than 42 days) and to such place as the Chairman determines,

provided, however, that the Meeting shall be dissolved if the Initiator so decides and no Meeting may be adjourned more than once for want of a quorum.

## 10.7 Adjourned Meeting

The Chairman may, with the consent of (and shall if directed by) any Meeting, adjourn such Meeting from time to time and from place to place, but no business shall be transacted at any adjourned Meeting except business which may lawfully have been transacted at the Meeting from which the adjournment took place.

## 10.8 Notice following adjournment

Condition 10.3 shall apply to any Meeting which is to be resumed after adjournment for want of a quorum save that:

- (i) 10 days' notice (exclusive of the day on which the notice is given and of the day on which the Meeting is to be resumed) shall be sufficient; and
- (ii) the notice shall specifically set out the quorum requirements which will apply when the Meeting resumes.

It shall not be necessary to give notice of the resumption of a Meeting which has been adjourned for any other reason.

## 10.9 Participation

The following may attend and speak at a Meeting:

- (i) Voters;
- (ii) representatives of the Issuer;
- (iii) the financial advisers of the Issuer;

- (iv) the legal counsel to the Issuer;
- (v) the financial advisers of the Note holders present or represented at the Meeting;
- (vi) the legal counsel to the Note holders present or represented at the Meeting; and
- (vii) any other person approved by the Meeting.

## 10.10 Show of hands

Every question submitted to a Meeting shall be decided in the first instance by a show of hands. Unless a poll is validly demanded before or at the time that the result is declared, the Chairman's declaration that on a show of hands a resolution has been passed, passed by a particular majority, rejected or rejected by a particular majority shall be conclusive, without proof of the number of votes cast for or against the resolution.

## 10.11 Poll

A demand for a poll shall be valid if it is made by the Chairman, the Issuer or one or more Voters representing or holding not less than one-fiftieth of the aggregate principal amount of the outstanding Notes. The poll may be taken immediately or after such adjournment as the Chairman directs, but any poll demanded on the election of the Chairman or on any question of adjournment shall be taken at the Meeting without adjournment. A valid demand for a poll shall not prevent the continuation of the relevant Meeting for any other business as the Chairman directs.

## 10.12 Votes

Every Voter shall have: (a) on a show of hands, one vote; and (b) on a poll, one vote in respect of each Note represented or held by him.

A Voter shall not be obliged to exercise all votes to which he is entitled or (in case of a poll) to cast all the votes which he/she exercises in the same way.

## 10.13 Validity of Votes by Proxies

If the Initiator requires, a notarised copy of each document appointing a Proxy and satisfactory proof of the identity of each Proxy named therein shall be produced at the Meeting, but the Initiator shall not be obliged to investigate the validity of any such appointment or the authority of any Proxy.

Any vote by a Proxy shall be valid even if the appointment of such Proxy or any instruction pursuant to which it was given has been amended or revoked, provided that the Initiator has not been notified in writing of such amendment or revocation by a time which is at least 24 hours before the time fixed for the relevant Meeting. Unless revoked, any appointment of a Proxy in relation to a Meeting shall remain in force in relation to any resumption of such Meeting following an adjournment; this is provided, however, that no such appointment of a Proxy in relation to a Meeting originally convened which has been adjourned for want of a quorum remains in force in relation to such Meeting when it is resumed. Any person appointed to vote at such a Meeting must be re-appointed as a Proxy to vote at the Meeting when it is resumed.

## 10.14 Powers

A Meeting shall have the following powers (exercisable by Extraordinary Resolution), without prejudice to any other powers conferred on it or any other person:

- (i) to approve any Reserved Matter;
- (ii) to approve any proposal by the Initiator for any modification, abrogation, variation or compromise of any of the Conditions or any arrangement in respect of the obligations of the Issuer under or in respect of the Notes;
- (iii) to approve the substitution of any person for the Initiator (or any previous substitute) as principal obligor under the Notes;
- (iv) to waive any breach or authorise any proposed breach by the Initiator of its obligations under or in respect of the Notes or any act or omission which might otherwise constitute an Event of Default under the Notes;
- (v) to authorise any person to execute all documents and do all that is necessary to give effect to any Extraordinary Resolution;
- (vi) to give any other authorisation or approval which is required to be given by Extraordinary Resolution; and
- (vii) to appoint any persons as a committee to represent the interests of the Note holders and to confer upon such committee any powers which the Note holders could themselves exercise by Extraordinary Resolution.

### 10.15 Extraordinary Resolution binds all holders

Any Extraordinary Resolution duly passed at a Meeting duly convened and held in accordance with this Condition 10 and approved by the Issuer shall be binding upon all Note holders, regardless of their presence at such Meeting and whether or not they voted in favour, and each of the Note holders shall be bound to give effect to it accordingly. Notice of the result of every vote on an Extraordinary Resolution shall be given by the Initiator to the Note holders within 14 days of the conclusion of the Meeting in accordance with Condition 14.

### 10.16 Minutes

Minutes shall be made of all resolutions and proceedings at each Meeting. The Chairman shall sign the minutes, which shall serve as *prima facie* evidence of the proceedings recorded therein. Unless and until the contrary is proved, every such Meeting in respect of the proceedings for which minutes have been summarised and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly completed.

### 10.17 Written Resolution

A Written Resolution shall take effect as if it were an Extraordinary Resolution and shall be binding on all Note holders regardless of whether they have signed them.

## 11.MANIFEST ERROR

The Notes and these Conditions may be amended without the consent of the Note holders for the purposes of correcting a manifest error or making any amendment which is of a formal, minor or technical nature as determined by a major international law firm and evidenced by a signed legal opinion from that law firm.

## 12.EXCHANGE OF THE NOTES

If an Extraordinary Resolution is passed or a Written Resolution is signed, approving in each case an amendment, modification, variation or abrogation of any provision of the Notes or these Conditions or the substitution of any person for the Issuer as obligor under the Notes; or (b) an amendment to the Notes or these Conditions is permitted pursuant to Condition 11, such amendment, modification, variation, abrogation or substitution shall, to the extent required under Slovenian law, be effected by way of the redemption of the Notes prior to their scheduled maturity date and by the Issuer procuring that, on the Exchange Date (as defined below). Replacement Notes (as defined below) are credited to the account of each Note holder with CDD in exchange for each Note which had been credited to the account of such Note holder with CDD at close of business on the CDD Business Day prior to the Exchange Date.

Each Note holder shall be deemed to have consented to the exchange of Notes in accordance with the foregoing and has authorised CDD to debit its securities account maintained with CDD accordingly.

In this Condition 12:

- (i) **"Exchange Date"** means the date specified by the Issuer in a notice given to the Note holder in accordance with Condition 14 not less than seven days before such date; and
- (ii) **"Replacement Notes"** means securities differing from the Notes solely in such respects as had been approved by the relevant Extraordinary Resolution or Written Resolution or as permitted pursuant to Condition 11.

## 13.FURTHER ISSUES

The Issuer may from time to time, without the consent of the Note holders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

## 14.NOTICES

A notice to a Note holder or a Beneficiary shall be valid (at the sole discretion of the Issuer, subject to any mandatory provisions of the applicable law) if either: (a) sent to such Note holder or Beneficiary at the address registered for a Note holder or Beneficiary in the Central Register or at the address advised by such a person to the Issuer in accordance with this Condition 14, and any such notice shall be deemed to have been given on the eighth day following the day the notice was sent by post, or (b) published in the manner required by the then applicable law for the publication of regulated information. Any such notice given by publication shall be deemed to have been given on the date of publication or, if so published more than once on different dates, on the date of the first publication.

Notices to the Issuer shall be sent by letter, e-mail or facsimile to the following address:

Telekom Slovenije, d. d..  
Cigaletova ulica 15  
SI-1000 Ljubljana  
Slovenia  
Fax: +386 1 432 93 98  
E-mail: [ir@telekom.si](mailto:ir@telekom.si)

or, in any case, to such other address or fax number or for the attention of such other person or department as the Issuer has specified for a particular purpose by prior notice to the Note holders and Beneficiaries.

Notices to the Issuer shall be valid upon receipt by the addressee provided; however, any such notice or communication which would otherwise take effect after 4.00 p.m. on any particular day or on any day which is not a business day in the place of the addressee shall not take effect until 10.00 a.m. on the next business day in the place of the addressee.

All notices hereunder shall only be valid if made (a) in the case of Notices to the Note holders or Beneficiaries, in English and Slovenian; and (b) in the case of Notices to the Issuer, in English or Slovenian or in any other language provided that such notices are accompanied by a certified English or Slovenian translation thereof. Any certified English or Slovenian translation delivered hereunder shall be certified a true and accurate translation by a professionally qualified translator or other suitably competent person.

## 15. GOVERNING LAW AND JURISDICTION

### 15.1 Governing law

The Notes and any non-contractual obligations arising out of or in connection with these Notes are governed by and shall be construed in accordance with Slovenian law.

### 15.2 Jurisdiction

The Issuer agrees for the benefit of the Note holders and Beneficiaries that the courts of the Republic of Slovenia shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes which may arise out of or in connection with the Notes (collectively, "**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

### 15.3 Non-exclusivity

The submission to the jurisdiction of the courts of the Republic of Slovenia shall not (and shall not be construed so as to) limit the right of any Note holder or Beneficiary to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

### 15.4 Consent to enforcement, etc.

The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.



## 15.5 Waiver of immunity

To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise and whether on the grounds of sovereignty or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.