IMPORTANT NOTICE

THIS OFFERING MEMORANDUM IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR (2) OUTSIDE THE UNITED STATES (AND, IF INVESTORS ARE RESIDENT IN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, A QUALIFIED INVESTOR).

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this notice, whether received by email or otherwise received as a result of electronic communication. You are advised to read this disclaimer carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the offering memorandum or make an investment decision with respect to the securities, investors must be either (1) qualified institutional buyers within the meaning of Rule 144A under the Securities Act ("QIBs"), or (2) outside of the United States; provided that investors resident in a Member State of the European Economic Area must be a qualified investor (within the meaning of Article 2(1)(e) of Directive 2003/71/EC and any relevant implementing measure in each Member State of the European Economic Area). The offering memorandum is being sent at your request. By accepting this e-mail and by accessing the offering memorandum, you shall be deemed to have represented to us and the initial purchasers set forth in the offering memorandum following this notice (the "Initial Purchasers") that:

(1) you consent to delivery of such offering memorandum by electronic transmission; and

(2) either you and any customers you represent are:

  (a) QIBs; or

  (b) outside the United States and the e-mail address that you gave us and to which the e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia (and if you are resident in a member state of the European Economic Area, you are a qualified investor).

Prospective purchasers that are QIBs are hereby notified that the seller of the securities offered under the offering memorandum may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

You are reminded that the offering memorandum has been delivered to you on the basis that you are a person into whose possession the offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the offering memorandum to any other person.

Under no circumstances shall the offering memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers (as defined in this offering memorandum) of the securities offered under the offering memorandum or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or affiliate thereof on behalf of the issuer in such jurisdiction.

The offering memorandum has not been approved by an authorized person in the United Kingdom and is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The offering memorandum must not be acted upon by persons who are not relevant persons. Any investment or investment activity to which this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons.

The offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Initial Purchasers, any person who controls any Initial Purchaser, or any of their respective directors, officers, employees or agents accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you from the Initial Purchasers upon your request.

OFFERING MEMORANDUM | **NOT FOR GENERAL DISTRIBUTION IN THE UNITED STATES**

STRICTLY CONFIDENTIAL

Adria Bidco B.V.

€475,000,000 7⅞% Senior Secured Notes due 2020

Adria Bidco B.V., a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands (the "Issuer"), is offering €475,000,000 aggregate principal amount of its 7⅞% Senior Secured Notes due 2020 (the "Notes") as part of the financing for the acquisition (the "Acquisition") of Slovenia Broadband S.à r.l. ("Slovenia Broadband") by the Issuer.

The Notes will mature on November 15, 2020. The Issuer will pay interest on the Notes semi-annually on each May 15 and November 15 commencing May 15, 2014. Prior to November 15, 2016, the Issuer will be entitled, at its option, to redeem all or a portion of the Notes by paying a "make-whole" premium, as described in this offering memorandum. The Notes may be redeemed at any time on or after November 15, 2016, at the redemption prices set forth in this offering memorandum. In addition, prior to November 15, 2016, the Issuer may redeem at its option up to 40% of the Notes with the net proceeds from certain equity offerings at a redemption price of 107.875% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, and additional amounts, if any, to the applicable redemption date, provided that at least 60% of the original aggregate principal amount of the Notes remains outstanding after the redemption. Prior to November 15, 2016, the Issuer may redeem up to 10% of the aggregate principal amount of the Notes (calculated after giving effect to any additional Notes that have been issued under the Indenture) in each twelve-month period commencing on the issue date at a redemption price equal to 103% of the principal amount thereof. Upon certain events defined as constituting a change of control, the Issuer may be required to make an offer to purchase the Notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the date of the repurchase. However, a change of control will not be deemed to have occurred if certain consolidated leverage ratios are not exceeded in connection with such event. In the event of certain developments affecting taxation, the Issuer may redeem all, but not less than all, of the Notes.

If the Issue Date (as defined herein) occurs prior to the date on which the Acquisition is consummated (the "Completion Date"), pending the consummation of the Acquisition, the Initial Purchasers (as defined herein) will deposit the proceeds from the offering of the Notes (the "Offering") less certain deductions in respect of fees and expenses into an Escrow Account (as defined herein). The release of escrow proceeds and consummation of the Acquisition will be subject to the satisfaction of certain conditions. If the Acquisition is not consummated on or prior to April 30, 2014 and upon the occurrence of certain other events, the Notes will be subject to a special mandatory redemption. The special mandatory redemption price will be a price equal to 100% of the issue price of the Notes plus accrued and unpaid interest and additional amounts, if any, to the date of special mandatory redemption.

The Notes will be senior secured obligations of the Issuer. Upon issuance, the Notes will be guaranteed on a senior basis by certain Guarantors (as defined herein) located in the Netherlands. Within 120 days following the Completion Date, subject to agreed security principles the Notes will be guaranteed (along with the guarantees granted upon issuance, the "Notes Guarantees") on a senior basis by certain Guarantors (as defined herein) located in Luxembourg, the Netherlands, Bosnia and Herzegovina and Slovenia. The Notes and the Notes Guarantees will, subject to certain exceptions, be secured by a first-priority security interest in the same assets that secure, on a super-priority basis, the Revolving Credit Facility (each as more fully described elsewhere in this offering memorandum). The Revolving Credit Facility will be guaranteed by the Guarantors and will also be guaranteed by, and secured by certain assets of, certain of our subsidiaries located in Serbia. In the event of an enforcement of the Collateral, the holders of the Notes will receive proceeds from such Collateral only after the lenders under the Revolving Credit Facility and counterparties to certain hedging obligations and other indebtedness that is permitted to be secured on a super priority basis have been repaid in full. The validity and enforceability of the Notes Guarantees and the security and the liability of each Guarantor will be subject to significant limitations, as described in "*Limitations on Validity and Enforceability of the Notes Guarantees and the Security Interests*".

This offering memorandum includes information on the terms of the Notes and the Notes Guarantees, including redemption and repurchase prices, security, covenants and transfer restrictions.

Application will be made to list the Notes with the Irish Stock Exchange for trading on the Global Exchange Market of the Irish Stock Exchange (the "Global Exchange Market"), which is the exchange-regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. No assurance can be given that the application will be granted.

Investing in the notes involves a high degree of risk. See "*Risk Factors*" beginning on page 30 for a discussion of certain risks that you should consider before investing in the Notes.

Offering price of the Notes: 100.000% plus accrued interest, if any, from the issue date.

The Notes and the Notes Guarantees have not been, and will not be, registered under the U.S. federal securities laws or the securities laws of any other jurisdiction. The Notes are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A ("Rule 144A") under the U.S. Securities Act of 1933, as amended ("Securities Act"), and to persons outside the United States in reliance on Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Notes and the Notes Guarantees are not transferable except in accordance with the restrictions described under "*Transfer Restrictions*".

The Notes will be in registered form and will initially be issued in denominations of €100,000 and integral multiples of €1,000 in excess thereof; provided that the Notes may only be transferred in amounts of €100,000 and integral multiples of €1,000 in excess thereof.

The Notes will be represented on issue by one or more Global Notes, which we expect will be delivered through Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream"), on or about November 15, 2013.

Global Coordinators & Bookrunners

Credit Suisse | **BNP PARIBAS** | **Citigroup** | **UniCredit Bank**

Bookrunners

ING | **KKR**

Co-Managers

Banca IMI | **Raiffeisen Bank International AG**

The date of this offering memorandum is November 7, 2013.

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IMPORTANT INFORMATION

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the €475,000,000 aggregate principal amount of the Notes described in this offering memorandum and should be used solely for the purposes for which it has been produced. Distribution of this offering memorandum to any person other than the prospective investor and any person retained to advise such prospective investor with respect to the purchase of Notes is unauthorized and any disclosure of any of the contents of this offering memorandum without the our prior written consent is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees to not make copies of this offering memorandum or any documents referred to in this offering memorandum.

In making an investment decision, prospective investors must rely solely on the information contained in this offering memorandum and their own examination of the Issuer and its subsidiaries and businesses and the terms of the Offering, including the merits and risks involved. Neither we nor any of the Initial Purchasers has authorized any other person to provide different information to any investor or potential investor and we do not take responsibility for any information that others may give to you. In addition, neither we, nor any of the initial purchasers, nor the Trustee, nor any of their respective representatives, are making any representation to prospective investors regarding the legality of an investment in the Notes, and prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Prospective investors should consult their own advisers as to legal, tax, business, financial and related aspects of an investment in the Notes. Prospective investors must comply with all laws applicable in any jurisdiction in which they buy, offer or sell the Notes or possess or distribute this offering memorandum; neither we nor the initial purchasers, nor the Trustee, shall have any responsibility for any of the foregoing legal requirements. See "*Transfer Restrictions*".

We are offering the Notes in reliance on an exemption from registration under the Securities Act for an offer and sale of securities that does not involve a public offering. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable securities laws of any other jurisdiction pursuant to registration or exemption therefrom. Prospective purchasers should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. If you purchase the Notes, you will be deemed to have made certain acknowledgments, representations and warranties as detailed under "*Transfer Restrictions*".

This offering memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose. Accordingly, the Notes may not be offered or sold, directly or indirectly, nor may this offering memorandum be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction.

We reserve the right to withdraw this offering at any time. We are making this offering subject to the terms described in this offering memorandum and the purchase agreement relating to the Notes entered into between us and the initial purchasers. We and the initial purchasers may reject any offer to purchase the Notes in whole or in part, sell less than the entire principal amount of the Notes offered hereby or allocate to any purchaser less than all of the Notes for which it has subscribed. The initial purchasers and certain of their related entities may acquire, for their own accounts, a portion of the Notes.

Interests in the Notes will be available initially in book-entry form. We expect that the Notes sold will be issued in the form of one or more global notes. The global notes will be deposited and registered in the name of a common depositary for Euroclear and Clearstream. Transfers of interests in the global notes will be effected through records maintained by Euroclear and Clearstream, respectively, and their respective participants. The Notes will not be issued in definitive registered form except under the circumstances described in the section "*Book-Entry, Delivery and Form*". The information set out in relation to sections of this offering memorandum describing clearing arrangements, including in the sections entitled "*Description of the Notes*" and "*Book-Entry, Delivery and Form*", is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream currently in effect. While we accept responsibility for accurately summarizing such information, we accept no further responsibility in respect of such information.

Application will be made to list the Notes on the Official List of the Irish Stock Exchange and for the Notes to be admitted to trading on the Global Exchange Market thereof, and we will submit this offering memorandum to the competent authority in connection with the listing application. In the course of any review by the competent authority, we may be requested to make changes to the financial and other information included in this offering memorandum in producing listing particulars for such listing. Comments by the competent authority may require significant modification or reformulation of information contained in this offering memorandum or may require the inclusion of additional information. We may also be required to update the information in this offering memorandum to reflect changes in our business, financial condition or results of operations and prospects. We cannot guarantee that our application for admission of the Notes on the Irish Stock Exchange will be approved and settlement of the Notes is not conditioned on obtaining this listing.

Neither the U.S. Securities and Exchange Commission, any U.S. state securities commission nor any non-U.S. securities authority nor other authority has approved or disapproved of the Notes or determined whether this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense in the United States.

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN IN CONNECTION WITH THE MARKETING OF THE NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

STABILIZATION

IN CONNECTION WITH THIS OFFERING, CREDIT SUISSE SECURITIES (EUROPE) LIMITED (THE “STABILIZING MANAGER”) OR ANY PERSONS ACTING FOR IT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION OF THE STABILIZING MANAGER OR ANY PERSONS ACTING FOR IT TO DO THIS. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES, ANNOTATED 1995, AS AMENDED, WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO U.S. INVESTORS

The Offering is being made in the United States in reliance upon an exemption from registration under the Securities Act for an offer and sale of the Notes which does not involve a public offering. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements. Please see "*Transfer Restrictions*".

This offering memorandum is being provided (1) to a limited number of U.S. investors that the Issuer reasonably believes to be "qualified institutional buyers" under Rule 144A for informational use solely in connection with their consideration of the purchase of the Notes and (2) outside the United States in connection with offshore transactions complying with Regulation S. The Notes described in this offering memorandum have not been registered with, recommended by or approved by the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other securities commission or regulatory authority, nor has the SEC or any state securities commission in the United States or any such other securities commission or authority passed upon the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

NOTICE TO U.K. INVESTORS

This offering memorandum is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or "FSMA"), and other persons to whom it may lawfully be communicated, falling within Article 29(2) of the Order (all such persons together being referred to as "relevant persons"). Accordingly, by accepting delivery of this offering memorandum, the recipient warrants and acknowledges that it is such a relevant person. The Notes are available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. No part of this offering memorandum should be published, reproduced, distributed or otherwise made available in whole or in part to any other person without the prior written consent of the Issuer. The Notes are not being offered or sold to any person in the United Kingdom, except in circumstances which will not result in an offer of securities to the public in the United Kingdom within the meaning of Part VI of the FSMA.

NOTICE TO EUROPEAN ECONOMIC AREA INVESTORS

This offering memorandum has been prepared on the basis that the offer and sale of the Notes will be made pursuant to an exemption under Directive 2003/71/EC (and amendments thereto, including the Directive 2010/73/EU ("2010 PD Amending Directive)) (the "Prospectus Directive") as implemented in member states of the European Economic Area ("EEA"), from the requirement to produce and publish a prospectus which is compliant with the Prospectus Directive, as so implemented, for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA or any of its member states (each a "Relevant Member State") of the Notes which are the subject of the placement referred to in this offering memorandum must only do so in circumstances in which no obligation arises for the Issuer or any of the initial purchasers to produce and publish a prospectus which is compliant with the Prospectus Directive, including Article 3 thereof, as so implemented for such offer. For EEA jurisdictions that have not implemented the Prospectus Directive, all offers of the Notes must be in compliance with the laws of such jurisdictions. Neither the Issuer nor the initial purchasers have authorized, nor do they authorize, the making of any offer of the Notes through any financial intermediary, other than offers made by the initial purchasers, which constitute a final placement of the Notes.

In relation to each Relevant Member State, each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of the Notes which are the subject of this Offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 natural or legal persons or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive subject to obtaining the prior consent of the initial purchasers nominated by the Issuer for any such offer; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of the Notes shall result in a requirement for the publication by the Issuer or the initial purchasers of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as such expression may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. For the purposes of this provision, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

NOTICE TO INVESTORS IN THE NETHERLANDS

The Notes which are the subject of this offering memorandum have not been and shall not be offered, sold, transferred or delivered in the Netherlands other than to legal entities which are qualified investors (within the meaning of the Prospectus Directive).

NOTICE TO INVESTORS IN THE GRAND DUCHY OF LUXEMBOURG

The Offering should not be considered a public offering of securities in the Grand Duchy of Luxembourg. This offering memorandum may not be reproduced or used for any purpose other than this private placement nor provided to any person other than the recipient thereof. The Notes are offered to a limited number of sophisticated investors in all cases under circumstances designed to preclude a distribution, which would be other than a private placement. All public solicitations are banned and the sale may not be publicly advertised.

SWITZERLAND

This offering memorandum, as well as any other material relating to the Notes which are the subject of the Offering contemplated by this offering memorandum, do not constitute an issue prospectus pursuant to article 652a and/or article 1156 of the Swiss Code of Obligations and may not comply with the Directive for Notes of Foreign Borrowers of the Swiss Bankers Association. The Notes will not be listed on the SIX Swiss Exchange Ltd. or any other Swiss stock exchange or regulated trading facility and, therefore, the documents relating to the Notes, including, but not limited to, this offering memorandum, do not claim to comply with the disclosure standards of the Swiss Code of Obligations and the listing rules of SIX Swiss Exchange Ltd. and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange Ltd or the listing rules of any other Swiss stock exchange or regulated trading facility. The Notes are being offered in Switzerland by way of a private placement (i.e., to a small number of selected investors only), without any public advertisement and only to investors who do not purchase the Notes with the intention to distribute them to the public. The investors will be individually approached directly from time to time. This offering memorandum, as well as any other material relating to the Notes, is personal and confidential and does not constitute an offer to any other person. This offering memorandum, as well as any other material relating to the Notes, may only be used by those investors to whom it has been handed out in connection with the offering described herein and may neither directly or indirectly be distributed or made available to other persons without the Issuer's express consent. This offering memorandum, as well as any other material relating to the Notes, may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

REPUBLIC OF ITALY

Each of the Issuer and the Initial Purchasers represents and agrees that the offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("CONSOB") (the Italian Securities Exchange Commission) pursuant to Italian securities laws and, accordingly, each Initial Purchaser represents and agrees that no Notes may be offered, sold or delivered, nor may copies of this offering memorandum or of any other documents relating to the Notes be distributed in the Republic of Italy ("Italy"), except:

(a) to the categories of qualified investors (*investitori qualificati*) set out in paragraphs (i) to (iii) of the Prospectus Directive, as referred to in Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended (the "Financial Services Act"); or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 4-*ter*, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended (the "Regulation No. 11971").

Each Initial Purchaser further represents and agrees that any offer, sale or delivery of the Notes or distribution of copies of this offering memorandum or any other document relating to the Notes in Italy under (a) or (b) above must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007 (as amended from time to time) and Legislative Decree No. 385 of September 1, 1993, as amended; and

(ii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes forward-looking statements, which are based on our current expectations and projections about future events. All statements other than statements of historical facts included in this offering memorandum including, without limitation, statements regarding our future financial position, risks and uncertainties related to our business, strategy, capital expenditures, projected costs and our plans and objectives for future operations, may be deemed to be forward-looking statements. Words such as "believe", "expect", "anticipate", "may", "assume", "plan", "intend", "will", "should", "estimate", "risk", and similar expressions or the negatives of these expressions are intended to identify forward-looking statements. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. You should not place undue reliance on these forward-looking statements.

In addition any forward-looking statements are made only as of the date of this offering memorandum and we do not intend, and do not assume any obligation, to update forward-looking statements set forth in this offering memorandum.

Many factors may cause our results of operations, financial condition, liquidity and the development of the industry in which we compete to differ materially from those expressed or implied by the forward-looking statements contained in this offering memorandum. Factors that could cause such differences in actual results include:

- the high level of competition in the markets in which we operate;
- our dependence on relationships with content providers;
- our ability to increase our subscriber base or subscription fees;
- the impact of volatile economic conditions on demand for our services and our subscriber base;
- the impact of customer churn;
- our ability to market our products and services;
- our ability to keep pace with technological changes and evolving industry standards;
- failures in our technology or telecommunications systems;
- the risks associated with operating a capital-intensive business;
- our relationships with third-party providers of hardware, software and customer support;
- our ability to maintain our reputation and the value associated with our brands;
- our ability to successfully complete acquisitions;

- the lack of operational history as a combined entity;
- our ability to attract and retain key personnel;
- our ability to maintain positive business relationships with our competitors;
- the level of governmental regulation applicable to our business operations;
- our ability to renew regulatory licenses and permits;
- the influence of the political, judicial, economic or security environment on our business;
- the continued implementation of political and economic reforms in our countries of operation;
- our ability to cope with more extensive regulation;
- the impact of currency exchange rate fluctuations and the Eurozone debt crisis on our business;
- the impact of changes in labor laws on our business;
- our ability to comply with applicable data protection laws and policies;
- the impact of legal proceedings on our business;
- the extent to which our business operations are protected by intellectual property rights;
- our compliance with third-party intellectual property rights;
- our ability to cope with increased inflation;
- the impact of changes to tax legislation on our business; and
- other risks associated with the Transactions, our Financing, the Notes and our structure as discussed under "*Risk Factors*."

We disclose important factors that could cause our actual results to differ materially from our expectations in "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*". Other sections of this offering memorandum describe additional factors that could adversely affect our business, financial condition or results of operations. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors. We cannot assess the impact of all risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements as a prediction of actual results.

INDUSTRY AND MARKET DATA

This offering memorandum includes market share and industry information, which was obtained by us from industry publications and surveys, industry reports prepared by consultants, internal surveys and customer feedback. These include information published by Screendigest, Ratel, the Bosnian communications regulatory agency and other international management consulting firms. The aforementioned third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy and completeness of this information is not guaranteed and is based on significant assumptions. As we do not have access to the facts and assumptions underlying such market data, statistical information and economic indicators contained in these third-party sources, we are unable to verify such information and cannot guarantee its accuracy or completeness. In addition, various economic and other factors may cause actual results to differ from these projections.

Certain information in this offering memorandum represents our best estimate based upon information obtained from trade and business organizations and associations, consultants and other contacts within the industries in which we compete, as well as information published by our competitors. In particular, we prepared data (i) in respect of our market position based on information obtained from trade and business organizations and associations and other contacts within the industry in which we compete, (ii) in respect of industry trends based on our senior management's business experience and experience in the industry and the local markets in which we operate, and (iii) in respect of our operating performance based on our internal analysis of our own audited and unaudited information. Our estimates derived from this information may be incorrect and actual facts may differ from our estimates. The information we include regarding our market share in certain segments is based on revenues.

PRESENTATION OF FINANCIAL INFORMATION

Financial Information Included in this Offering Memorandum

We present in this offering memorandum financial information for Slovenia Broadband, the entity that will be acquired by the Issuer, as well as for certain entities that have been acquired by Slovenia Broadband or combined as subsidiaries of Slovenia Broadband to form a single reporting group. Serbia Broadband—Srpske Kablovske Mreže d.o.o. ("SBB Serbia") was acquired by Mid Europa in Serbia's first leveraged buyout in 2007. In 2009, Mid Europa acquired Telemach d.o.o. ("Telemach Slovenia"). During 2010, the consolidation of three cable pay-TV operators in Sarajevo by Mid Europa, including KT Global Net, BH Cabel Net and ELOB CATV, led to the formation of Telemach d.o.o. Sarajevo ("Telemach BH"). Telemach Slovenia, SBB Serbia and Telemach BH form the core operating companies of our group and were not combined into a single reporting structure until SBB Serbia was acquired by Slovenia Broadband (which already held Telemach Slovenia and Telemach BH) in December 2012. We refer to the combination of the three entities under Slovenia Broadband as the "Business Combination." As these companies will constitute the main portion of our consolidated business following this Offering, we have included financial statements for Telemach Slovenia, SBB Serbia and Telemach BH herein.

Audited Consolidated Historical Financial Information

We have included in this offering memorandum:

(i) audited consolidated financial information for Telemach Slovenia for each of the years ended December 31, 2011 and 2012;

(ii) audited consolidated financial information for SBB Serbia for each of the years ended December 31, 2011 and 2012; and

(iii) audited consolidated financial information for Telemach BH for each of the years ended December 31, 2011 and 2012.

Unaudited Consolidated Historical Financial Statements

We have also included in this offering memorandum unaudited consolidated financial information for Slovenia Broadband for the six months ended June 30, 2013.

We have acquired various other businesses since 2012, some of which are included in the financial statements described above since their date of acquisition. As a result, the financial statements included in this offering memorandum are not comparable to the respective prior periods.

We do not separately present the consolidated financial information of the Issuer because the Issuer is a wholly owned direct parent of Slovenia Broadband and is a newly formed holding company that has been formed for the purposes of the Transactions. As of the date of this offering memorandum, the Issuer does not conduct any operating activities, hold any assets or have any material liability.

Unaudited Pro Forma Condensed Combined Financial Information

We have also included in this offering memorandum (i) unaudited pro forma financial information for Slovenia Broadband for the year ended December 31, 2012 and (ii) unaudited pro forma financial information for Slovenia Broadband for the six months ended June 30, 2012 which give pro forma effect to the Business Combination and the other adjustments described in "*Unaudited Pro Forma Condensed Combined Financial Information*".

The pro forma financial statements referred to in this section also give effect to the acquisition of certain businesses not consolidated in the historical financial statements included in this offering memorandum, and include the results of those acquired businesses from the date of the acquisition.

The unaudited pro forma financial information for Slovenia Broadband is presented for information purposes only and is not intended to represent or be indicative of the combined results of operations or financial position that we would have reported had the Business Combination been completed as of the dates and for the periods presented therein and should not be taken as representative of our combined results of operations or financial condition following the completion of the transactions described in this offering memorandum.

In addition, the unaudited pro forma financial information presented in this offering memorandum has not been prepared in accordance with the requirements of Regulation S-X under the Exchange Act or IFRS.

Foreign Exchange Rates

SBB Serbia and Telemach BH have historically reported their results in Serbian dinar and Bosnian marks, respectively. We have included in this offering memorandum convenience translations of SBB Serbia's financial results for the year ended December 31, 2012 and of Telemach BH's financial results for the years ended December 31, 2011 and December 31, 2012, respectively, to the euro.

The exchange rates used for income statement and cash flow items are the following average exchange rates for the relevant period:

- Serbian dinar to euro: RSD 101.9502 per €1.00, which was the average foreign exchange rate of the Serbian dinar to euro for the year ended December 31, 2011; RSD 110.9411 per €1.00, which was the average foreign exchange rate of the Serbian dinar to euro for the six months ended June 30, 2012; RSD 113.1277 per €1.00, which was the average foreign exchange rate of the Serbian dinar to euro for the year ended December 31, 2012; and RSD 111.9270 per €1.00 which was the average foreign exchange rate of the Serbian dinar to euro for the six months ended June 30, 2013.
- Bosnian mark to euro: BAM 1.9558 per €1.00, which is the rate at which the Bosnian mark is pegged to the euro.

The exchange rates used for balance sheet items are the rates as of the relevant period end. Please see "*Exchange Rate Information*."

Non-IFRS Financial and Operating Information

Certain financial measures and ratios related thereto in this offering memorandum, including EBITDA, EBITDA Margin, Last Two Quarter Adjusted EBITDA, Last Two Quarter Annualized Adjusted EBITDA and ARPU per customer (the "Non-IFRS Measures") are not specifically defined under IFRS or any other generally accepted accounting principles. These measures are presented in this offering memorandum because we believe that they and similar measures are widely used in our industry as a means of evaluating a company's operating performance and financing structure. These measures may not be comparable to other similarly titled measures of other companies and are not measurements under IFRS or other generally accepted accounting principles, and you should not consider such items as alternatives to net income (loss), operating income or any other performance measures derived in accordance with IFRS, and they may be different from similarly titled measures used by other companies. Our management believes this information, along with comparable IFRS measures, is useful to investors because it provides a basis for measuring the operating performance in the periods presented. These measures are used in the internal management of our business, along with the most directly comparable IFRS financial measures, in evaluating the operating performance.

The Non-IFRS Measures have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results or any performance measures under IFRS as set forth in our financial statements. Some of these limitations are:

- they do not reflect our cash expenditures or future requirements for capital commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the interest expense or cash requirements necessary to service interest or principal payments on our debt;
- they do not reflect any cash income taxes that we may be required to pay;
- they are not adjusted for all non-cash income or expense items that are reflected in our consolidated income statement;
- they do not reflect the impact of earnings or charges resulting from certain matters we consider not to be indicative of our ongoing operations;
- assets are depreciated or amortized over differing estimated useful lives and often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements; and

- other companies in our industry may calculate these measures differently than we d, limiting their usefulness as comparative measures.

Because of these limitations the Non-IFRS Measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our IFRS results and using these Non-IFRS Measures only supplementally to evaluate our performance. Please see "*Summary—Summary Consolidated Historical and Pro Forma Financial Data*", "*Selected Consolidated Historical Financial Data*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and our consolidated financial statements and the related notes included elsewhere in this offering memorandum.

For a description of how our the Non-IFRS Measures are calculated from our consolidated result from operations and a reconciliation of the Non-IFRS Measures to our results for the period presented in this offering memorandum, please see "*Summary—Summary Consolidated Historical and Pro Forma Financial Data*."

CERTAIN DEFINITIONS

Unless otherwise specified or the context requires otherwise in this offering memorandum references to:

"Acquisition" has the meaning ascribed to it under "*Summary—The Transactions—The Acquisition Agreement*";

"Acquisition Agreement" has the meaning ascribed to it under "*Summary—The Transactions—The Acquisition Agreement*";

"BAM" refers to Bosnian Mark, the lawful currency of Bosnia and Herzegovina;

"BBB" refers to Bosnia Broadband S.à r.l., a Luxembourg private limited liability company (*société à responsabilité limitée*), registered with the Luxembourg Register of Commerce and Companies under number B153.262, having its registered office at 5, rue Guillaume Kroll, L-1882 Luxembourg, and having a share capital of EUR 23,493,645.24;

"Business Combination" has the meaning ascribed to it under "*Presentation of Financial Information*";

"Clearstream" refers to Clearstream Banking, *société anonyme*;

"Collateral" has the meaning ascribed to it under "*Summary—The Offering—Security*";

"Completion Date" refers to the date on which the Acquisition is consummated;

"Equity Contribution" has the meaning ascribed to it under "*Summary—The Transactions—The Financing*;"

"Escrow Account" refers to the escrow account into which the gross proceeds from the Offering will be deposited on the Issue Date pending consummation of the Acquisition, in the event that the Completion Date occurs after the Issue Date;

"Escrow Agent" refers to Elavon Financial Services Limited, UK Branch;

"Escrow Agreement" refers to the agreement to be dated the Issue Date between the Issuer, the Trustee and the Escrow Agent relating to the Escrow Account;

"EU" refers the European Union;

"euro" or "€" refers the lawful currency of the European Monetary Union;

"Euroclear" refers to Euroclear Bank SA/NV";

"EuroDOCSIS" refers to the European implementation of an international telecommunications standard that permits the addition of high-speed data transfer to an existing cable television system;

"Existing Facilities" collectively refers to the debt facilities established pursuant to the Serbian Term Facilities Agreement and the Non-Serbian Term and Revolving Facilities Agreement;

"Financing" has the meaning ascribed to it under "*Summary—The Transactions—The Financing*";

"Group", "us", "our", and "we" refers to Slovenia Broadband and its consolidated subsidiaries prior to the completion of the Acquisition and the Issuer and its consolidated subsidiaries following the completion of the Acquisition;

"Guarantors" has the meaning ascribed to it under "*Summary—The Offering—Guarantees*";

"HFC" refers to "hybrid fiber-coaxial" and is a telecommunications industry term for a broadband network that combines optical fiber and coaxial cable;

"IFRS" refers to International Financial Reporting Standards as adopted by the European Union;

"Indenture" refers the indenture to be dated on or about the Issue Date governing the Notes offered hereby;

"Initial Purchasers" refers to Credit Suisse Securities (Europe) Limited, BNP Paribas, Citigroup Global Markets Limited, UniCredit Bank AG, ING Bank N.V., London Branch, KKR Capital Markets Limited, Raiffeisen Bank International AG and Banca IMI S.p.A.;

"Intercreditor Agreement" refers to the intercreditor agreement to be dated on or about the Issue Date by and among, *inter alios*, the Issuer, the Security Agent and certain lenders under the Revolving

Credit Facility, which is described in more detail in "*Description of Certain Indebtedness—Intercreditor Agreement*";

"Issue Date" refers to November 15, 2013;

"Issuer" refers to Adria Bidco B.V.;

"KDS" refers to KDS NS, a Serbian cable operator based in the Serbian city of Novi Sad, which was acquired by us in December 2011;

"KKR" refers to certain investment funds advised by Kohlberg Kravis Roberts & Co. LP or its affiliates;

"Luxembourg Guarantors" refers to BBB and Slovenia Broadband collectively;

"Member State" means a member state of the European Economic Area;

"Mid Europa" refers to funds advised/managed by Mid Europa Partners LLP;

"MVNO" refers to mobile virtual network operator;

"Non-Serbian Term and Revolving Facilities Agreement" refers to the term and revolving facilities agreement dated November 26, 2012 entered into by and between, *inter alios*, Slovenia Broadband S.à r.l., Adria Cable B.V., Telemach Slovenia, Telemach Tabor d.d., Telemach Rotovz d.d., Total TV d.o.o., SBB Serbia and Telemach BH, as original borrowers, the Original Guarantors (as defined therein) and Banca IMI S.p.A., London Branch, BNP Paribas, Credit Agricole Corporate and Investment Bank, Credit Agricole Srbija a.d. Novi Sad, Erste Group Bank AG, ING Bank NV, Société Générale, Frankfurt Branch and UniCredit Bank Austria AH as arrangers;

"Notes" refers to the 7⅞% Senior Secured Notes due 2020 offered hereby;

"Notes Guarantees" has the meaning ascribed to it in "*Summary—The Offering—Guarantees*";

"Pro Forma" when used with respect to any financial or operational information gives effect to the Business Combination as though it had occurred on the first day of the reporting period for which such information is presented";

"Offering" refers to the offering of the Notes pursuant to this offering memorandum;

"Regulation S" refers to Regulation S under the Securities Act;

"Revolving Credit Facility" refers to the €60.0 million senior secured revolving credit facility established under the Senior Facilities Agreement which is described in more detail in "*Description of Certain Indebtedness—Senior Facilities Agreement*";

"RGUs" refers to revenue generating users;

"RSD" refers to Serbian Dinar, the lawful currency of the Republic of Serbia;

"SBB Serbia" refers to Srpske Kablovske Mreže d.o.o.;

"Securities Act" refers to the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;

"Security Agent" refers to UniCredit Bank AG, London Branch;

"Security Documents" has the meaning ascribed to it under "*Description of the Notes*";

"Serbian Term Facilities Agreement" refers to the term facilities agreement dated November 26, 2012 entered into by and between, *inter alios*, Broadband Investment d.o.o. and SBB Serbia, as original borrowers, the Original Guarantors (as defined therein) and Banca IMI S.p.A., London Branch, BNP Paribas, Credit Agricole Corporate and Investment Bank, Credit Agricole Srbija a.d. Novi Sad, Erste Group Bank AG, ING Bank NV, Société Générale, Frankfurt Branch and UniCredit Bank Austria AH as arrangers;

"Senior Facilities Agreement" has the meaning ascribed to it under "*Description of Certain Indebtedness*";

"Slovenia Broadband" refers to Slovenia Broadband S.à r.l., a Luxembourg private limited liability company (*société à responsabilité limitée*), registered with the Luxembourg Register of Commerce and

Companies under number B145.882, having its registered office at 5, rue Guillaume Kroll, L-1882 Luxembourg, and having a share capital of EUR 200,000;

"Telemach BH" refers to Telemach d.o.o. Sarajevo;

"Telemach Slovenia" refers to Telemach d.o.o.;

"Transactions" refers collectively to the Acquisition and the Financing, as further described in "*Summary—The Transactions*";

"Trustee" refers to U.S. Bank Trustees Limited, who is expected to serve as trustee under the Indenture;

"U.S." and "United States" refers to the United States of America;

"U.S. dollars" or "$" refers to the lawful currency of the United States; and

"VPN" refers to virtual private network.

EXCHANGE RATE INFORMATION

The table below sets forth the period end, average, high and low Bloomberg (London) Composite Rate, expressed as Serbian dinar per €1.00, Serbian dinar per $1.00 and U.S. dollar per €1.00, for the periods and dates indicated. The Bosnian mark is pegged to the euro at a rate equal to BAM 1.9558 per €1.00. The below rates may differ from the actual rates used in the preparation of our consolidated financial statements and the other financial information appearing in this offering memorandum. The figure in the "Average" column for the annual presentation represents the average noon buying rate on the last business day of each month during the relevant period. The figure in the "Average" column of the monthly presentation represents the average daily noon buying rate for each business day during the relevant period. Our inclusion of these exchange rates is not meant to suggest that the euro amounts actually represent such dollar amounts or that such amounts would have converted at a particular rate, if at all.

The Bloomberg Composite Rate of the Serbian dinar on November 7, 2013 was RSD 114.0542 per €1.00.

	Serbian dinar per euro			
	Period end	Average	High	Low
Year				
2008	89.7794	81.4854	91.7073	75.0540
2009	96.1664	94.0529	97.1926	89.7001
2010	106.1154	103.1178	108.0452	96.1979
2011	107.0747	101.9956	107.0747	96.7102
2012	112.6394	113.0866	119.0596	103.8000

	Serbian dinar per euro			
	Period end	Average	High	Low
Month				
May 2013	112.7740	111.0153	112.7740	110.3113
June 2013	113.6585	114.1313	114.7340	113.3810
July 2013	113.8086	113.8984	114.2979	113.5175
August 2013	114.4020	114.0679	114.4976	113.7586
September 2013	114.3022	114.6465	115.1280	114.3022
October 2013	113.9275	114.1044	114.4870	113.7672
November 2013 (through November 7)	114.0542	114.0302	114.0542	113.8845

The Bloomberg Composite Rate of the Serbian dinar on November 7, 2013 was RSD 85.0535 per $1.00.

	Serbian dinar per U.S. dollar			
	Period end	Average	High	Low
Month				
2008	64.3682	55.7693	72.4044	48.6448
2009	67.1013	67.6376	75.4146	62.0114
2010	79.3875	77.9100	86.6630	67.0224
2011	82.6193	73.3534	82.6193	66.7482
2012	85.1548	88.0182	98.0497	79.8518

	Serbian dinar per U.S. dollar			
	Period end	Average	High	Low
Year				
May 2013	86.9605	85.5387	86.9605	84.0693
June 2013	87.2194	86.5021	87.9633	84.9919
July 2013	85.7381	87.0657	88.9784	85.7381
August 2013	86.6296	85.6586	86.6296	85.0431
September 2013	84.4758	85.8559	87.1904	84.4758
October 2013	83.8020	83.6568	84.5409	82.6827
November 2013 (through November 7)	85.0535	84.6269	85.0535	84.1973

The Bloomberg Composite Rate of the euro on November 7, 2013 was U.S.$1.3405 per €1.00.

	U.S. dollar per euro			
	Period end	**Average**	**High**	**Low**
Year				
2008	1.3953	1.4709	1.5990	1.2452
2009	1.4331	1.3944	1.5094	1.2543
2010	1.3366	1.3266	1.4510	1.1952
2011	1.2960	1.3924	1.4874	1.2925
2012	1.3197	1.2859	1.3463	1.2053

	U.S. dollar per euro			
	Period end	**Average**	**High**	**Low**
Month				
May 2013	1.2971	1.2981	1.3190	1.2828
June 2013	1.3005	1.3187	1.3402	1.2971
July 2013	1.3276	1.3083	1.3280	1.2792
August 2013	1.3204	1.3315	1.3420	1.3204
September 2013	1.3531	1.3354	1.3531	1.3127
October 2013	1.3595	1.3639	1.3804	1.3498
November 2013 (through November 7)	1.3405	1.3472	1.3526	1.3405

For a discussion of the impact of the exchange rate fluctuations on our financial condition and results of operations, please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

SUMMARY

The following summary highlights selected information from this offering memorandum. The following summary does not contain all of the information you should consider before you invest in the Notes and should be read in conjunction with and is qualified in its entirety by the more detailed information included elsewhere in this offering memorandum. See the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional factors that you should consider before investing in the Notes.

Our Business

We are the leading distributor of cable and satellite pay-TV in Slovenia, Serbia and Bosnia and Herzegovina where we also provide broadband internet and fixed-line telephony services via our cable infrastructure. Additionally, we distribute satellite pay-TV across the six countries of former Yugoslavia, Slovenia, Serbia, Bosnia and Herzegovina, Croatia, Macedonia and Montenegro and offer mobile telephony services in Slovenia. We are the only pan-regional distribution platform in a region of approximately 20 million people. Despite economic differences, these countries share a joint history and form a single media market in which small local differences are compensated by the influence of similarities in cultural preferences and language across the region. The former Yugoslav region represents the third largest Central Eastern European ("CEE") market after Poland and Romania and is characterized by rapidly growing pay-TV and broadband markets that are currently underpenetrated relative to CEE and Western European markets. We are the leading multi-play provider in our primary markets, where we combine our services into packages, or bundles, and which offer subscribers the convenience of being able to purchase television, broadband internet and telephony services from a single provider, and provides us with significant opportunities to cross-sell our products. We believe that we have been able to establish our business as the leading distribution platform in our region due to our leading content portfolio, which we have secured through long-term contracts with providers as well as ownership of key channels, our best-in-class well-invested network that provides, among other things, the highest internet download speeds in our markets, and our superior customer service, which has led to low churn rates that we believe evidence a satisfied customer base.

Our advanced fiber and cable network covers approximately 1.2 million subscribers across affluent regions in Slovenia, Serbia and Bosnia and Herzegovina and as of June 30, 2013, we provided analog and digital cable pay-TV services to approximately 1.7 million RGUs. We complement our cable pay-TV offering with our *D3 Go* and *HBO Go* mobile phone and tablet applications which allow our cable pay-TV subscribers to access our content "on the go." Through our *TotalTV* brand we also provide satellite, or DTH, pay-TV services to subscribers outside of our cable footprint thus significantly increasing our geographic reach across the entire region. We are a leading provider of high-speed cable broadband internet and offer our subscribers access to the highest download speeds within our cable footprint. We also offer subscribers fixed-line telephone services in Slovenia, Serbia and Bosnia and Herzegovina and recently launched a virtual mobile network in Slovenia.

We believe that our leading content portfolio differentiates us from our competitors and our role as the sole provider of key content in our markets has enabled strong growth in our business and provides us with stable revenue streams due to low customer churn rates. Through our in-house content business, we produce unique and attractive pay-TV content and also consolidate and control our acquired content. We are the owner of quality pay-TV channels across multiple key genres that have historically driven pay-TV subscription, such as the region's most popular family of *Sport Klub* branded pay-TV sports channels, as well as popular niche movie channel, *Cinemania*. We also own a 75% stake in the *Ultra* family of pay-TV channels, which includes *Ultra*, Serbia's most popular pay-TV channel, which addresses children of school age, *Mini Ultra,* which addresses children of pre-school age and *iQS Life*, a lifestyle channel which offers general entertainment programs targeted at families. In addition to our own content, as a result of our large scale and pan-regional presence, we are a distribution partner of choice for premium regional and international content providers, such as *Pink*, *Fox* and *Universal channels*, and content owners, such as the English Premier League, National Basketball Association, the Spanish Premier League, ATP and Formula 1, which allows us to obtain higher quality content than our competitors. We believe these providers partner with us because of our strong brands, large network and our focus on the entire former Yugoslav region, as opposed to our competitors' focus on individual countries. We have secured our unique access to our third-party provided content through long-term contracts at prices that we believe are favorable to us.

We recently launched two over the top ("OTT") content platforms, *D3i* and *NetTV.plus*. Our *D3i* OTT content platform provides customers of our broadband internet competitors within the former Yugoslav region with access to our unique digital pay-TV content via an internet stream. Our *NetTV.plus* OTT platform allows us to provide over 150 local-language channels showing unique ethnic content via any internet-enabled device or TV sets equipped with a *NetTV.plus* set-top box to Yugoslav expatriates around the world.

We provide our analog and digital pay-TV, broadband internet and telephony services through our well-recognized *Telemach* brands in Slovenia and Bosnia and Herzegovina and through our *SBB* brand in Serbia, and we market our premium digital pay-TV offering in Serbia, Bosnia and Herzegovina and Slovenia under the brand name *D3*. We also provide DTH pay-TV through our *TotalTV* brand across all six countries in the region. We tailor our branding strategies so that we can access each of the markets in the former Yugoslav region as an ethnically neutral provider and we address the entire former Yugoslav region, which has a large population with similar languages, cultures and entertainment preferences, with an integrated product and services portfolio. Our focus on the entire former Yugoslav region allows us to enter some of the smaller markets, such as Montenegro and Macedonia, where local providers cannot provide first rate content and technology on an economically efficient basis.

The table below shows operating and financial information regarding our key markets, products and brands, and our market positions based on revenues for the six months ended June 30, 2013:

	Country	Slovenia	Serbia	Bosnia & Herzegovina	Montenegro	Croatia	Macedonia	Worldwide
	EU membership / Currency	Member €	Candidate RSD	N/A BAM	Candidate €	Member HRK	Candidate MKD	NR
	Contribution H1 2013 revenue(1)	31%(2)	55%(3)	8%(4)	2%	1%	0.4%	NA
	Entities / brands	telemach total TV	SBB total TV	telemach total TV	total TV	total TV	total TV	net tv plus
Positioning (by revenue)	Pay-TV	No.1	No.1	No.1	No.2	No.5(5)	No.5(5)	–
	Broadband (within footprint)	No.1(6)	No.1(6)	No.1(6)	–	–	–	–
	Telephony	No.2	No.2	No.2	–	–	–	–
RGUs(7) (June 2013)	Cable	382k	723k	189k	–	–	–	–
	Cable RGU/sub	2.22x	1.48x	1.56x	–	–	–	–
	DTH	33k(8)	178k	84k	42k	25k	12k	–
	OTT	–	–	–	–	–	–	52k

Source: Company data

(1) Excludes revenue from Adria Media Group. Revenue breakdown before intercompany eliminations.

(2) Represents revenue for Telemach Slovenia Group, which excludes DTH pay-TV services in Slovenia.

(3) Revenue for SBB Serbia Group, which includes revenue from our DTH pay-TV services for all six countries in which we operate.

(4) Represents revenue for Telemach BH Group, which excludes DTH pay-TV services in Bosnia and Herzegovina.

(5) Company estimate.

(6) We are the leading broadband Internet provider within our footprint and hold the second position in the overall broadband internet market following the respective incumbent with national footprint.

(7) Cable RGUs in our markets consist of pay-TV, broadband internet and telephony RGUs.

(8) DTH RGUs in Slovenia includes RGUs for *Pink International* which is in charge of distributing *PINK* channels in Western Europe.

We believe that our distribution business is well-positioned to maintain its market leadership in the pay-TV and cable broadband internet markets in Slovenia, Serbia and Bosnia and Herzegovina and further increase its market share in the fixed-line telephony market. In addition, we believe that low overall service penetration rates in Serbia and Bosnia and Herzegovina as well as our attractive product offering provide us with the opportunity to add additional customers and cross- and up-sell our products to existing customers.

Our Strengths

We believe a number of key factors give us a competitive advantage, including:

We are the leading multi-play service provider operating a uniquely scaled pan-regional platform across the former Yugoslav region.

We provide cable and satellite pay-TV, broadband internet and fixed-line and mobile telephony services across the six countries in the former Yugoslav region, Slovenia, Serbia, Bosnia and Herzegovina, Croatia, Macedonia and Montenegro, and we are the leading provider of multi-play services including pay-TV, broadband internet and telephony within our cable footprint in Slovenia, Serbia and Bosnia and Herzegovina. We are the pan-regional leader for pay-TV services with 1.2 million subscribers and we have leveraged our complimentary cable and DTH platforms to gain a pay-TV market share of approximately 45% in Serbia and 37% in Slovenia. Additionally, we are the second largest pay-TV provider in Montenegro and among the two largest DTH pay-TV providers in Macedonia and Croatia, in each case based on the numbers of subscribers. We enjoy strong brand recognition across the entire former Yugoslav region. Our large scale and pan-regional presence has helped to make us the partner of choice for regional and international content providers that seek to partner with the top provider in the region, such as *Pink*, *Fox* and *Universal channels*, which allows us to maintain better quality content than our competitors. We are the largest cable broadband internet providers in each of Slovenia, Serbia and Bosnia and Herzegovina, and have the second largest broadband market share in each of these countries, behind the respective incumbents with national footprints. We have leveraged our pay-TV and cable broadband internet capabilities to become the second largest telephony provider in Slovenia, Serbia and Bosnia and Herzegovina, following the recent liberalization of the telephony markets in Bosnia Herzegovina (2011) and Serbia (2012). In 2012, we launched a virtual mobile network in Slovenia to capitalize on another opportunity in the telecommunications sector that we regard as complementary to our other products. We plan to introduce mobile services in Serbia in 2014. Our widespread presence and large market shares across the region and our large market penetration allow us to cross-sell our services and expand the number of multi-play packages we provide.

Our business benefits from a fully invested, advanced network with a broad reach across the region.

We strive to be the most modern media and telecommunications company in the former Yugoslav region. We operate an advanced proprietary hybrid fiber coaxial ("HFC") network which is fully bi-directional and EuroDOCSIS 3.0 enabled, covering all of our homes passed in Serbia and Bosnia and Herzegovina and approximately 82% of our homes passed in Slovenia. We operate the largest fiber network in the region, which extends more than 4,000 km across metropolitan regions in Slovenia (approximately 700 km), in Serbia (approximately 2,800 km) and Bosnia and Herzegovina (approximately 570 km) and covers approximately 1.2 million homes passed ("HPs"). Our cable footprint covers affluent regions in Slovenia, Serbia and Bosnia and Herzegovina. Our network has an average homes passed per fiber optics node ratio in the range of 400-500 across Slovenia, Serbia and Bosnia and Herzegovina, which we believe is unrivalled in the former Yugoslav region and compares favorably to other European cable benchmarks.

We believe that our cable-TV infrastructure allows us to provide digital TV, high speed broadband and telephony with a higher quality than DSL providers or other cable operators in our markets. Our EuroDOCSIS 3.0 network allows us to compete effectively in Slovenia, where approximately 17% of the broadband market share is FTTH, and we can match FTTH speeds in overlapping markets and have an advantage in non-FTTH areas. In Serbia our broadband internet speed gives us an advantage over our broadband internet competitors in all of our service areas, such as Telekom Srbija, since they primarily use DSL and have been slow to roll out fiber lines. For example, we currently provide internet speeds of 10 Mbps and above to a majority of our broadband RGUs in Serbia which we believe compares favorably to the national average. Additionally, our maximum downstream bandwidth stream as of June 30, 2013 was 100 Mbps, compared to 20 Mbps offered by Telekom Srbija, our primary competitor in Serbia. In Bosnia we are well positioned to compete with largely DSL competition. In each of these markets our EuroDOCSIS 3.0 high speed modems have the potential to support speeds of up to 360 Mbps, giving us significant capacity for future upgrades.

Additionally, our network is fully invested and benefits from low maintenance capital expenditure requirements. We believe that this will allow us to manage our capital expenditures in the near- to medium-term, with expenditures largely being success and capacity based as our business expands, while making targeted improvements to our network.

We are a recognized content leader benefitting from content ownership and strategic partnerships with international and regional broadcasters.

We believe we are the pan-regional content leader and that our unique and desirable cross-genre content helps us attract and retain pay-TV subscribers. Our content seeks to address the entire former Yugoslav region, which has a large population with similar languages, cultures and entertainment preferences and which forms a single media market. Our focus on the entire former Yugoslav region allows us to enter some of the smaller markets where smaller providers cannot provide first rate localized content and technology on an economically efficient basis. Through our in-house content business we own attractive pay-TV channels, such as the region's most popular family of *Sport Klub* branded pay-TV sports channels, as well as popular niche movie channel, *Cinemania*. We also own a 75% stake in the *Ultra* family of pay-TV channels, which includes *Ultra*, Serbia's most popular pay-TV channel, which addresses children of school age, *Mini Ultra*, which addresses children of pre-school age and *iQS Life*, a lifestyle channel which offers general entertainment programs targeted at families, and *Cinemania*, an attractive niche movie channel, and also produce our own content. We are currently preparing the launch of our own CNN-affiliated 24-hour regional news channel with studios in Belgrade, Sarajevo and Zagreb which is scheduled for 2014.

In addition to our channels, pan-regional presence, advanced network, complementary regional cable and DTH platforms and leading market positions make us a natural partner for regional and international third party content providers who seek to provide their content to the Yugoslav region, and as a result we have been able to enter into long term contractual relationships with top regional and international content providers such as *Pink*, *Fox TV*, *Universal channels*, *A&E Television Networks channels* and *Cinestar*, and content owners such as the English Premier League, the National Basketball Association, the Spanish Premier League, ATP and Formula 1. We have been able to secure a large portion of our content on an exclusive basis, which allows us to serve as the sole platform on which certain content can be viewed in our markets, and flat rate basis, which benefits our profit margins as our number of subscribers increases. The following table provides an overview of our key pay-TV content:

ContentCo (direct ownership)

Content rights

Unique partnerships / strategic alliances

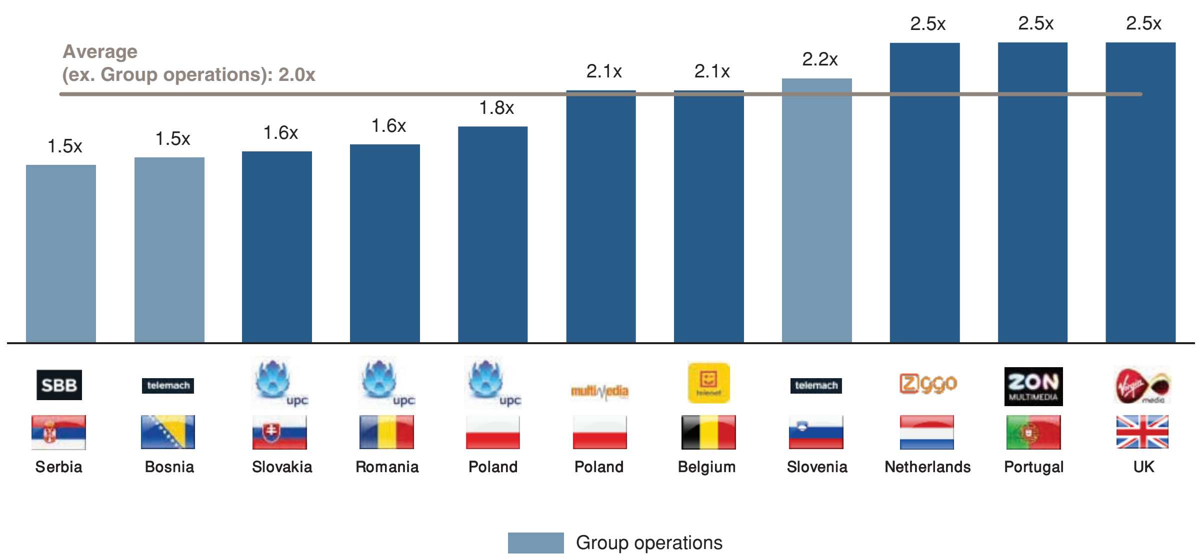
As a result of our strategic alliances and our content ownership, we were among the first pay-TV providers in the region to offer localized international content. We believe that our leading content portfolio differentiates us from our competitors and our role as the sole provider of key content in our markets has enabled strong growth in our business and provides us with stable revenue streams due to low customer churn rates.

Our business benefits from low churn rates.

We believe we have a loyal customer base due to our superior product offering, our unique content offering, our advanced network, good customer service and continuous product innovation, and as a result our business benefits from low churn rates, as opposed to our customers seeking superior service or products. Our subscriber churn rates on an annualized last two quarters ended June 30, 2013 basis were 5.2% for Telemach Slovenia, 5.2% for SBB Serbia and 7.7% for Telemach BH which we believe compares favorably to other equally-sized telecommunications and media companies in CEE and Western Europe. As a result, this provides us with recurring cash flows and visibility into our future revenue. We believe that the primary drivers of our churn rates are existing customers moving outside of our current geographical area of service as well as termination of services contracts by us due to existing customers' inability to pay, with only limited churn being driven by competition. We believe that launching telephony in our markets, further driving digitization, providing our subscribers with multi-play packages, expanding our cable footprint to broaden our geographic reach and generally increasing disposable incomes in the region which reduces the likelihood of customers' bad debt will help us to keep churn rates low.

Low service penetration rates across the markets in which we operate provide significant cross- and up-selling and growth opportunities.

We operate our business across the former Yugoslav region which has a population of approximately 20 million people and represents the third largest CEE market after Poland and Romania. The Yugoslav market is currently characterized by underpenetrated pay-TV and broadband internet markets compared to other CEE and Western European markets. As of December 31, 2012, the pay-TV penetration and broadband internet penetration rates were 72% and 62%, respectively, in Slovenia, 59% and 42%, respectively, in Serbia and 43% and 39%, respectively, in Bosnia and Herzegovina. Additionally, due to historically strong regulatory constraints on bundling pay-TV, broadband internet and telephony services, RGUs per cable subscriber in our key markets in Serbia and Bosnia and Herzegovina as of December 31, 2012, lagged behind CEE and Western European cable markets, as well as our own operations in Slovenia. The following table shows RGUs per cable subscriber in our key markets:



Source: Derived from public reports. Companies shown might report RGUs differently from us.

Our markets have had significant growth in communications spending during the last ten years compared to Western European markets, due to higher gross domestic product ("GDP") growth and increased consumer spending resulting from increased macroeconomic stability, a higher private sector participation in the economy and government reforms. At the same time, pay-TV penetration in all of our markets has been growing, driven by increasingly attractive content and bundled offers. Service penetration in our markets has increased as multi-play packages have expanded, but is still well below the levels of Western Europe (except in Slovenia). We believe the liberalization of the telephony markets in

Bosnia and Herzegovina and Serbia in 2011 and 2012, respectively, offers significant upside for service penetration rates in those markets, and we launched telephony services in Bosnia and Herzegovina in the third quarter of 2011 and in Serbia in the second half of 2012. Additionally, starting in 2014, we expect that fixed-line telephony subscribers in Serbia will be permitted to transfer their existing telephone number from the incumbent service provider to alternative VoIP telephony services providers, such as us, which we believe will further increase our fixed-line telephony customer base. Leveraging on our extensive cable infrastructure, we use our superior pay-TV content as basis to cross- and up-sell our broadband internet and telephony products to our existing cable pay-TV customers and offer multi-play packages to new customers which will allow us to continue to improve penetration rates as customers increasingly focus on receiving their multimedia and communications services in a bundled offer from one provider. While penetration rates in Slovenia are more comparable to those of Western European operators, as of December 31, 2012, more than 40% of our subscribers in Slovenia were one-play subscribers only offering significant cross-selling opportunities.

Additionally, from 2008 to 2012, digitization in our core markets has increased significantly and we expect this trend to continue leading up to, and following, the switch from analog to digital television in Serbia and Bosnia and Herzegovina in 2015. Leveraging on our experience in Slovenia where we successfully increased our subscriber share following the switchover from analog to digital television in 2012, we believe we are well-positioned to further cross- and up-sell our products, such as VoD, to existing and new customers as a result of this increasing digitization.

In August 2013, we acquired *NetTV.plus*, an OTT content provider which delivers extensive and unique local and regional content, including *Pink* and *Ultra* channels, to a former Yugoslav expatriate community of approximately 4-7 million people in Western Europe, North America and Australia. *NetTV.plus* currently has 52 thousand subscribers, which we believe indicates significant future growth opportunities, supported by the global proliferation of internet which makes OTT one of the most viable platforms to access ethnic content.

Our business benefits from well-diversified revenue streams within our markets.

Due to our unique position as pan-regional services provider, our business benefits from geographically diversified revenue streams. In the six months ended June 30, 2013, we generated €35.4 million, or 31% of our total revenue, in Slovenia, €63.0 million, or 55% of our total revenue, in Serbia (including revenue from our DTH services in our six countries of operation) and €9.1 million, or 8% of our total revenue, in Bosnia and Herzegovina. Additionally, due to our leadership position across the former Yugoslav cable and DTH pay-TV, broadband internet and telephony markets, our revenues are generated by a well-diversified product portfolio. In the six months ended June 30, 2013, we generated €43.8 million, or 38% of our total revenue, in our cable pay-TV business segment, €28 million, or 24% of our total revenue, in our cable broadband internet business segment and €20.6 million, or 18% of our total revenue, in our DTH business segment. We believe our current customer structure and product offering provides us with significant cross-selling opportunities in the future which would further diversify our revenue streams, and helps us to use our scale to capitalize on new technologies and delivery platforms.

Track-record of delivering top-line growth while generating stable cash flows.

Our large customer base and relatively low churn rates provide us with greater visibility of future revenue and recurring cash flows, which have historically proven to be resilient even during periods of challenging economic conditions and during periods of high leverage. Since 2010, we have benefitted from strong organic revenue, EBITDA and cash flow margin growth which has significantly outperformed the macroeconomic development in the countries in which we operate. Furthermore, in addition to growing organically, our business has benefitted from targeted and value-accretive investments and bolt-on acquisitions of attractive cable assets, which have further contributed to our revenue, EBITDA and cash flow margin growth. We believe the increase in EBITDA and cash flow margin, coupled with an increase in RGUs from 1.2 million in 2010 to 1.6 million in 2012, are mainly driven by the expansion of pay-TV and cable broadband internet in our markets, our pan-regional position as market leader, well-diversified product offerings, advanced network and ability to provide unique access to popular content.

Our business benefits from an experienced management team with a proven track-record.

Many of our key management members have been with our business since its inception, including our Executive Chairman and Founder, Dragan Šolak, our Group Vice President—Sales and Marketing, Victoriya Boklag and our Group Vice President—Operations, Violeta Vasilijević. Our senior management team has substantial experience in the telecommunications, media and technology industry, including at Liberty Media, Telemach Slovenije and EBRD, as well as in banking, private equity and corporate finance companies, including at Deutsche Bank, Soros and Mid Europa.

Many members of our senior management team, including our founder, have each held different positions within our business and have shaped the direction of the development of our business and its organic growth within the region. As our operations became more mature, our senior management team leveraged on its significant industry experience as well as strong corporate background and successfully expanded our business through bolt-on acquisitions and integration of sub-scale cable assets and content providers. Furthermore, a significant number of our management holds an equity stake in our business, and members of our senior management team are expected to subscribe for equity in connection with the completion of the Acquisition, Additionally, drawing on the significant international experience of most members of our senior management team who either attended university or worked abroad for a prolonged period of time, we successfully grew our business from being a single-country pay-TV operator to being the telecommunications and media services leader in the former Yugoslav region.

Our Strategy

Our objective is to strengthen our leadership role as a multi-play communication service provider in the former Yugoslav region as well as to address the former Yugoslav expat community with best in class local content delivered through the internet. Ultimately our aim is to achieve profitable and cash-generative growth through the following strategies:

Continued focus on our competitive market position by leveraging our superior network, differentiated content offerings and loyal customer base.

We intend to continue to use our advanced cable network, complementary distribution platforms, including cable, DTH and OTT, and unique and differentiated ethnic content offering to further increase our competitive market position. Our strategy is to continue offering the most attractive products in the region with better content choice, speed, functionality and service quality than those of our competitors, or prices that provide a compelling value. By leveraging our network and content advantages, we will continue to focus on subscriber growth opportunities in relatively under-penetrated markets while seeking to maintain low churn rates for existing customers. Additionally, we intend to further capitalize on our pan-regional fiber network to strengthen and develop our business relationships and strategic partnerships with international carriers.

Increase service penetration across the region by cross-selling products and services and up-selling value-adding products to existing customers.

We intend to increase service penetration in our existing market by seeking to cross- and up-sell our products and services to new and existing customers. In particular, we intend to encourage our customers to subscribe for additional services by offering bundled double-play and triple-play services. For example, upon the liberalization of the Bosnian and Serbian telephony markets, we launched telephony services in Bosnia and Herzegovina in 2011 and in Serbia in late 2012 and will continue to leverage our unique pay-TV content and cable infrastructure to cross-sell telephony services to existing and new customers in those regions. While market penetration rates in Slovenia are more similar to Western Europe, as of June 30, 2013, approximately 40% of our subscribers in Slovenia were subscribed to only one of our services. We believe that measures expected to be implemented by Serbia's regulator in 2014 to allow fixed telephone numbers to be retained as subscribers switch to other providers will be beneficial for our telephony and multi-play offerings. Additionally, we plan to sell improved or more advanced products and services to our existing customers in order to improve or maintain the revenues we derive from those customers. We will seek to benefit from the digital switchovers expected to occur in our markets in the next two years by leveraging our high quality content and service offering as well as our experience gained in our Slovenian business to migrate customers from existing analog television subscriptions to our digital pay-TV bundles, and to provide attractive TV features such as *D3 Go*, VoD and CatchUp TV. In addition, increasing broadband speeds allows us to increase the prices at which we provide those services. We are continuing to invest in upgrading our network to EuroDOCSIS 3.0 to provide our customers with the highest broadband speed in our markets, which we believe has justified premium broadband prices.

Further expand the geographic reach of our attractive content.

Leveraging on our strong brands and our attractive content, we intend to continue to develop our two OTT content platforms, *D3i* and *NetTV.plus*, to further expand our geographic reach. While our DTH pay-TV platform aims at delivering our unique content to subscribers in rural areas in our markets without cable infrastructure, our *D3i* platform is designed to deliver our pay-TV services to customers in metropolitan areas outside of our cable footprint who have subscribed to broadband internet services of our competitors but wish to access our attractive portfolio of pay-TV channels. Additionally, we acquired the OTT content platform *NetTV.plus* in the third quarter of 2013. *NetTV.plus* allows us to provide over 150 local-language channels showing unique ethnic content to a Yugoslav expatriate community of approximately 4 to 7 million people around the world. By expanding our geographic reach outside of our region to customers in affluent countries in Western Europe and North America, we are in a position to charge prices that are higher than the prices we are able to charge for our pay-TV services in our core markets thus further increasing our earnings potential.

Continued focus on content and services innovation.

We seek to continue innovating our product offering to further strengthen our leading position in the former Yugoslav region by leveraging our existing network infrastructure and content. We will continue to focus on leading the introduction of next generation television and broadband internet services, by delivering to our subscribers services such as interactive TV, VoD and CatchUp TV services. Additionally, we plan to expand our four-play offerings by launching MVNO services in Serbia, using the knowledge we gained from our recent introduction of MVNO services in Slovenia. We also plan to use our strong group brands and our pan-regional structure to stimulate growth in our B2B offerings, including fiber optical connection, VPN, WiFi hot-spots internet and managed services.

Grow customer base and operations through small bolt-on, value accretive acquisitions in our highly fragmented markets across the region.

We believe we have a successful track record of acquisitions on attractive terms, and since 2010 we have acquired and integrated twelve cable TV operators, content platform, B2B service providers and ISPs in Serbia and Bosnia and Herzegovina that had EBITDA ranging between €0.5 million and €10 million. Historically, our acquisitions have resulted in substantial synergies as well as improved margins for the target. We plan to continue to make small value accretive bolt-on acquisitions within our existing markets to integrate sub-scale regional service providers and cable assets into our business. For example, during the first six months of 2013, we successfully acquired and integrated Elektro Turnsek and KabelTV, two Slovenian cable assets which we believe will significantly enhance our competitive position in Slovenia. Additionally, on August 20, 2013, we acquired the OTT content platform *NetTV.plus* which allows us to offer unique local-language ethnic content to a former Yugoslav expat community of 4 to 7 million people across Western Europe, Australia and North America. As we will be able to charge our *NetTV.plus* customers prices for our services that are higher than the prices we are able to charge for our pay-TV service in our core markets, we believe *NetTV.plus* offers significant potential to increase our revenues and profitability. Leveraging on our experience and successful acquisition history, we intend to continue taking a disciplined approach to acquisitions within our footprint with the goal to generate additional value for our operations through increasing scale and product offerings. We plan to assess individual opportunities on the basis of merit, ability to integrate assets into our existing business plans and potential for value creation.

Our History

Our Group Executive Chairman, Dragan Šolak, founded our company as a Serbian cable-TV operator in 2000. Between 2001 and 2005, we grew our business by constructing our advanced cable network throughout Serbia. We also consolidated several sub-scale family-owned cable operators and successfully integrated them into our business. We launched our DTH services, *Total TV*, in Serbia in 2006 and in Slovenia, Bosnia and Herzegovina and Montenegro in 2007 and expanded *Total TV* into Croatia and Macedonia in 2008 and 2009, respectively. Also in 2007, we entered into a strategic alliance with Sport Klub, the region's most popular sports channel, and we acquired a controlling stake in the *Ultra* family of pay-TV channels in 2009. As a result of our strategic alliances as well as the acquisition of local language television channels, we were among the first pay-TV providers in the former Yugoslav region to provide localized regional and international content.

SBB Serbia was acquired by Mid Europa in Serbia's first LBO in 2007. In 2009, Mid Europa acquired Telemach Slovenia, the triple-play market leader in Slovenia, adding 160,000 subscribers to our operations. During 2010, the consolidation of three cable pay-TV operators in Sarajevo by Mid Europa, including KT Global Net, BH Cabel Net and ELOB, led to the formation of Telemach BH. Telemach Slovenia, SBB Serbia and Telemach BH form the core operating companies of our operations. We continue to leverage our position as the sole credible consolidator in the fragmented regional markets and have successfully acquired and integrated the following businesses since 2010:

- ***Slovenia:*** following our acquisition by Mid Europa in 2009, we initially focused on growing our operations organically. During the first half of 2013, we acquired two cable assets, Kabel TV and Elektro Turnsek, adding approximately 35,000 subscribers to our customer portfolio;
- ***Serbia:*** in 2011, we acquired KDS, a leading cable pay-TV operator in Novi Sad, Serbia's second largest city. KDS was not consolidated with SBB Serbia's operations but is owned directly by the Group and consolidated in its results through our Adria Media and Other Businesses segment;
- ***Bosnia and Herzegovina:*** we entered the Bosnian market by acquiring three cable pay-TV entities, Global Net, BH Cabel Net and ELOB. The Bosnian market is highly fragmented and since 2010, we have pursued an active consolidation strategy involving the successful acquisition of the following four companies: in 2011, Monet, a cable operator in Mostar, adding approximately 17,000 subscribers to our customer base; in 2012, Telekabel, a cable operator in Zenica, adding approximately 19,000 subscribers to our customer base; in January 2013 and February 2013, Vi.Net and Art.Net, respectively, adding a total of approximately 21,000 subscribers to our customer base;
- ***OTT:*** in August 2013, we acquired *NetTV.plus*, an OTT content platform that delivers ethnic content to former Yugoslav expatriates around the world.

Following the liberalization of the fixed-line telephone markets in Bosnia and Herzegovina and Serbia in 2011 and 2012, respectively, we launched fixed telephony services in these two markets and, leveraging on our existing cable pay-TV and broadband internet subscriber base, became the second largest Serbian fixed-line telephone services provider in June 2013. We also launched our MVNO services in Slovenia in late 2012 which allows us to provide four-play bundles (cable pay-TV, broadband internet, and telephony and mobile phone services) to our subscribers in Slovenia.

Furthermore, as we believe content is the key strategic driver of the converged communications services in our markets and in order to maintain our leading position in the region, we acquired IKO Balkan towards the end of 2012, the owner of the region's popular *Sport Klub* channels as well as niche sports channels specializing in golf, hunting and fishing. We believe that this acquisition complements our existing portfolio of attractive and unique content assets, which includes a controlling stake in the *Ultra* family of pay-TV channels, which includes *Ultra*, Serbia's most popular pay-TV channel, *Ultra Mini,* a popular children's TV channel and *iQS Life*, a lifestyle channel, as well as the popular niche movie channel *Cinemania*, which we acquired in 2012.

The Transactions

The Acquisition Agreement

On October 15, 2013, the Issuer and Broadband Investments II S.à r.l. entered into a securities purchase agreement (the "Acquisition Agreement") providing for the sale of all of the securities of Slovenia Broadband to the Issuer (the "Acquisition"). Pursuant to the terms of the Acquisition Agreement, the parties further agreed to cause Adria Cable B.V. and Adria Bidco d.o.o. Beograd to enter into a Serbian share purchase agreement for the purchase and sale of the shares of SBB Serbia prior to the Completion Date.

The closing of the Acquisition is subject to certain conditions, including the approval of merger control authorities in Bosnia and Herzegovina, Macedonia, Montenegro, Serbia and Slovenia. In the event that the closing conditions are not satisfied by April 15, 2014, the Acquisition Agreement automatically terminates. Following the Acquisition, certain co-investors as well as investment funds advised by affiliates of KKR are currently expected to own approximately 72.7% of Slovenia Broadband, while the remaining 27.3% will be held by management.

The Financing

The total consideration payable under the Acquisition Agreement for the shares, profit participating preferred equity certificates, a yield free convertible loan note of Slovenia Broadband as well as payments made to repay existing indebtedness and estimated outstanding net liabilities of the Group at closing of the Acquisition, including the acquisition consideration for Elektro Turnsek and *NetTV.plus*, is expected to be approximately €1,009 million. Certain managers and certain of their affiliates will receive a portion of the proceeds to be paid in the Acquisition and will re-invest a portion of such proceeds in equity instruments of Adria Luxco S.à r.l., the indirect parent of the Issuer. The Issuer will pay transaction fees and expenses currently expected to amount to approximately €53 million. At closing of the Acquisition, we expect that approximately €5 million of cash will remain on the balance sheet.

We expect that the total consideration for the Acquisition, related transactions and payment of transaction fees and expenses will be financed (collectively, the "Financing") with (i) instruments issued to investment funds advised by affiliates of KKR, certain co-investors and certain members of management (the "Equity Contribution") representing approximately €588 million and (ii) the proceeds of the Offering.

As of the Completion Date, the Senior Facilities Agreement will provide for a Revolving Credit Facility in the amount of €60 million to finance our ongoing working capital needs. The Revolving Credit Facility is not currently expected to be drawn as of the Completion Date. See "*—Sources and Uses of Funds for the Transactions*." However, the Group expects to roll-over certain of its existing working capital facilities into the Revolving Credit Facility, which will reduce the amount available under the Revolving Credit Facility. See "*Description of Certain Indebtedness—Ancillary Facilities*."

If the Issue Date occurs prior to the Completion Date, pending consummation of the Acquisition, the Initial Purchasers will deposit the gross proceeds from the Offering less certain deductions in respect of fees and expenses into the Escrow Account. The release of the escrow proceeds and the consummation of the Acquisition are subject to the satisfaction of certain conditions. If the Acquisition is not consummated on or prior to April 30, 2014 and upon the occurrence of certain other events, the Notes will be subject to a special mandatory redemption. The special mandatory redemption price will be a price equal to 100% of the aggregate issue price of the Notes plus accrued and unpaid interest and additional amounts, if any, from the Issue Date to the date of special mandatory redemption. See "*Description of the Notes—Escrow of Proceeds; Special Mandatory Redemption*."

We refer to the Acquisition and the Financing collectively as the "Transactions." See "*Use of Proceeds*," "*Capitalization*," "*Unaudited Pro Forma Condensed Combined Financial Information*," "*Description of Certain Indebtedness*" and "*Description of the Notes*."

Sources and Uses of Funds for the Transactions

The expected estimated sources and uses of the funds necessary to consummate the Transactions are shown in the table below. Actual amounts will vary from estimated amounts depending on several factors, including differences from our estimates of fees and expenses, the timing of the actual Completion Date and the roll-over of certain shares held by management. Any changes in these amounts may affect the amount of the Equity Contribution. For example, if the amount of indebtedness under the Existing Facilities is higher as of the Completion Date than expected, the Issuer will have to fund a higher amount for the repayment of the Existing Facilities. Such additional funds would be provided by increasing the Equity Contribution.

Sources of Funds	**(€ million)**	**Uses of Funds**	**(€ million)**
Notes offered hereby	475	Total consideration(2)	1,009
Equity Contribution	588	Transaction costs(3)	53
Cash on balance sheet(1)	5	Cash on balance sheet(4)	5
Total sources	**1,068**	**Total uses**	**1,068**

(1) Represents the amount of cash expected to be available on the balance sheet prior to the closing of the Acquisition.

(2) The total consideration represents (i) the consideration for the share capital of Slovenia Broadband (including preferred equity certificates and a yield free convertible loan note) to be paid to the seller, representing approximately €701 million plus (ii) the repayment of existing indebtedness and our estimated outstanding net liabilities, including the acquisition consideration for Elektro Turnsek and *NetTV.plus*.

(3) Represents estimated fees and expenses associated with the Transactions, including commitment, placement, financial advisory and other transaction costs and professional fees.

(4) Represents the amount of cash expected to remain on the balance sheet at closing of the Acquisition.

The Issuer

The Issuer is a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) established under the laws of the Netherlands. The Issuer has conducted no operations or other material activities. The Issuer is registered with the trade register of the chambers of commerce under the number 58916318. The Issuer's registered office address is Fred. Roeskestraat 123, 1076 EE Amsterdam, the Netherlands.

Our Sponsor

KKR is a leading global investment firm with a long history of investing in Europe. Founded in 1976 and led by Henry Kravis and George Roberts, KKR had $90.2 billion in assets under management as of September 30, 2013. With offices around the world, KKR manages assets through a variety of investment funds and accounts covering multiple asset classes. KKR seeks to create value by bringing operational expertise to its portfolio companies and through active oversight and monitoring of its investments. KKR complements its investment expertise and strengthens interactions with investors through its client relationships and capital markets platforms. KKR has in-depth experience in telecommunications and media sector, through its current and former investments including TDC, Versatel, Nielsen, and ProSiebenSat 1.

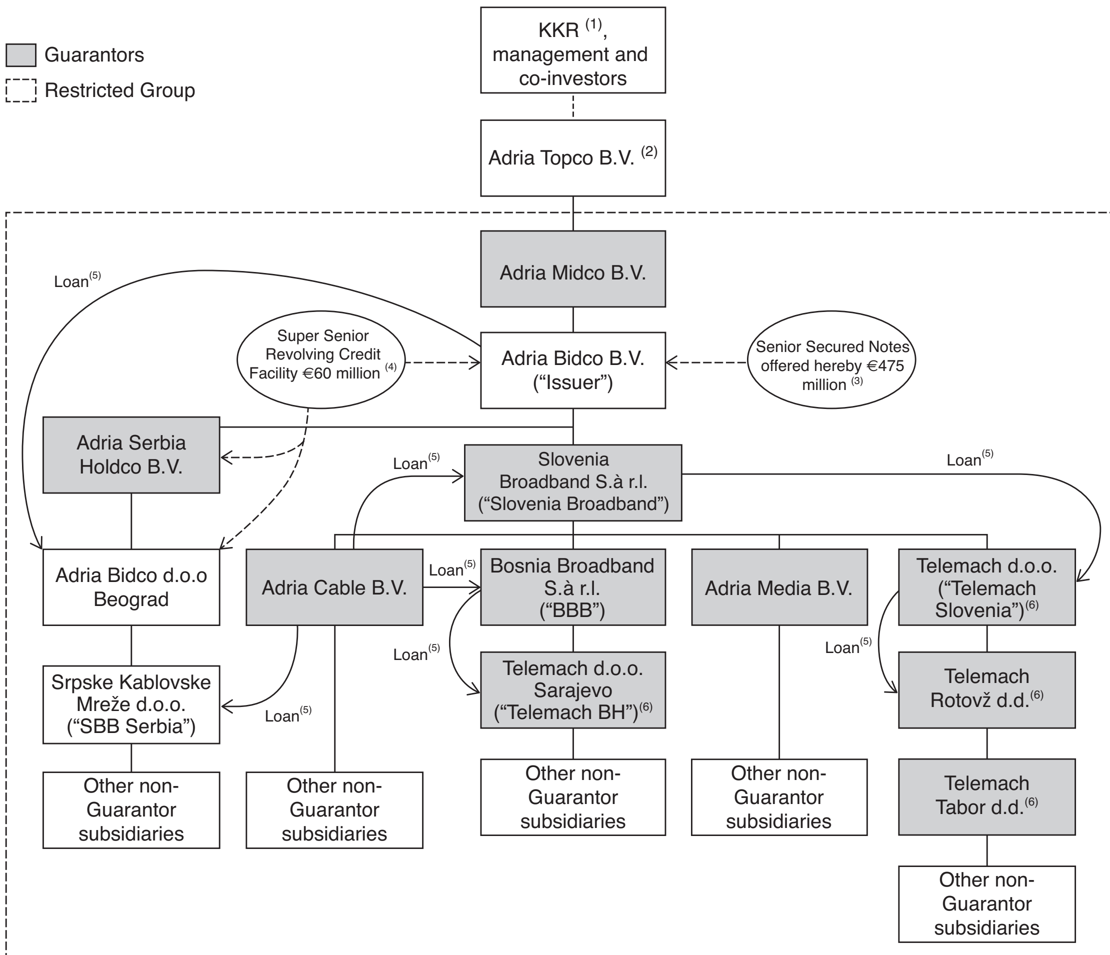
Recent Developments

As of the date of this offering memorandum we have completed trading for the nine-month period ended September 30, 2013. Based on preliminary results from unaudited management accounts and information currently available, we estimate that during this period our consolidated revenues were approximately €176 million. During the nine months ended September 30, 2013, our revenue was primarily affected by the growth of our business operations resulting from the consolidation of newly-acquired companies, including *NetTV.plus* in August 2013, as well as organic growth of our existing subscriber base. We estimate that EBITDA for the nine months ended September 30, 2013 was approximately €81 million. As of September 30, 2013, we had approximately 1.8 million RGUs compared to approximately 1.7 million RGUs as of June 30, 2013. The increase in RGUs was driven by our acquisition of *NetTV.plus*, the consolidation of Elektro Turnsek and organic growth. Blended cable ARPU for the nine months ended September 30, 2013 was €16.7 compared to €16.6 for the six months ended June 30, 2013, primarily driven by the migration of existing subscribers from our lower-priced analog pay-TV services to higher-priced digital pay-TV services.

This financial information is based on preliminary management accounts and has not been audited, reviewed or verified by our independent auditors and you should not place undue reliance on them. We cannot assure you that, upon completion of our financial statements for the three months ended September 30, 2013 and the review by our independent auditors of our results for the year ended December 31, 2013, we will not report materially different results than those indicated above.

Summary Corporate and Financing Structure

The following diagram summarizes certain aspects of our corporate and financing structure, on an as adjusted basis after giving effect to the Transactions. The chart does not include all entities of the Group, nor all of the debt obligations thereof. The summary description presented herein of certain of the intercompany funding arrangements that will occur on or after the Completion Date is based on the Issuer's current assumptions and expectations regarding the corporate structure and financing arrangements, and thus is subject to modification. For a summary of the debt obligations identified in this diagram, please refer to the sections entitled "*Capitalization*," "*Description of the Notes*" and "*Description of Certain Indebtedness*."



(1) Upon consummation of the Acquisition, affiliates of KKR will own a controlling interest in the Issuer and the Issuer will own the entire share capital of the Target.

(2) Prior to the Completion Date, KKR, management and certain co-investors will indirectly make a contribution to Adria Topco B.V., which will in turn subscribe for ordinary shares of Adria Midco B.V. Adria Midco B.V. will use the proceeds of that equity contribution to subscribe for ordinary shares of Adria Bidco B.V.

(3) Upon issuance, the Notes will be guaranteed on a senior basis by certain Guarantors (as defined herein) located in the Netherlands. Within 120 days following the Completion Date, subject to agreed security principles the Notes will be guaranteed on a senior basis by certain Guarantors (as defined herein) located in Luxembourg, the Netherlands, Bosnia and Herzegovina and Slovenia. The Notes and the Notes Guarantees will be secured by a first-priority security interest in assets that also secure, on a super-priority basis, the Revolving Credit Facility (each as more fully described elsewhere in this offering memorandum). In the event of an enforcement of the Collateral, the holders of the Notes will receive proceeds from such Collateral only after the lenders under the Revolving Credit Facility, counterparties to certain hedging obligations and other indebtedness that is permitted to be secured on a super priority basis have been repaid in full. The validity and enforceability of the Notes Guarantees and the security and the liability of each Guarantor will be subject to significant limitations, as described in "*Limitations on Validity and Enforceability of the Notes Guarantees and the Security Interests*". The Revolving Credit Facility will also be guaranteed by, and secured by certain assets of, certain of our subsidiaries located in Serbia.

(4) On or prior to the Completion Date, the Issuer will enter into the Revolving Credit Facility. See "*Description of Certain Indebtedness—Senior Facilities Agreement.*"

(5) We currently expect that on or prior to the Completion Date, the Issuer will loan a portion of the proceeds of the Notes to Adria Bidco d.o.o Beograd, which will use such proceeds (together with amounts received under equity contributions) to fund the acquisition of SBB Serbia from Adria Cable B.V. These sale proceeds will be used by Adria Cable B.V. to make further loans to Group companies for the purpose of repaying certain existing indebtedness of the Group, including indebtedness under the Existing Facilities. The Issuer and the other lenders under the intercompany loans will grant a first-priority security interest to secure the obligations under the Notes and the Revolving Credit Facility. It is likely that these loans will be subordinated to the claims of all other creditors in case of insolvency. See "*Description of the Notes—The Proceeds Loan and Intercompany Loans*".

(6) As of June 30, 2013, the Guarantor subsidiaries of each of the Telemach Slovenia Group (including Kabel TV which will be merged into Telemach Slovenia) and the Telemach BH Group comprised an aggregate of 27% of our total assets, and for the six months ended June 30, 2013, represented an aggregate of 35% of our total revenues and 32% of our total EBITDA. Our subsidiaries organized in Serbia, Macedonia, Croatia and Montenegro will not guarantee the obligations under the Notes. Telemach Tabor d.d. is indirectly owned at 61% by Telemach Slovenia, while Telemach Rotovž d.d. is indirectly owned at 78% by Telemach Slovenia.

The Offering

The following summary of the Offering contains basic information about the Notes, the Notes Guarantees, the Collateral and the Escrow Agreement. It is not intended to be complete and it is subject to important limitations and exceptions. It may therefore not contain all the information that is important to you. For a more complete understanding of the Notes, the Notes Guarantees, the Collateral and the Escrow Agreement, including certain definitions of terms used in this summary, please refer to the sections of this offering memorandum entitled "*Description of the Notes*" and "*Description of Certain Indebtedness—Intercreditor Agreement*".

Issuer	Adria Bidco B.V.
Notes Offered	€475,000,000 aggregate principal amount of 7⅞% Senior Secured Notes due 2020 (the "Notes").
Maturity Date	November 15, 2020.
Issue Date	November 15, 2013.
Issue Price	100.000% plus accrued and unpaid interest from the Issue Date, if any.
Interest Rate	The interest rate on the Notes will be 7.785% per annum.
Interest Payment Dates	May 15 and November 15 of each year, commencing on May 15, 2014.
Form and Denomination	Global notes in denominations of €100,000 and integral multiples of €1,000 in excess of €100,000. Notes in denominations less than €100,000 will not be available.
Ranking of the Notes	The Notes will: • be general senior obligations of the Issuer, secured as set forth under "*—Security*"; • rank *pari passu* in right of payment with any existing and future indebtedness of the Issuer that is not subordinated in right of payment to the Notes (including obligations under the Senior Facilities Agreement); • rank senior in right of payment to any existing and future indebtedness of the Issuer that is expressly subordinated in right of payment to the Notes; • be effectively subordinated to any existing or future indebtedness of the Issuer and its subsidiaries that is secured by property and assets that do not secure the Notes, to the extent of the value of the property and assets securing such indebtedness; and • be structurally subordinated to any existing or future indebtedness of the subsidiaries of the Issuer that are not Guarantors.
Guarantees	Upon issuance, the Notes will be guaranteed (the "Notes Guarantees") on a senior basis by Adria Midco B.V. and Adria Serbia Holdco B.V. Within 120 days following the Completion Date, subject to agreed security principles the Notes will be guaranteed on a senior basis by Slovenia Broadband, Adria Cable B.V., BBB, Adria Media B.V., Telemach BH, Telemach Slovenia, Telemach Rotovž d.d. and Telemach Tabor d.d. The validity and enforceability of the Notes Guarantees will be subject to significant limitations, as described in "*Limitations on Validity and Enforceability of the Notes Guarantees and the Security Interests*". The Guarantors will also guarantee the obligations under the Revolving Credit Facility, provided, however, that the Revolving Credit Facility will also benefit from guarantees from

Serbian entities and from security interests over assets located in Serbia.

Ranking of the Guarantees . . . . . .

Each of the Notes Guarantees will be a senior obligation of the respective Guarantor. Accordingly, each of the Notes Guarantees will:

- be general senior obligations of the relevant Guarantor, secured as set forth under "—*Security*";
- rank *pari passu* in right of payment with any existing and future indebtedness of the relevant Guarantor that is not subordinated in right of payment to the Notes Guarantee (including obligations under the Revolving Credit Facility);
- rank senior in right of payment to any existing and future indebtedness of the relevant Guarantor that is expressly subordinated in right of payment to the Notes Guarantee; and
- be effectively subordinated to any existing or future indebtedness of the relevant Guarantor that is secured by property and assets that do not secure the Notes Guarantee, to the extent of the value of the property and assets securing such indebtedness.

The validity and enforceability of the Notes Guarantees and the liability of each Guarantor will be subject to significant limitations, as described in "*Limitations on Validity and Enforceability of the Notes Guarantees and the Security Interests*". The Notes Guarantees will be subject to release under certain circumstances. See "*Description of the Notes—Guarantees*".

Security . . . .

The obligations of the Issuer and the Guarantors under the Notes, the Notes Guarantees and the Indenture will be secured on or prior to the Completion Date by the following, subject to certain agreed security principles, perfection requirements and agreed exceptions:

(a) shares in the Issuer, Adria Serbia Holdco B.V. and Adria Bidco d.o.o. Beograd;

(b) certain bank accounts of the Issuer, Adria Midco B.V. and Adria Serbia Holdco B.V.;

(c) receivables owed to the Issuer under an intercompany loan to Adria Bidco d.o.o. Beograd; and

(d) the rights of the Issuer under the documents governing the Acquisition.

In addition, within 120 days following the Completion Date, the Notes and the Notes Guarantees will be secured by the following, subject to certain agreed security principles, perfection requirements and agreed exceptions:

(e) shares of the Guarantors (other than Adria Midco B.V.);

(f) certain other receivables owing to Guarantors (other than the Issuer) in respect of intercompany loans; and

(g) certain bank accounts of the Guarantors.

(items (a), (b), (c), (d), (e), (f) and (g), collectively, the "Collateral").

The Revolving Credit Facility will be secured by first-ranking liens granted over the same assets that secure the Notes, and will, in addition, benefit from security interests over assets located in Serbia. Under the terms of the Intercreditor Agreement, however, proceeds from the enforcement of the security over the Collateral will be required to be applied to repay indebtedness outstanding under the Revolving Credit Facility, certain future indebtedness and certain hedging obligations in priority to the Notes. See "*Description of Certain Indebtedness—Senior Facilities Agreement*" and "*Description of Certain Indebtedness—Intercreditor Agreement*".

The security interests in respect of the Collateral will be granted subject to the terms of the Intercreditor Agreement, certain agreed security principles, certain perfection requirements and permitted collateral liens. The validity and enforceability of the security will be subject to significant limitations as described in "*Limitations on Validity and Enforceability of the Notes Guarantees and the Security Interests*".

The Collateral securing the Notes and the Revolving Credit Facility may be released under certain circumstances. See "*Risk Factors—Risks Related to the Notes and the Notes Guarantors—There are circumstances other than repayment or discharge of the Notes under which the collateral securing the Notes and the Notes Guarantees will be released automatically, without your consent or the consent of the Trustee*," "*Description of Certain Indebtedness—Intercreditor Agreement*" and "*Description of the Notes—Security—Release of Liens*".

Escrow of Proceeds; Special Mandatory Redemption . . . .

If the Issue Date occurs prior to the Completion Date, pending the consummation of the Acquisition, the Initial Purchasers will deposit the gross proceeds from the Offering less certain deductions in respect of fees and expenses into the Escrow Account with the Escrow Agent. Upon delivery to the Escrow Agent of an officer's certificate stating that the conditions to the release of the proceeds from escrow will be satisfied promptly following the release of the escrowed funds, the escrowed funds will be released to the Issuer (or to such account as may be designated by the Issuer) and utilized as described in "*—The Transactions,*" "*Use of Proceeds,*" and "*Description of the Notes—Escrow of Proceeds; Special Mandatory Redemption.*" Any release of escrow proceeds and the consummation of the Acquisition are subject to the satisfaction of certain conditions.

In the event that (i) the Completion Date does not take place on or prior to April 30, 2014, (ii) in the reasonable judgment of the Issuer, the Acquisition will not be consummated on or prior to April 30, 2014, (iii) the Acquisition Agreement terminates at any time on or prior to April 30, 2014, or (iv) certain bankruptcy or insolvency events occur with respect to the Issuer or Adria Midco B.V. on or prior to April 30, 2014, the Notes will be subject to a special mandatory redemption. The special mandatory redemption price will be a price equal to 100% of the aggregate issue price of the Notes plus accrued and unpaid interest and additional amounts, if any, to the date of special mandatory redemption. The funds in the Escrow Account would be applied to pay for any such special mandatory redemption, with affiliates of KKR funding the accrued and unpaid interests. See "*Description of the Notes—Escrow of Proceeds; Special Mandatory Redemption*" and "*Risk Factors—Risks Related to the Notes and the Notes Guarantors—If the proceeds of the Offering are deposited in the Escrow Account and if the conditions to the escrow are not satisfied, the Issuer will be required to redeem the Notes, which means that you may not obtain the return you expect on the Notes.*"

Additional Amounts	Any payments made by any of the Issuer or the Guarantors with respect to the Notes will be made without withholding or deduction for taxes in any relevant taxing jurisdiction unless required by law. If any of the Issuer or Guarantors is required by law to withhold or deduct for such taxes with respect to a payment to the holders of Notes, the Issuer or such Guarantor will pay the additional amounts necessary so that the net amount received by the holders of Notes after the withholding is not less than the amount that they would have received in the absence of the withholding, subject to certain exceptions. See "*Description of the Notes—Withholding Taxes*".
Optional Redemption	Prior to November 15, 2016, the Issuer will be entitled at its option to redeem all or a portion of the Notes at a redemption price equal to 100% of the principal amount of the Notes plus the applicable "make-whole" premium described in this offering memorandum and accrued and unpaid interest to the redemption date. At any time prior to November 15, 2016, the Issuer may on one or more occasions redeem up to 40% of the aggregate principal amount of the Notes, using the net proceeds from certain equity offerings at a redemption price equal to 107.875% of the principal amount of the Notes, plus accrued and unpaid interest and additional amounts, if any, to the date of redemption; provided that at least 60% of the original aggregate principal amount of the Notes remains outstanding after the redemption. See "*Description of the Notes—Optional Redemption*." In addition, prior to November 15, 2016, the Issuer may redeem up to 10% of the aggregate principal amount of the Notes (calculated after giving effect to the issuance of any Additional Notes) in each twelve-month period commencing on the Issue Date at a redemption price equal to 103% of the principal amount thereof plus accrued and unpaid interest. The Issuer may redeem all or part of the Notes at any time on or after November 15, 2016 at the redemption prices described under "*Description of the Notes—Optional Redemption*," plus accrued and unpaid interest and additional amounts, if any, to the date of redemption.
Optional Redemption for Tax Reasons	In the event of certain developments affecting taxation or certain other circumstances, the Issuer may redeem the Notes in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. See "*Description of the Notes—Redemption for Taxation Reasons*".
Change of Control	If the Issuer experiences a change of control, the holders of the Notes will have the right to require the Issuer to offer to repurchase the Notes at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of purchase. However, a change of control will not be deemed to have occurred if certain consolidated leverage ratios are not exceeded in connection with such event. See "*Description of the Notes—Change of Control*."
Certain Covenants	The Indenture, among other things, will restrict the ability of Adria Midco B.V. and the restricted subsidiaries of Adria Midco B.V. to: • incur or guarantee additional indebtedness and issue certain preference stock;

- pay dividends, redeem capital stock and make certain investments;
- make certain other restricted payments;
- create or permit to exist certain liens;
- impose restrictions on the ability of the restricted subsidiaries to pay dividends;
- transfer or sell certain assets;
- merge or consolidate with other entities;
- enter into certain transactions with affiliates; and
- impair the security interests for the benefit of the holders of the Notes.

Each of these covenants is subject to significant exceptions and qualifications. See "*Description of the Notes—Certain Covenants*".

Listing	Application will be made to list the Notes on the Official List of the Irish Stock Exchange and for the Notes to be admitted to trading on the Global Exchange market thereof.
Transfer Restrictions	The Notes and the Notes Guarantees have not been, and will not be, registered under the Securities Act or the securities laws of any other jurisdiction and are subject to restrictions on transferability and resale. See "*Transfer Restrictions*". We have not agreed to, or otherwise undertaken to, register the Notes (including by way of an exchange offer).
Absence of a Public Market for the Notes	The Notes will be new securities for which there will be no established trading market. Accordingly, we cannot assure you as to the development or liquidity of any market for the Notes. Furthermore, the Notes will not have registration rights under the Securities Act.
Governing Law	The Indenture, the Notes and the Notes Guarantees will be governed by the laws of the State of New York. The Intercreditor Agreement and the Escrow Agreement will be governed by English law. The security documents will be (subject to certain exceptions) governed by the applicable law of the jurisdiction under which the security interests are granted.
Trustee	U.S. Bank Trustees Limited.
Principal Paying Agent and Transfer Agent	Elavon Financial Services Limited, UK Branch.
Registrar	Elavon Financial Services Limited.
Listing Agent	Walkers Listing and Support Services Limited.
Security Agent	UniCredit Bank AG, London Branch.
Risk Factors	Investing in the Notes involves substantial risks. Please see the "*Risk Factors*" section for a description of certain of the risks you should carefully consider before investing in the Notes.

SUMMARY CONSOLIDATED HISTORICAL AND PRO FORMA FINANCIAL DATA

We have presented in the following table unaudited consolidated financial information on a Pro Forma basis for Slovenia Broadband and its subsidiaries. This pro forma data reflects certain pro forma adjustments to give effect to the Business Combination as though it had occurred on January 1, 2012, inclusive of the year ended December 31, 2012 and the six months ended June 30, 2012. This pro forma data also includes the results of certain entities not included in the results of Telemach Slovenia, SBB Serbia and Telemach BH since the date of their respective acquisitions. For a detailed description of the pro forma adjustments included in the pro forma data presented below, see "*Unaudited Pro Forma Consolidated Condensed Combined Financial Information*." We also present unaudited consolidated historical financial data for Slovenia Broadband and its subsidiaries for the six months ended June 30, 2013, which has been derived from the unaudited consolidated interim financial statements of Slovenia Broadband as of and for the six months ended June 30, 2013, including the related notes thereto, which have been prepared in accordance with IAS 34 and are included elsewhere in this offering memorandum.

We believe that presenting the results of operations in this manner provides useful data for comparison given the complexity involved with comparing periods that do not include all members of the Group for the full period and, in certain cases other than Telemach Slovenia, SBB Serbia and Telemach BH, are derived from financial statements of the Group that are prepared on different bases of accounting. The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable and do not purport to represent what our results of operations would have been had the Business Combination occurred on the dates assumed, and do not purport to project our results of operations or financial condition for any future period. These pro forma results are not directly comparable to the consolidated audited or reviewed financial information of Telemach Slovenia, SBB Serbia or Telemach BH included elsewhere in this offering memorandum. The pro forma financial information does not give effect to the Refinancing or the Acquisition. See "*Unaudited Pro Forma Condensed Combined Financial Information*", "*Selected Consolidated Historical Financial Data*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Prospective investors should read the summary data presented below in conjunction with "*Presentation of Financial Information*," "*Use of Proceeds*," "*Capitalization*," and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and our consolidated financial statements and the related notes included elsewhere in this offering memorandum.

	Group		
	Pro Forma year Ended December 31, 2012	Pro Forma Six months ended June 30, 2012	Six months ended June 30, 2013
	(in € thousands)		
Statement of Comprehensive Income Data			
Revenue	191,454	91,599	116,295
Other income	2,674	1,828	1,839
Content cost	(36,188)	(15,832)	(23,321)
Satellite capacity cost	(7,087)	(3,304)	(3,652)
Internet cost	(3,724)	(2,352)	(3,346)
Materials costs	(4,933)	(3,045)	(3,449)
Staff costs	(17,971)	(8,837)	(10,796)
Depreciation	(40,772)	(19,601)	(23,471)
Amortization of intangible assets	(11,596)	(5,883)	(9,052)
Other operating expenses	(44,160)	(20,123)	(26,074)
Results from operating activities	27,697	14,450	14,973
Finance income	1,887	1,601	1,632
Finance costs	(48,551)	(35,695)	(10,691)
Net finance costs	(46,664)	(34,094)	(9,059)
Profit/(loss) before tax	(18,967)	(19,644)	5,914
Income tax (expenses)/benefit	1	256	(1,743)
Profit/(loss) for the period	(18,966)	(19,388)	4,171

	Group as of June 30, 2013
	(in € thousands)
Consolidated Balance Sheet Data:	
Cash and cash equivalents	16,221
Current assets	75,150
Non-current assets	711,174
Total assets	786,324
Current liabilities	76,639
Non-current liabilities	258,064
Total liabilities	334,703
Total equity	451,621
Total equity and liabilities	786,324

	Group Six months ended June 30, 2013
	(in € thousands)
Summary Consolidated Statement of Cash Flows Information	
Cash flows from operating activities	20,718
Cash flows provided by (used in) investing activities	(37,898)
Cash flows provided by (used in) financing activities	18,208
Increase (decrease) in cash and cash equivalents	**1,028**

	Group		
	As of, and for the year ended, December 31,		As of, and for the six months ended, June 30,
	2011	2012	2013
	(in thousands)		
Other Operating Information[1]			
Homes passed[2]	1,078	1,147	1,224
Unique cable subscribers[3]	691	735	777
RGUs[4]	1,399	1,565	1,680
Cable pay-TV[5]	681	725	772
DTH pay-TV	317	363	374
Broadband internet[6]	305	354	383
Fixed telephony[7]	84	111	131
Other services[8]	13	13	19
Penetration[9]			
Cable television	63.2%	63.2%	63.0%
Broadband internet	28.3%	30.8%	31.3%
Fixed telephony	7.8%	9.6%	10.7%
Cable-based services revenue divided by average cable pay-TV subscribers[10]	15.2	15.4	16.7
Blended Cable ARPU (in €)[11]			16.6

(1) Including KDS NS.

(2) Homes passed represents our estimate of the number of potential residential subscribers to whom we can offer our cable pay-TV services. Homes passed as of December 31, 2011 and 2012, respectively, represents the sum of homes passed at Telemach Slovenia, SBB Serbia and Telemach BH as of those dates.

(3) Unique cable subscribers represent the number of persons who subscribe for one or more of our services without regard to how many services the end user is subscribed.

(4) RGUs as of December 31, 2011 and 2012, respectively, represents the sum of RGUs of Telemach Slovenia, SBB Serbia and Telemach BH as of those dates.

(5) Cable pay-TV RGUs includes our analog and digital cable pay-TV RGUs in Slovenia and in Serbia and Bosnia and Herzegovina the sum of our total analog cable pay-TV RGUs (without separately counting analog cable RGUs that have purchased digital top-ups).

(6) Broadband internet RGUs represents both residential and business broadband internet provided via coaxial cable.

(7) Fixed telephony RGUs represents both residential and business fixed telephony provided via coaxial cable.

(8) Other services includes MMDS-based pay-TV services, MVNO services, ADSL internet services and IPTV services.

(9) Represents the number of RGUs at the end of the relevant period as a percentage of the number of homes passed by our network.

(10) Average cable pay-TV subscribers represents the average cable pay-TV subscribers at the beginning and the end of the period. For the six months ended June 30, 2013, Vi.Net and Art.Net were consolidated in the Group in January and February, respectively.

(11) Blended Cable ARPU is calculated as the sum of total cable-pay TV, broadband internet and telephony revenues (including telephony usage revenues and excluding minor installation fees) for the period divided by the period's average monthly total cable-pay TV RGUs and divided by the number of months in that period.

Other Financial And As Adjusted Data

	Group		
	Pro Forma year Ended December 31, 2012	Pro Forma Six months ended June 30, 2012	As of and For the Six months ended June 30, 2013
	(in € thousands)		
EBITDA[1]	80,065	39,934	47,496
EBITDA Margin[2] (in %)	41.8	43.6	40.8
Last Two Quarter Adjusted EBITDA[3]			52,982
Last Two Quarter Annualized Adjusted EBITDA[4]			105,964
Estimated Acquired Entities EBITDA[5]			2,698
Last Two Quarter Adjusted EBITDA Including Estimated Acquired Entities EBITDA			55,680
Annualized Last Two Quarter Adjusted EBITDA Including Estimated Acquired Entities EBITDA[6]			111,360
Capital expenditures[7]			24,529
As adjusted Group net debt[8]			473,385
As adjusted cash interest expense[9]			38,426
Ratio of Group net debt to Annualized Last Two Quarter Adjusted EBITDA Including Estimated Acquired Entities EBITDA			4.25x
Ratio of Annualized Last Two Quarter Adjusted EBITDA Including Estimated Acquired Entities EBITDA to As adjusted cash interest expense			2.90x

(1) EBITDA is a supplemental measure of financial performance that is not required by, or presented in accordance with IFRS. We define "EBITDA" as Profit/(Loss) for the period *plus* income tax (benefit)/expense, depreciation, amortization of intangible assets and net finance costs. EBITDA is not measurements of performance or liquidity under IFRS and you should not consider EBITDA as alternatives to (a) net income (as determined in accordance with IFRS as a measure of our operating performance, (b) cash flow for the period as a measure of our ability to meet our cash needs, or (c) any other measure of performance or liquidity under IFRS. We present EBITDA and the ratios derived therefrom, because we believe that they are measures commonly used by investors and they are measures that we use in managing our business. EBITDA, as presented in this offering memorandum, however, may not be comparable to similarly titled measures reported by other companies due to differences in the way these measures are calculated.

The following table provides a reconciliation of EBITDA to Profit/(Loss) before tax for the periods indicated:

	Pro Forma year Ended December 31, 2012	Pro Forma Six months ended June 30, 2012	Six months ended June 30, 2013
	(in € thousands)		
Profit/(Loss) for the period	(18,966)	(19,388)	4,171
Income tax (benefit)/expense	(1)	(256)	1,743
Depreciation	40,772	19,601	23,471
Amortization of intangible assets	11,596	5,883	9,052
Net finance (income)/costs	46,664	34,094	9,059
EBITDA	**80,065**	**39,934**	**47,496**

(2) EBITDA Margin represents EBITDA *divided by* revenue.

(3) Last Two Quarter Adjusted EBITDA represents EBITDA for the two most recent quarters ended June 30, 2013 as adjusted for exceptional items identified in the table below:

	Six months ended June 30, 2013
	(in € thousands)
EBITDA	47,496
Refinancing costs[(a)]	3,500
Non-cash impairment charges[(b)]	1,152
Withholding tax expenses[(c)]	302
Rebranding costs[(d)]	221
Donation expenses[(e)]	198
Rent expenses[(f)]	102
Other[(g)]	11
Adjusted Last Two Quarter EBITDA	**52,982**

(a) Includes one-off costs, including legal, consultancy and advisory costs incurred in connection with implementing the Existing Credit Facilities.

(b) Represents non-cash inventory impairment charges related to Telemach Slovenia's and SBB Serbia's replacement of digital set-top boxes.

(c) Represents withholding tax expenses and related late payment interest and penalties incurred by Telemach Slovenia and Telemach BH in connection with interest payments made to non-resident financing banks. In April 2013, Telemach Slovenia and Telemach BH disclosed to the relevant tax authorities their failure to remit withholding taxes on interest payments made to non-resident financing banks to the Slovenian and Bosnian tax authorities, respectively, and paid the full amounts due plus late payment interest and penalties. Telemach Slovenia and Telemach BH do not have any further obligations to the relevant tax authorities following these one-off payments and the matters have been settled.

(d) Represents one-off costs relating to the rebranding of our in-house content business.

(e) Represents voluntary donations to various organizations in Serbia made by SBB Serbia and KDS. See "*Business—Marketing and Sales*."

(f) Represents rent payments made by SBB Serbia under an existing lease for SBB Serbia's old office building which overlapped with the commencement of rent payments for SBB Serbia's newly constructed office building.

(g) Represents one-off installation fees incurred by Telemach BH.

(4) Last Two Quarter Annualized Adjusted EBITDA is calculated by multiplying the Pro Forma Adjusted EBITDA for the two most recent quarters ended June 30, 2013 by two.

(5) Represents estimated EBITDA of *NetTV.plus* and Elektro Turnsek, which were acquired during the course of 2013, and which were not consolidated in our results for the six months ended June 30, 2013. Also represents estimated EBITDA for KabelTV, which was acquired during the six months ended June 30, 2013, and which has been fully consolidated since March 1, 2013 and is included in our consolidated financial results for the six months ended June 30, 2013 for the period from March 1, 2013 to June 30, 2013. The table set forth below shows estimated EBITDA for *NetTV.plus* and Elektro Turnsek for the six months ended June 30, 2013 and of KabelTV for the two months ended February 28, 2013. The EBITDA of *NetTV.plus* and Elektro Turnsek for the six months ended June 30, 2013 and of KabelTV for the two months ended February 28, 2013, respectively, has been derived from the respective internal management accounts of *NetTV.plus*, Elektro Turnsek and KabelTV, respectively, and has not been audited, reviewed or verified by an independent accounting firm. The internal management accounts of *NetTV.plus* are prepared in accordance with Serbian GAAP. The internal management accounts of Elektro Turnsek and KabelTV are prepared in accordance with Slovenian GAAP. Serbian GAAP and Slovenian GAAP are not directly comparable to IFRS.

	Six months ended June 30, 2013
	(in € thousands)
NetTV.plus	1,324
Elektro Turnsek	1,292
KabelTV(for the two months ended February 28, 2013 only)	81
Estimated Acquired Entities EBITDA	**2,698**

(6) Annualized Last Two Quarter Adjusted EBITDA Including Estimated Acquired Entities EBITDA is calculated by adding Estimated Acquired Entities EBITDA to Last Two Quarter Adjusted EBITDA and multiplying the sum by two.

(7) Capital expenditures represents purchases of tangible and intangible assets, consisting principally of set-top box purchases and other customer capital expenditure, installations (including capitalized labor costs), cable network build-out, upgrades, maintenance and other investments, computer hardware and software and content rights.

(8) As adjusted Group net debt comprises the sum of the aggregate principal amount of the Notes and capital leases *less* €5.0 estimated amount of cash that would have been available for general corporate purposes on June 30, 2013 had the Transactions been completed on that date.

(9) As adjusted cash interest expense represents as adjusted interest expenses on the Notes *plus* commitment fees on the undrawn portion of the Revolving Credit Facility.

The following tables summarize certain historical and other data of Telemach Slovenia, SBB Serbia and Telemach BH and their respective consolidated subsidiaries for the periods ended on and as of the dates indicated below. We have derived the historical consolidated financial data for Telemach Slovenia, as of and for the years ended December 31, 2011 and 2012 from the audited consolidated financial statements of Telemach Slovenia, which are included elsewhere in this offering memorandum. We have derived the historical combined financial data for SBB Serbia as of and for the years ended December 31, 2011 and 2012 from the audited combined financial statements of SBB Serbia, which are included elsewhere in this offering memorandum. We have derived the historical combined financial data for Telemach BH as of and for the years ended December 31, 2011 and 2012 from the audited consolidated financial statements of Telemach BH included elsewhere in this offering memorandum.

The audited consolidated financial statements of Telemach Slovenia have been prepared in accordance with IFRS. The audited consolidated financial statements of SBB Serbia have been prepared in accordance with IFRS. The audited consolidated financial statements of Telemach BH have been prepared in accordance with IFRS.

Prospective investors should read the summary data presented below in conjunction with "*Presentation of Financial Information*," "*Use of Proceeds*," "*Capitalization*," "*Unaudited Pro Forma Condensed Combined Financial Information*," "*Selected Consolidated Historical Financial Data*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and our combined and consolidated financial statements and the related notes included elsewhere in this offering memorandum.

	Telemach Slovenia Year ended December 31,	
	2011	**2012**
	(in € thousands)	
Net sales revenues	56,893	64,311
Other operating revenues	194	1,264
Cost of goods, materials and services	(21,431)	(26,539)
Cost of purchase of goods and materials sold and cost of materials used	(1,582)	(2,666)
Cost of services	(19,849)	(23,873)
Labour costs	(5,776)	(6,055)
Cost of wages and salaries	(4,374)	(4,537)
Social security contributions	(702)	(769)
Other labour costs	(700)	(749)
Depreciation	(16,051)	(17,088)
Depreciation of intangible long-term fixed assets	(3,924)	(4,113)
Depreciation of tangible fixed assets	(12,127)	(12,975)
Other operating expenses	(1,404)	(1,831)
Operating profit	12,425	14,062
Finance revenues	447	363
Financial expenses	(5,600)	(4,615)
Net operating profit	7,272	9,810
Taxes	(1,430)	(682)
Income tax	(158)	(125)
Deferred tax	(1,272)	(557)
Net profit before adjustments	5,843	9,128
Other comprehensive income for the financial year	—	—
Total comprehensive income for the financial year	**5,843**	**9,128**

	Telemach Slovenia Year ended December 31,	
	2011	2012
	(in € thousands)	
Summary Consolidated Statement of Cash Flows Information		
Cash flows from operating activities	26,796	20,691
Cash flows provided by (used in) investing activities	(24,283)	(14,668)
Cash flows provided by (used in) financing activities	(1,042)	(6,874)
Increase (decrease) in cash and cash equivalents	**1,471**	**(851)**

	Telemach Slovenia As of December 31,	
	2011	2012
	(in € thousands)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	3,234	2,383
Non-current assets	113,348	109,911
Current assets	18,805	27,329
Total assets	132,153	137,240
Current liabilities	23,001	22,406
Non-current liabilities	80,977	77,428
Total liabilities	103,978	99,835
Total equity	28,175	37,406
Total equity and liabilities	132,153	137,240

	Telemach Slovenia Year ended December 31,	
	2011	2012
	(in € thousands)	
Other Financial Data		
Capital expenditures	15,573	14,104
EBITDA[1]	28,476	31,150

(1) EBITDA is a supplemental measure of financial performance that is not required by, or presented in accordance with IFRS. We define "EBITDA" as net operating profit *plus* depreciation of intangible long-term fixed assets, depreciation of tangible fixed assets and net financial expenses. EBITDA is not measurements of performance or liquidity under IFRS and you should not consider EBITDA as alternatives to (a) net income (as determined in accordance with IFRS as a measure of our operating performance, (b) cash flow for the period as a measure of our ability to meet our cash needs, or (c) any other measure of performance or liquidity under IFRS. We present EBITDA and the ratios derived therefrom, because we believe that they are measures commonly used by investors and they are measures that we use in managing our business. EBITDA, as presented in this offering memorandum, however, may not be comparable to similarly titled measures reported by other companies due to differences in the way these measures are calculated.

The following table provides a reconciliation of EBITDA to net operating profit for the period indicated:

	Year ended December 31, 2011	Year ended December 31, 2012
	(in € thousands)	
Net operating profit	7,272	9,810
Depreciation of intangible long-term fixed assets	3,924	4,113
Depreciation of tangible fixed assets	12,127	12,975
Net interest expense	5,153	4,252
EBITDA	**28,476**	**31,150**

	SBB Serbia Year ended December 31,		
	2011	2012	
	(in RSD thousands)	(in RSD thousands)	(in € thousands)(1)
Revenue	11,192,858	13,194,808	116,636
Other income	152,678	79,456	702
Content costs	(2,712,498)	(3,170,467)	(28,026)
Satellite capacity cost	(288,653)	(787,255)	(6,959)
Internet link costs	(278,671)	(295,950)	(2,616)
Materials cost	(545,784)	(656,461)	(5,803)
Staff costs	(923,173)	(1,088,040)	(9,618)
Depreciation	(1,681,358)	(1,992,568)	(17,613)
Amortization of intangible assets	(486,518)	(509,075)	(4,500)
Other operating expenses	(1,668,826)	(2,109,628)	(18,648)
Results from operating activities	2,760,055	2,664,820	23,555
Finance income	43,198	4,914,121	43,439
Finance costs	(2,357,238)	(3,650,812)	(32,272)
Net finance income/(loss)	(2,314,040)	1,263,309	11,167
Profit before tax	446,015	3,928,129	34,723
Income tax expense	(31,886)	(967,662)	(8,554)
Profit for the year	414,129	2,960,467	26,169
Other comprehensive income/(loss)			
Currency translation differences	(2,134)	80,306	710
Total comprehensive income for the year	**411,995**	**3,040,773**	**26,879**

(1) Amounts shown in euro are converted from Serbian dinar at a rate equal to RSD 113.1277 per €1.00, which was the average rate during that period.

	SBB Serbia Year ended December 31,		
	2011	2012	
	(in RSD thousands)	(in RSD thousands)	(in € thousands)(1)
Summary Consolidated Statement of Cash Flows Information			
Cash flows from operating activities	4,319,784	4,023,490	35,566
Cash flows provided by (used in) investing activities	(2,220,229)	(3,024,960)	(26,739)
Cash flows provided by (used in) financing activities	(1,316,020)	(1,350,207)	(11,935)
Increase (decrease) in cash and cash equivalents	**783,535**	**(351,677)**	**(3,109)**

(1) Amounts shown in euro are converted from Serbian dinar at a rate equal to RSD 113.1277 per €1.00, which was the average rate during that period.

	SBB Serbia As of December 31,		
	2011	2012	
	(in RSD thousands)	(in RSD thousands)	(in € thousands)(1)
Consolidated Balance Sheet Data:			
Cash and cash equivalents	1,054,916	703,239	6,243
Non-current assets	16,890,236	17,237,589	153,033
Current assets	3,566,083	5,275,156	46,832
Total assets	20,456,319	22,512,745	199,866
Non-current liabilities	21,088,939	7,682,826	68,207
Current liabilities	3,458,285	3,752,321	33,313
Total liabilities	24,547,224	11,435,147	101,520
Total equity	(4,090,905)	11,077,598	98,346
Total equity and liabilities	20,456,319	22,512,745	199,866

(1) Amounts shown in euro are converted from Serbian dinar at a rate equal to RSD 112.6394 per €1.00, which was the rate in effect on December 31, 2012.

	SBB Serbia Year ended December 31,		
	2011	2012	
	(in RSD thousands)	(in RSD thousands)	(in € thousands)[(1)]
Other Financial Data			
Capital expenditures	2,113,489	2,807,949	24,821
EBITDA[(2)]	4,927,931	5,166,463	45,669

(1) Amounts shown in euro are converted from Serbian dinar at a rate equal to RSD 113.1277 per €1.00, which was the average rate during that period.

(2) EBITDA is a supplemental measure of financial performance that is not required by, or presented in accordance with IFRS. We define "EBITDA" as profit/(loss) before tax *plus* depreciation, amortization of intangible assets and net finance income. EBITDA is not measurements of performance or liquidity under IFRS and you should not consider EBITDA as alternatives to (a) net income (as determined in accordance with IFRS as a measure of our operating performance, (b) cash flow for the period as a measure of our ability to meet our cash needs, or (c) any other measure of performance or liquidity under IFRS. We present EBITDA and the ratios derived therefrom, because we believe that they are measures commonly used by investors and they are measures that we use in managing our business. EBITDA, as presented in this offering memorandum, however, may not be comparable to similarly titled measures reported by other companies due to differences in the way these measures are calculated.

The following table provides a reconciliation of EBITDA to Profit/(Loss) before tax for the period indicated:

	Year ended December 31, 2011	Year ended December 31, 2012	
	(in RSD thousands)	(in RSD thousands)	(in € thousands)[(1)]
Profit/(Loss) before tax	446,015	3,928,129	34,723
Depreciation	1,681,358	1,992,568	17,613
Amortization of intangible assets	486,518	509,075	4,500
Net finance (income)/loss	2,314,040	(1,263,309)	(11,167)
EBITDA	**4,927,931**	**5,166,463**	**45,669**

(1) Amounts shown in euro are converted from Serbian dinar at a rate equal to RSD 113.1277 per €1.00, which was the average rate during that period.

	Telemach BH Year ended December 31,		
	2011	2012	
	(in BAM thousands)	(in BAM thousands)	(in € thousands)[(1)]
Revenue	14,726	26,334	13,465
Other revenue	187	115	59
Content costs	(3,028)	(4,853)	(2,481)
Internet costs	(998)	(2,115)	(1,081)
Cost of materials and services	(1,475)	(1,345)	(688)
Staff costs	(1,760)	(2,792)	(1,428)
Amortization and depreciation	(5,123)	(8,728)	(4,463)
Other operating expenses	(3,209)	(7,085)	(3,623)
Results from operating activities	(680)	(469)	(240)
Finance income	119	278	142
Finance costs	(510)	(4,247)	(2,171)
Net finance costs	(391)	(3,969)	(2,029)
Loss before tax	(1,071)	(4,438)	(2,269)
Income tax benefit	—	109	56
Loss for the year	(1,071)	(4,329)	(2,213)
Other comprehensive income	—	—	—
Total comprehensive loss	**(1,071)**	**(4,329)**	**(2,213)**

(1) Amounts shown in euro are converted from Bosnian mark at a rate equal to BAM 1.9558 per €1.00. The Bosnian mark is pegged to the euro.

	Telemach BH Year ended December 31, 2011	2012	
	(in BAM thousands)	(in BAM thousands)	(in € thousands)(1)
Summary Consolidated Statement of Cash Flows Information			
Cash flows from operating activities	2,504	9,808	5,015
Cash flows provided by (used in) investing activities	(10,410)	(30,776)	(15,736)
Cash flows provided by (used in) financing activities	8,296	22,554	11,532
Increase (decrease) in cash and cash equivalents	**390**	**1,586**	**811**

(1) Amounts shown in euro are converted from Bosnian mark at a rate equal to BAM 1.9558 per €1.00. The Bosnian mark is pegged to the euro.

	Telemach BH As of December 31, 2011	2012	
	(in BAM thousands)	(in BAM thousands)	(in € thousands)(1)
Consolidated Balance Sheet Data:			
Cash and cash equivalents	563	2,149	1,099
Non-current assets	23,160	48,994	25,051
Current assets	4,514	13,957	7,136
Total assets	27,674	62,951	32,187
Non-current liabilities	8,274	33,958	17,363
Current liabilities	12,993	24,391	12,471
Total liabilities	21,267	58,349	29,834
Total equity	6,407	4,602	2,353
Total equity and liabilities	27,674	62,951	32,187

(1) Amounts shown in euro are converted from Bosnian mark at a rate equal to BAM 1.9558 per €1.00. The Bosnian mark is pegged to the euro.

	Telemach BH Year ended December 31, 2011	2012	
	(in BAM thousands)	(in BAM thousands)	(in € thousands)(1)
Other Financial Data			
Capital expenditures	7,851	13,066	6,681
EBITDA(2)	4,443	8,259	4,223

(1) Amounts shown in euro are converted from Bosnian mark at a rate equal to BAM 1.9558 per €1.00. The Bosnian mark is pegged to the euro.

(2) EBITDA is a supplemental measure of financial performance that is not required by, or presented in accordance with IFRS. We define "EBITDA" as profit/(loss) before tax *plus* amortization and depreciation and net finance costs. EBITDA is not measurements of performance or liquidity under IFRS and you should not consider EBITDA as alternatives to (a) net income (as determined in accordance with IFRS as a measure of our operating performance, (b) cash flow for the period as a measure of our ability to meet our cash needs, or (c) any other measure of performance or liquidity under IFRS. We present EBITDA and the ratios derived therefrom, because we believe that they are measures commonly used by investors and they are measures that we use in managing our business. EBITDA, as presented in this offering memorandum, however, may not be comparable to

similarly titled measures reported by other companies due to differences in the way these measures are calculated. The following table provides a reconciliation of EBITDA to Profit/(Loss) before tax for the period indicated:

	Year ended December 31, 2011	Year ended December 31, 2012	
	(in BAM thousands)	(in BAM thousands)	(in € thousands)(1)
Profit/(Loss) before tax	(1,071)	(4,438)	(2,269)
Amortization and depreciation	5,123	8,728	4,463
Net finance cost	391	3,969	2,029
EBITDA	4,443	8,259	4,223

(1) Amounts shown in euro are converted from Bosnian mark at a rate equal to BAM 1.9558 per €1.00. The Bosnian mark is pegged to the euro.

RISK FACTORS

You should carefully consider the risks described below as well as the other information contained in this offering memorandum before making an investment decision. Any of the following risks may have a material adverse effect on our business, results of operations, financial condition and cash flows, and as a result you may lose all or part of your original investment. The risks described below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our business, results of operations, financial condition and cash flows.

Risks Relating to Our Business and Industry

The broadband internet, cable television, DTH and telephony markets in the regions in which we operate are highly competitive.

We face significant competition in each of our product and service segments and may face competition from new entrants in the future. The nature and level of the competition we face varies for each of the products and services we offer and by region, but we generally compete on the basis of quality of content, network quality, marketing, product and service portfolio specifications, customer care, sales and marketing services as well as price. Our competitors include, but are not limited to, television providers, including providers using alternative and emerging digital technologies such as IPTV and OTT content providers, DTH television providers, broadband internet and telephony services providers using DSL, PSTN or fiber connections, and mobile network operators. In addition, continued consolidation within the media industry may allow more competitors to offer bundles of digital television, fixed line telephone and broadband services, and consolidation by competitors could allow them to benefit from economies of scale that we do not benefit from. As a result, we may compete against companies with easier access to financing, more comprehensive product offerings, greater personnel resources, greater brand name recognition and experience or longer-established relationships with regulatory authorities and customers, resulting in fewer regulatory burdens with which they are required to comply.

Communications technologies and consumer electronics, as well as the way information, communication and entertainment is offered, are constantly changing, and the impact of such changes can be difficult to predict. Current and future competitors may expand their product and service offering more rapidly or adapt to new or emerging technologies more quickly than us, or may offer their products and services at a lower price than ours, for example where our services are priced at the high end of the market, which could cause us to lose subscribers, force us to lower our prices or otherwise adversely affect the margin of profit we are able to achieve from our services. In particular, we face the following risks in relation to each of our product offerings:

Television

While competition between cable pay-TV providers in Serbia and Bosnia and Herzegovina is currently low due to minimal cable overbuild, we face competition in the Serbian television market from other methods of television services distribution, such as DTH and IPTV over DSL. Our main pay-TV competitors in Serbia, other than the incumbent, Telekom Srbija, a DSL broadband internet provider, are DigiSat, a Romanian DTH platform that entered the Serbian pay-TV market in 2006, and Polaris Media. Our main pay-TV competitors in Bosnia and Herzegovina are the incumbents in the ethnic regions in which we operate, BH Telecom and Kablovska Televizija HS ("HS"). Competition in the pay-TV market Slovenia is strong, and there is extensive Fiber-to-the-Home ("FttH") by Telekom Slovenije and T2, especially in metropolitan areas. Our main competitors in the Slovenian pay-TV market are Telekom Slovenije and T2.

Additionally, we may be facing increased competition from non-traditional television services based on new internet technologies, including OTT television services, in the future. OTT television services deliver pay-TV content "on top" of an existing broadband internet connection directly to a television, PC, laptop or mobile devices. OTT service providers leverage existing infrastructures and are often not required to implement capital-intensive models associated with traditional data providers like us. While internet television services, including OTT services, have historically not presented serious competition due to limited available content as well as the lack of sufficiently fast internet connections, we cannot rule out that increased availability of OTT content as well as advances in broadband internet connection speeds will lead to increased competition from internet service providers in the future.

Broadband Internet

Although there is currently only a small amount of overlap with other cable internet providers or, to a limited extent, with FttH operators, in Serbia (mainly in the Belgrade region) and Bosnia and Herzegovina, we face strong competition from other broadband internet services, such as ADSL and VDSL broadband connections. Our main competitors for broadband internet services are Telekom Srbija in Serbia and BH Telecom, HT Eronet and HS in Bosnia and Herzegovina. Continued upgrades to the quality of DSL-based broadband internet service to VDSL and potentially even faster DSL-based variants and the possibility of widespread FttH installations would have a negative impact on our competitive position in the broadband internet market. Due to extensive overbuild and high levels of broadband internet penetration in Slovenia, we face significant competition in the broadband internet market segment from fiber broadband internet providers such as Telekom Slovenije and T2. Additionally, we compete against Telekom Slovenije's xDSL and VDSL services. As of June 30, 2013, T2's and Telekom Slovenije's fiber network covered approximately 38% of our Slovenian cable footprint. Additionally, Telekom Slovenije offered DSL internet services to approximately 100% of homes in our cable footprint. Moreover, mobile operators are increasingly able to utilize a combination of powerful handsets and high bandwidth technologies such as UMTS and LTE technologies. Additional competition may come from satellite technologies and operators that use WiMax technologies.

Telephony

In the recently liberalized Serbian and Bosnian telephony markets, we compete with the respective state-owned former monopolies, Telekom Srbija and BH Telecom, who dominate the fixed line PSTN telephone market. We believe that the Slovenian telephony market is relatively mature and market share changes are mainly driven by the combination of the price and quality of the services provided by bundled offerings. Our main competitors in Slovenia are Telekom Slovenije, T2 and Amis.

Additionally, we may be affected in each of the markets in which we operate by providers of free VoIP services such as Skype or Google talk which have considerably improved their speech quality over the last few years and can be accessed from any device connected to the internet, including smartphones.

Bundled Offerings

Customers of video and telecommunications services are increasingly expecting service providers to offer high-quality bundles of television, broadband internet and telephony services. Many of our competitors, including Telekom Slovenije in Slovenia, Telekom Srbija in Serbia and HT Eronet and BH Telecom in Bosnia and Herzegovina, offer bundled packages of services. Several of these bundles include mobile phone services, which we only offer in Slovenia as part of a bundled package of services. If our bundled products are not able to compete effectively in the markets in which we operate, our business, financial condition and results of operations could be materially adversely affected.

Increased competition, or our inability to provide cable and DTH pay-TV, broadband internet and telephony services at competitive prices, may have a material adverse effect on our business, results of operations, and financial condition.

We do not have guaranteed access to television content and are dependent on our agreements, relationships and cooperation with content providers, including broadcasters and collective rights associations.

The success of our business depends on, among other things, the quality and variety of the television content delivered to our customers. We depend on our agreements, relationships and cooperation with third parties for the majority of our content. We receive content for our cable and DTH pay-TV services pursuant to licenses with content providers, including high-quality regional and international television networks such as FOX, ViaSat and Universal channels. Additionally, we produce our own content through our in-house content company.

While we intend to negotiate additional access to continue to expand our pay-TV product range, rights to premium or HD content may in the future be obtained by our competitors on an exclusive basis and therefore not be available to us. Additionally, we may be unable to secure content on an exclusive basis and may have to share broadcasting rights with our competitors, which could lead to a dilution of our brand name. Furthermore, our competitors may be able to secure content which is more popular than ours, and changes in our subscribers' content preferences could result in a decrease of the popularity of our content and an increase in the popularity of our competitors. While we have successfully developed our video-on-demand ("VoD") and other interactive services as well as our own television content in the past, our ability to source content will be increasingly important and will depend on our ability to maintain relationships and cooperation with content providers and broadcasters for both standard and HD content as well as our ability to accurately predict our customers' content preferences. Furthermore, our *NetTV.plus* OTT content platform, which distributes local ethnic content to former Yugoslav expats around the world, relies on the availability of a number of local free-to-air channels and no-fee contracts for the distribution of such content, and in the past we have faced difficulties obtaining such local content free of charge or negotiating contracts with local TV channel providers on satisfactory terms which has led to the removal of some of these channels. Additionally, from time to time, we face disputes over the rights to certain OTT content that we show. If we fail to produce, obtain or retain sufficient popular and quality programming for our digital cable and DTH services, or local content for our OTT content platform, on satisfactory terms, if the content we provide is only popular for a short period of time, if our competitors secure content that is more popular than ours, or if the popularity of our content declines, our ability to attract customers from competitors to our services, retain current customers, compete effectively with free TV channel providers or recoup our content production costs may be limited, which could have a material adverse effect on our business, financial condition and results of operations.

Additionally, as we depend upon such content providers for the provision of content to attract and retain customers, content providers may have considerable power to renegotiate the license fees we pay them. Most license agreements are renewed on a regular basis, typically every three years. We may be unable to renew such contracts on terms that are similar to those of the current agreement, which could result in an increase in our content costs or, if we are unable to agree on the terms of service, the cancellation of such license contracts. The loss of certain content could, in turn, affect our customer base. Difficulties encountered with content suppliers may result in disruptions in our operations, loss of profitability and damage to our reputation, financial condition or results of operations.

We may face difficulties in increasing our subscriber base or our subscription fees or up-selling new products to current subscribers.

Our revenue growth primarily results from the growth of our subscriber base and increase in our subscription fees. We may not be able to sustain the level of subscriber growth, and further increases in subscription fees may meet customer resistance and lead to increases in churn rates. If we are unable to execute our business strategy, the pay-TV, broadband internet and telephony markets in the regions in which we operate do not continue to grow as we expect, or we encounter other unforeseen difficulties in acquiring new subscribers or selling additional products and services to existing subscribers, we may experience a material adverse effect on our business, financial condition and results of operations.

Additionally, a number of free television channels are available across the markets in which we operate and unmanaged, free terrestrial television accounted for approximately 41% of the total television market in Serbia, 32% in Slovenia and 57% in Bosnia and Herzegovina in 2012. Historically, the migration of subscribers from unmanaged free terrestrial television has been slow. While we believe that our product offering is far superior to the television channels available free of charge, there can be no assurance that the speed with which customers migrate from free television services to pay-TV services will increase, and consequently, we cannot guarantee that pay-TV penetration rates across the former Yugoslav region will converge on the higher penetration rates characteristic of other major Central East and Western European markets which may, in turn, adversely affect our business.

Furthermore, the recent switch from analog to digital terrestrial TV in Slovenia in 2010 and the anticipated switch in Serbia and Bosnia and Herzegovina in 2014/2015 could significantly increase the number of available free digital television channels and TV providers we compete with, which could lead to a corresponding decrease in our audience share. While the switchover to digital terrestrial TV in Slovenia led to an increase in our revenues because of additional cross- and up-selling opportunities of digital products such as VoD, we cannot guarantee that we will be successful in taking a similar advantage of the switchover in Serbia and Bosnia and Herzegovina. A decreased demand for our cable and DTH pay-TV services and loss of existing subscribers could have a materially adverse effect on our business, financial condition, results of operations and prospects.

Difficult economic conditions may reduce subscriber spending for our broadband internet, pay television and telephony services and reduce our rate of growth of subscriber additions.

Our ability to grow or maintain our business may be adversely affected by weakening global or domestic economic conditions, wavering consumer confidence and unemployment as well as the impact of state-implemented austerity measures. For example, following recent warnings by the Serbian deputy prime minister that the country was close to bankruptcy, the current government proposed tough austerity measures, including increased rates of taxation and a reduction in public sector wages which could have an impact on our customers' disposable income. As customers may view spending for most of our services, such as pay-TV, as discretionary, the risks associated with certain segments of our business become more acute in periods of a slowing economy or recession as consumers may delay purchasing decisions or reduce or reallocate their discretionary funds. Current customers may elect to downgrade their packages or move to other less costly providers, and new customers may opt to take out our lower-end broadband and pay-TV packages rather than more expensive ones or may opt to become customers of less costly competitors, or not to subscribe to pay-TV services at all.

We are also exposed to risks associated with the potential financial instability of our customers, many of whom may be adversely affected by a general economic downturn. This may lead to a higher number of non-paying subscribers. Suppliers and distributors may also be more cautious in supplying goods to us and may request additional credit enhancements or more restrictive payment terms. While the impact of an economic slowdown on our business is difficult to predict, it could have a material adverse effect on our revenues and our cash flow.

Customer churn may adversely affect our financial performance.

Customer churn refers to those subscribers who cease subscribing for one or more of our products and services. In the ordinary course of our business, we experience a loss of customers due to their choice to obtain services from a competitor, relocation of our customers to areas not covered by our network and cancellation of services for customers who, after several reminders, do not pay our invoices. Our subscriber churn rates on an annualized last two quarters June 30, 2013 basis were 5.2% for Telemach Slovenia, 5.2% for SBB Serbia and 7.7% for Telemach BH.

Factors impacting churn in our consumer subscriber base include existing customers moving outside of our current geographical area of service as well as termination of services contracts by us due to existing customer's inability to pay as well as competition. For example, any interruption of our services, the removal or unavailability of programming or any other customer service problems, whether or not attributable to us, could contribute to increased subscriber churn or cause us to fail in our goal of reducing the level of churn of our pay-TV, broadband internet and telephony services.

Subscriber churn reduces our subscription base and causes us to incur additional costs to replace the cancelled subscribers, such as advertising and marketing costs. A significant increase in our churn rates may require us to incur additional costs to replace subscribers lost to cancellation. Additionally, even with increased marketing efforts, we cannot guarantee that we will be able to replace the subscribers who left us as all. Therefore, if a significant number of our subscribers cancel or do not renew their contracts with us, our business, financial condition and results of operations could be materially affected. Additionally, we incur upfront cash expenses for the installation of our cable-TV and internet equipment with new customers which we recoup over the duration of the services contract. As a result, should an increased number of subscribers cancel our services before we can recoup these initial cash expenses, this would have a negative effect on our business.

Our marketing and advertising expenses may increase in the future.

Historically, we have had low marketing and advertising budgets and have competed on the quality of our content instead. Should we be unable to compete on the quality of our content in the future, for example as a result of loss of content to our competitors, we might need to increase our marketing and advertising efforts, which would lead to an increase in marketing expenses. If we are unable to offset such increases in marketing and advertising expenses with increased prices for our products and services, our profitability, results of operations and financial condition might be negatively affected.

Our failure to keep pace with technological changes and evolving industry standards could harm our competitive position and, in turn, materially adversely affect our business.

The broadband internet, television and telephony services sectors are characterized by rapid and significant changes in technology. We will need to anticipate and react to these changes and develop successful new and enhanced products and services quickly enough to adapt to the changing market. This could result in the need to make substantial investments in new or enhanced technologies, products or services, and we may not be able to adopt such technology due to insufficient capital or for other reasons, such as incompatibilities with our systems. In addition, new technologies, such as VoIP (over fixed and mobile technology), 3D TV or IPTV, may become dominant in the future, rendering our current technologies and systems obsolete.

The availability of any new features developed for use in our industry can have a significant impact on a subscriber's initial decision to choose our or a competitor's products. We may not be able to develop or partner with third-party suppliers to gain access to technical advances before our competitors, match technological innovations by our competitors or design systems that meet subscribers' requirements. Our ability to effectively anticipate and adapt successfully to changes in technology in our industry and provide new or enhanced services in a timely and cost-effective manner, or successfully anticipate the demands of our subscribers, will determine whether we will be able to increase or maintain our subscriber and revenue base. For example, we do not expect that previously installed internet modems or set-top boxes will be able to support all of the enhancements we may introduce to our broadband internet and television services over time. If we fail to respond adequately to technological changes, we could lose subscribers and experience a decrease in revenues and, as a result, our business, financial condition and results of operations would be materially and adversely affected.

Additionally, the cost of implementing emerging and new technologies could be significant and we may fail to obtain the necessary financing. If we are unable to obtain such financing at attractive terms or at all, we might not be able to make the necessary technological changes or upgrades and our business, financial condition and results of operations could be materially and adversely affected.

Failure in our technology or telecommunications systems could significantly disrupt our operations.

Our success depends on the continued and uninterrupted performance of our information technology, HFC network systems and customer service centers. If any part of our HFC network, IT infrastructure is compromised or damaged by flood, fire or other natural disaster, terrorism, illegal piracy, power loss, system failure, denial-of-service attack, cyber-attack or other catastrophe, our operations could be materially adversely affected. Disaster recovery, security and service continuity protection measures that we currently have or may in the future undertake, and our monitoring of network performance, may be insufficient to prevent losses.

In addition, our business is dependent on sophisticated critical systems, such as our customer service systems and billing systems. Despite the presence of back-up systems, we can provide no assurances that our network and technical systems will not be damaged by physical or electronic breakdowns, cyber attacks, computer viruses or similar disruptions. In addition, unforeseen problems may create disruptions in our information technology systems. There can be no assurance that our existing security system, security policy, back-up systems, physical access security and access protection, user administration and emergency plans will be sufficient to prevent data loss or minimize network downtime. Sustained or repeated disruptions or damage to the network and technical systems that prevent, interrupt, delay or make it more difficult for us to provide products and services to our customers in accordance with the agreements we have with our customers may trigger claims for payment of damages or contractual remedies and would cause considerable damage to our reputation, lead to the loss of customers and require repairs or replacement of part of our network, all of which could have an adverse effect on our business, financial condition and results of operations.

Additionally, we rely on hardware, software, technical services and customer support provided by third parties. We do not control the proper functioning of such third party equipment, and to the extent hardware, software, technical services and customer support provided by third parties fails, our business operations may be adversely affected. For example, in 2010 our DTH pay-TV operations were disrupted for several hours due to a failure in satellite technology provided by EUTELSAT.

Further, any security breaches, such as misappropriation, misuse, penetration by viruses, worms or other destructive or disruptive software, leakage, falsification or accidental release or loss of information maintained in our information technology systems (or those of our business partners) and networks, including customer, personnel and vendor data, could damage our reputation, result in legal and/or regulatory action against us, and require us to expend significant capital and other resources to remedy any such security breach. The occurrence of any such network or information system-related events or security breaches could have a material adverse effect on our business and results of operations.

We operate in a capital-intensive business that may result in depreciation or impairment costs, or prevent us from generating positive returns.

The pay-TV, broadband internet and telephony markets in which we operate are capital intensive and significant capital investments are required to add customers to our network, including for equipment and labor costs. In addition, an increase in our customers' internet usage or demand for higher bandwidth may require us to further invest in the capacity of our network. Our current assumptions regarding the costs associated with the maintenance and further development of our cable network, including the implementation of new cable standards, may prove to be inaccurate. As a result, we expect that technological innovation as well as ongoing customer growth will lead to additional capital expenditures. In addition, any new or enhanced products or services we introduce, including internet and telephony products, may require an upgrade of local and in-house networks, in which case we may be required to cover a portion, or all, of the costs of such upgrade. No assurance can be given that our future investments and network upgrades will generate a positive return or that we will have adequate capital available to finance such future upgrades. In addition, rapidly changing technology requires careful review of life cycles for our assets and may result in additional depreciation or impairment costs. If we are unable to, or elect not to, pay for costs associated with adding new customers, expanding or upgrading our network or making our other planned or unplanned capital expenditures, or if we experience unexpected material depreciation or impairment costs, or do not manage our project portfolio effectively to ensure the proper allocation of resources between projects, our growth could be limited and our competitive position could be harmed.

We depend on third-party providers of hardware, software and customer support.

We rely on third-party vendors to supply us with a significant amount of customer equipment such as receiver boxes, hardware, software and operational or technical support necessary to operate our network and systems and provide our services. In many cases, our services depend on the technical specifications of equipment or software of a particular provider such as the method of content encryption, making it difficult for us to quickly change supply, maintenance or other essential relationships in the event that our provider refuses to offer us favorable prices, fails to provide the support that we require, or ceases to produce equipment or provide satisfactory customer service. Additionally, if our suppliers were to discontinue certain products, were unable to provide equipment to meet our specifications or interrupt the provision of equipment or services to us, and if we were unable to replace such services or products in a timely and cost-efficient manner, our business and profitability could be materially adversely affected.

Our reputation as a supplier and service provider of high-quality pay-TV, broadband internet and telephony offerings or the value associated with our brands may be adversely affected.

Our business depends on our reputation and our ability to maintain good relationships with our subscribers, suppliers, employees and local regulators. The brands under which we sell our products and services, including Telemach in Slovenia and Bosnia and Herzegovina, SBB in Serbia and *TotalTV* for our DTH platform throughout the former Yugoslav region are well-recognized brands in their respective jurisdictions. In addition, we own and operate some of the strongest brand names in the region, including *Sport Klub, Pink and* the *Ultra* family of pay-TV channels. Our reputation, brand image and competitive advantage may be harmed either through product defects, such as the failure of our network, branded routers and branded TV equipment (including failures or defects of equipment provided by third parties), or shortfalls in our customer service, such as a failure to provide reliable product maintenance or assist with connection problems. Any harm done to our reputation, business relationships or brand value as a result of our actions or actions of others could have a significant negative effect on us and on the value of our brands which could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, our relationships with our subscribers are of particular importance. Subscribers generally judge our performance through their interactions with the staff at our monitoring centers, the reliability of our products and our maintenance performance for any products that require repair. If we fail to meet our subscribers' expectations, we may lose subscribers or have greater difficulty to attract new subscribers, which could have a material adverse effect on our business, financial condition and results of operations. We have also experienced in the past, and may experience in the future, a slightly negative perception of our brand by certain groups of the population in Bosnia and Herzegovina as a result of the recent political history of the region and our perceived Serbian identity. Any damage to the value of our brands caused by any of the foregoing or other factors could have a material adverse effect on our business, financial condition and results of operations.

Our business may be adversely affected by the alleged health risks of antenna sites and the use of mobile telephones.

We are aware of allegations that there may be health risks associated with the effects of electromagnetic signals from antenna sites, mobile telephones and other telecommunications devices. We cannot provide assurances that further medical research and studies will not establish a link between the radio frequency emissions of mobile handsets or telecommunications base stations and these health concerns. The European Commission has been investigating these concerns since 1995. Should such allegations manifest, regulatory authorities in our countries of operation could increase regulation of mobile telephones and telecommunications base stations. Additionally, the actual or perceived risk of telecommunications devices, press reports about risks or any litigation relating to such risks could adversely affect us through a reduction in the size or growth rate of our customer base, a decline in usage by our customers, or through increased litigation costs and could have an adverse effect on our financial condition and results of operations.

We may make acquisitions or enter into transactions that may present unforeseen risks, and we may not realize the financial and strategic goals that were contemplated at the time of any transaction.

As part of our business strategy, we pursue strategic and opportunistic acquisitions of sub-scale service providers and cable assets. Despite our successful track-record, we cannot guarantee that we will be able to continue making such acquisitions and our ability to acquire new businesses may be limited by many factors, including availability of financing, debt covenants, complex ownership structures among potential targets and government regulation and competition from other potential acquirers. In addition, our debt burden may increase if we borrow funds to finance any future acquisition, which could have a negative impact on our cash flows and our ability to finance our overall operations. Additionally, even if we are successful in acquiring new businesses, the integration of such businesses may prove to be more difficult than we initially anticipated and it may take us longer than planned to realize the benefits of such acquisitions, or we may fail to realize such benefits at all.

Furthermore, acquisitions of additional telecommunications companies may require the approval of governmental authorities (at both national and European levels), which can block, impose conditions on, or delay the process which could result in a failure on our part to proceed with announced transactions on a timely basis or at all. Past acquisitions by the Group, including recent acquisitions, may become subject to review by the competition authorities within relevant jurisdictions. Such competition authorities may take the position that merger control filings were required, and should we fail to meet such requests or requirements in a timely manner, the relevant governmental authority may impose fines and, if in connection with a merger transaction, may require restorative measures, such as mandatory disposition of assets or divestiture of operations.

The financial information included in this offering memorandum may not be representative of our operations as a combined company or otherwise comparable to our current operating results.

SBB Serbia operated separately from Telemach Slovenia and Telemach BH prior to December 2012 and these companies have limited history as a combined company. Their historical financial statements for periods prior to June 30, 2013 may not reflect what the combined company's results of operations, financial position and cash flows would have been had the three companies operated on a combined basis during such periods and may not be indicative of what the combined company's results of operations, financial position and cash flows will be in the future.

In addition, we present in this offering memorandum unaudited pro forma financial information for Slovenia Broadband for the year ended December 31, 2012 and unaudited pro forma financial information for Slovenia Broadband for the six months ended June 30, 2012, which give effect to the Business Combination and the other adjustments described in "*Unaudited Pro Forma Condensed Combined*

Financial Information." Additionally, we present in this offering memorandum certain unaudited pro forma consolidated financial information for the year ended December 31, 2011.

We derived the unaudited pro forma condensed combined statements of comprehensive income for the year ended December 31, 2012 and the six months ended June 30, 2012 by adding the historical statement of comprehensive income data of Telemach Slovenia, SBB Serbia and Telemach BH appearing elsewhere in this Offering Memorandum, which entities were combined as subsidiaries of Slovenia Broadband in the Business Combination that was completed in December 2012, for the respective periods, and applying certain pro forma adjustment to such results. In addition, we have also added the results of certain entities that were subsidiaries of Slovenia Broadband as of June 30, 2013 but were not consolidated in the results of Telemach Slovenia, SBB Serbia and Telemach BH included below since the date of their acquisition.

The unaudited pro forma condensed consolidated date included herein may not be indicative of actual results that would have been achieved had the transactions described herein been consummated on the date or for the periods indicated and most likely will not reflect our combined results or results of operations as of any future date or any future period.

Furthermore, in "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," we present and compare consolidated financial information for our company for the six months ended June 30, 2013 and unaudited consolidated financial information for the Pro Forma six months ended June 30, 2012, which are not directly comparable.

Our operations have not previously been managed on a combined basis. Therefore, the historical financial statements and pro forma financial data presented in this offering memorandum do not reflect what our results of operations, financial position and cash flows would have been had we operated on a combined basis and may not be indicative of what our results of operations, financial position and cash flows will be in the future. The pro forma financial information included in this offering memorandum has not been prepared in accordance with the requirements of Regulation S-X of the SEC or the Prospectus Directive. Neither the adjustments nor the resulting pro forma financial information for the six months ended June 30, 2012 and the twelve months ended December 31, 2012 and 2011, respectively, have been audited in accordance with IFRS or U.S. GAAP. This pro forma data should therefore not be relied on to reflect what our results of operations and financial condition would have looked like had the Business Combination occurred as provided in the pro forma financial information. See "*Unaudited Pro Forma Condensed Combined Financial Information.*"

Our lack of operating history as a combined company and the challenge of integrating previously independent businesses make evaluating our business and our future financial prospects difficult. Our potential for future business success and operating profitability must be considered in light of the risks, uncertainties, expenses and difficulties typically encountered by recently organized or combined companies.

We may not be able to attract or retain personnel who are key to our business.

We depend on our key management and personnel, including our group chairman and founder, Dragan Šolak, all of whom we believe are highly skilled and many of whom have been with our various businesses since their inception. As the markets in which we operate are highly competitive, there is significant competition in attracting and retaining qualified personnel in the telecommunications industry, especially individuals with experience in the cable sector. As a result, despite their long history of service and involvement in and commitment to our business, we cannot assure you that we will be successful in retaining the services of our key management or personnel or that we would be successful in hiring and training suitable replacements without undue costs or delays. As a result, the loss of any of these key employees could cause significant disruptions in our business operations, which could materially adversely affect our results of operations.

The operation of our business depends in part on agreements with our competitors.

While we compete with Telekom Srbija, Telekom Slovenije and the incumbent Bosnian operators in the respective television, internet and telephony markets, we also rely on long-term services and assets provided by them. For example, we lease cable duct space used for parts of our cable network and purchase telephony interconnection services from Telekom Slovenije in Slovenia, and rely on lease agreements with Telekom Srbija and HT Eronet for cable duct space and the use of their fixed telephone lines in Serbia and Bosnia and Herzegovina. Furthermore, Telekom Slovenije provides us with fiber-optic connection lines for certain areas.

Our ability to offer our services to our customers depends on the performance of the respective partner to such lease and services agreements of their respective obligations under these arrangements. Pursuant to the terms of such lease and services agreements, the respective other party has the right to terminate the services under the agreements in certain circumstances and under certain conditions or has the right to unilaterally increase prices. For example, in 2011, Telekom Srbija significantly raised prices for the use of their duct space. The termination of any material portion or all of such lease or service agreements would require us to find alternative solutions and it may be difficult to establish an alternative at a reasonable price, which would adversely affect the value of our business. Additionally, our business relationships with our state-owned competitors might be affected by a close alignment between the state's interests and our competitor's business operations as a result of which our competitors might, for example, enjoy special privileges with regulatory authorities. Additionally, should we be unable to successfully negotiate moderate price increases, or should we be unable to pass-through price increases to our customers, our profitability, financial condition and results of operation might be affected.

We are subject to significant government regulation and supervision, as a result of which may be affected by unforeseen changes in regulation and government policy which may increase our costs and otherwise adversely affect our business.

We are subject to significant governmental regulation and supervision. See "*Business—Regulatory Framework*."

Changes in laws, regulations or governmental policy affecting our activities and those of our competitors could significantly influence how we operate our business and introduce new products and services. For example, regulatory changes relating to our activities and those of our competitors, such as changes relating to third party access to cable networks, the costs of interconnection with other networks or the prices of competing products and services, or any change in policy allowing more favorable conditions for other operators, could adversely affect our ability to set prices, enter new markets or control our costs.

Our ability to introduce new products and services may also be affected if we cannot predict how existing or future laws, regulations or policies would apply to such products or services. In addition, our business and the industry in which we operate are subject to investigation by regulators, which could lead to enforcement actions, fines and penalties or the assertion of private litigation claims and damages. Any such action could harm our reputation and result in increased costs to the business.

We may not be successful in maintaining the necessary regulatory authorization or licenses needed to operate our business and such authorizations and licenses may be subject to termination, revocation or material alterations in the event of a breach or to promote public interest.

We currently hold numerous regulatory authorizations and licenses necessary to operate our business. In addition, we hold numerous radio frequency licenses in Slovenia and Serbia, which are set to expire in 2015 and 2022, respectively. We cannot assure you that we will be able to maintain all authorizations and licenses necessary to operate our business or that we will be able to renew our licenses when they expire. The loss of any of our authorizations or licenses or a material modification of the terms of any renewed licenses may have a material adverse effect on our business, financial condition, results of operations and cash flow.

Additionally, like all other broadcasters, we must comply with national broadcasting laws and regulations, and the terms and conditions of our licenses in order to maintain our licenses. If we are held to be in material breach of any applicable law or the terms and conditions of our licenses, our licenses may be revoked. In addition, if our activity under our licenses is carried out in a manner that is deemed to conflict with applicable law or the terms and conditions of our licenses, and we fail to remedy such conflict within the applicable grace period, our licenses may be revoked. Any revocation of our licenses could adversely affect our business, financial condition, results of operations and cash flow.

We do not hold valid use permits for parts of our cable network.

While we hold valid construction permits for approximately 95% of our cable network (except on KDS NS's network in Novi Sad), we currently do not hold use permits for a portion of our lines in Serbia.

Due to the fact that a cadastre of lines has not yet been formed in Serbia, the legal status of our cable infrastructure can only be established by reviewing the documents pertaining to the construction of the network, including the construction and use permit. As a result, we might face difficulties establishing conclusive ownership of a portion of our cable network in the future. While current market practice allows us the continued use of our entire cable network despite not holding adequate use permits, we cannot guarantee that this practice will continue to remain in effect. In addition, certain construction and use permits in Bosnia and Herzegovina may be incomplete or deficient. Should we be required to obtain valid use permits in the future, or should existing requirement to hold such permits be more strictly enforced in the future, and should we be unable to obtain such permits, our business, financial condition, results of operations and cash flow might be negatively affected.

Our operations in some markets are constrained by political factors and our business might be affected by changes in the political, judicial, economic or security environment in the countries in which we operate.

We currently operate in six countries across the former Yugoslav region and the governments of these countries differ with respect to structure, stability and level of regulation. As some of our operations, such as price increases for our Serbian analog pay-TV products, network expansions and construction or acquisition of sub-scale cable assets, depend on governmental approval and regulatory decisions, we may make decisions influenced by political considerations rather than fully exploiting our contractual or legal rights to not negatively affect our relationship with national, regional or local authorities, including regulators. Additionally, the respective governments in our core markets currently own a majority stake in our biggest competitors in those markets, Telekom Slovenije in Slovenia, Telekom Srbija in Serbia and BH Telecom and HT Eronet in Bosnia and Herzegovina, as a result of which our competitors might have special privileges with regulatory authorities or receive other forms of governmental support. Accordingly, our operations may be constrained by the relevant political environment and may be adversely affected by such constraints.

Each of the countries in which we operate has a short legislative, judicial and administrative history and it is not possible to predict with certainty the effect of current and future legislation on our business. Company, commercial, contract, customs, currency, property, banking, bankruptcy, competition, securities, labor, tax and other laws and regulations in the countries in which we operate (including those concerning privatization and the compensation of former owners) are still developing and continue to be substantially revised. There is little precedent for how these laws and regulations will be interpreted or implemented either by the courts or government agencies. Existing and future laws and regulations may be applied inconsistently. We may experience difficulties or delays in obtaining permits or other governmental authorizations. Additionally, the judicial systems of Serbia, Bosnia and Herzegovina, Montenegro and Macedonia may not be fully independent of social, economic and political forces, and many courts in the respective countries experience a high volume of case backlogs. This often results in inconsistent judicial interpretation of laws and regulations and excessive delays in court proceedings. As a result of the foregoing, we may not be able to efficiently or successfully enforce our legal rights, including title to our intellectual property, under the laws of the countries in which we operate.

Additionally, in certain countries in which we operate, political, security and economic changes may result in political and regulatory uncertainty and civil unrest. Furthermore, the majority of countries in which we operate are emerging economies and as such susceptible adverse global economic trends and higher inflationary pressure, which could have a negative effect on the growth of our business or operations, increase our operating costs or decrease consumer demand and spending power. Each of these factors could, individually or in the aggregate, have a material adverse effect on our business, reputation, financial conditions or result of operations.

There can be no assurance that our countries of operations will continue to successfully implement their respective political and economic reforms and agendas.

Recently, the six countries in which we operate have implemented significant political and economic reforms aimed at, *inter alia*, reducing economic and structural imbalances, increasing the flexibility of their respective economies, including liberalization of the media and telecommunications sectors and creating a business-friendly environment that is conducive to foreign investment.

While Slovenia joined the European Union in 2004 and has generally made the transition to a functioning market economy, the political and economic reforms implemented by the respective governments of Croatia, despite having joined the European Union in 2013, and of Serbia, Montenegro, Macedonia, and Bosnia and Herzegovina are at a lesser developed stage than in Slovenia. Serbia officially applied for European Union membership in 2009, received full candidate status in 2012 and, on June 28, 2013, the European Council announced that accession negotiations would commence by January 2014 at the latest. Montenegro was granted candidate status in 2010 and the accession negotiations started in June 2012. Macedonia has been a candidate for accession to the European Union since 2005, and in 2009 the European Commission recommended that accession negotiations be opened. Bosnia and Herzegovina has been recognized by the EU as a potential candidate country for accession since 2003 but has not yet formally applied for EU membership.

Since the end of the Yugoslav Wars in 1995, all six countries have made significant progress towards becoming more democratic and liberalized market economies; however, rebuilding Serbia's, Bosnia and Herzegovina's, Montenegro's, Croatia's and Macedonia's political and economic systems and infrastructure to a Central European or Western European standard will require further investment and may take some years to complete. We cannot assure you that Serbia, Bosnia and Herzegovina, Montenegro, Croatia and Macedonia will achieve their intended aims with the implemented reforms, that a political environment supportive of these reforms will be maintained or that the governments in the respective countries will not implement regulations or fiscal or monetary policies, or otherwise take actions which could have a material adverse effect on our business.

Additionally, the key risk to stability in Serbia remains the status of Kosovo's independence, and the country's history of political instability makes it difficult to predict the occurrence of events or circumstances, such as war or hostilities, and no assurance can be given that we would be able to sustain our current profit levels in these countries if adverse political events or circumstances were to occur.

We may become subject to more extensive regulation due to our scale.

The European Union competition framework imposes pricing and other potential requirements on entities deemed to have significant market power ("SMP") in non-competitive relevant markets in which they operate. Among other markets, the European Commission has identified "wholesale broadband access" and "the termination on an individual fixed network" as relevant markets. The European Union competition framework has been implemented in Slovenia; Croatia has largely aligned its law with the EU requirements; and Serbia, albeit not yet an EU member state, continues its efforts to harmonize its law with the European framework and has recently promulgated new rules applicable to the electronic communications sector. Due to SBB Serbia's leading position in the Serbian pay-TV market, we have been designated as having SMP in the Serbian distribution of media content market since 2007. This designation was confirmed in May 2013. As a result, the pricing of our Basic TV-package, which accounted for 17% of our revenue in the six months ended June 30, 2013, and which we use as a platform to up- and cross-sell our products, is regulated and we are not permitted to increase the price for such packages without regulatory approval. If we fail to obtain approval to raise the price for our Basic TV-package and thus cannot pass-through price increases (for example as a result of inflation), or should we become subject to even more extensive regulation due to our status as SMP, our business operations in Serbia, including our ability to successfully up- and cross-sell our products in the Serbian market could be restricted which could have a material adverse effect on our business, financial condition and results of operation. We are also deemed to have SMP in Slovenia.

There is a risk that we could be found to have SMP in other geographical markets in which we operate if local regulators identify these areas as relevant markets in which there is not sufficient competition. The designation of our business as an SMP provider could result in requiring us to provide other service providers access to our network for purposes of providing competing broadband and broadcasting services at regulated prices, and impose other restrictions on how we operate our network and market our services, including the imposition of a requirement to obtain additional permits and licenses for our operations. Granting such access would limit the bandwidth available for us to provide other products and services to our customers. Such regulation could, among others, (i) impair our ability to use our bandwidth in ways that would generate maximum revenue; (ii) create a shortage of capacity on our network, which could limit the types and variety of services we could provide to our customers; (iii) strengthen our competitors by granting them access in our network and lowering their costs to offer competing products and services; and (iv) have a significant adverse impact on our profitability.

Furthermore, we may be subject to fines for infringements of relevant local competition laws. For example, in March 2007 and in October 2010, the Serbian competition authorities initiated proceedings for alleged abuses of our dominant position in the Serbian pay-TV market for carrying out promotional campaigns in Belgrade against our competitors. Serbian law does not give guidelines for the amount of possible fines and the Serbian competition authorities claimed damages in the amount of €550,000 (or 2.7% of SBB Serbia's turnover in 2008). Furthermore, as a result of our exclusive distribution agreements with local TV stations, in December 2008, the Serbian competition authorities initiated proceedings for alleged abuses of our dominant market position in the relevant market of distribution of TV and radio programs through our DTH platform claiming damages in an amount of €550,000 (or 2.7% of SBB Serbia's turnover in 2008). At that time, Serbia was implementing a new regulatory framework as a result of which the statute of limitations for an infringement of competition law expired thus preventing the competition authorities from further proceeding against us. Additionally, Bosnia's national competition authorities have opened investigations against several companies within the Group for restrictive agreements in granting sports content to third parties in the past. While these investigations have to date not led to the imposition of sanctions, we cannot guarantee that we will not be subject to further regulatory scrutiny for our market position in Serbia or Bosnia and Herzegovina or exclusive and restrictive content contracts, be liable to pay fines or other sanctions in the future, especially as local law and local customs continue to be updated based on CEE or Western European legal standards.

We are exposed to currency exchange fluctuation and currency instability risks in Europe that could have an adverse impact on our liquidity, financial condition and cash flows.

The reporting currency of our business is the euro. While Slovenia and Montenegro use the euro as official currency and while the value of the B&H mark ("BAM") is pegged to the euro, we collect subscriber fees in Serbia, Bosnia and Herzegovina, Croatia and Macedonia in the respective local currency. For the six months ended June 30, 2013, we generated 49% of our revenues in Serbian dinar. At the same time, the vast majority of our costs to operate our business as well as our capital expenditures are paid in euro. The Serbian dinar has fluctuated in the past, and may fluctuate in the future, resulting in significant and unpredictable foreign exchange losses and gains which have impacted our result of operations in the past. If the euro appreciated in value against the Serbian dinar or other local currencies, if we were unable to pass-through increased costs to our customers, or if we were unable to exchange the various local currencies into euro at all, our revenue would decrease which would make it more difficult to generate the money necessary to continue our operations without disruptions, cover our costs and meet our capital expenditure requirements.

Additionally, recent economic events affecting European economies have raised a number of questions regarding the stability and overall standing of the European Monetary Union. Credit risk in these countries and in other Eurozone countries, especially in Slovenia, could have a negative impact on our business. Concerns also remain regarding the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual euro member states. The departure or risk of departure from the euro by one or more Eurozone countries or the abandonment of the euro as a currency, or the reintroduction of an individual currency in Slovenia, as well as the de-pegging of the BAM from the euro, could have major negative effects on our existing contractual relations with our customers, and could adversely affect the economy in Slovenia and Bosnia and Herzegovina. In particular, the departure of the Slovenia from the euro would increase our exposure to changes in currency rates. Any of these developments could affect our ability to refinance our liabilities and have a significant negative impact on our business, financial condition and results of operations.

Changes in labor laws may make it more costly to operate our business in the future.

We are exposed to the risk of strikes, work stoppages and other industrial actions. While the substantial majority of our employees currently are not members of labor unions, we cannot guarantee that a larger portion of our employees will not associate with such unions in the future, especially as the labor standards in our countries of operations converge with CEE or Western European standards. As a result, we might also become subject to collective bargaining agreements which could regulate, inter alia, the general labor conditions of our employees, working hours, holidays, termination, provisions and general payment schemes for wages. Moreover, strikes and other industrial actions, as well as the negotiation of collective bargaining agreements or salary increases in the future, could disrupt our operations and make it more costly to operate our facilities, which in turn could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, our business operations might be affected by changes in local labor law and labor market practice, such as the imposition of, or increases in, minimum wages, or a more restrictive interpretation of the status of employment of some of our employees. While we believe we are currently in material compliance with local, regional and national labor market practices, there can be no assurance that, as a result of changes to labor laws or market practice, we will continue to remain compliant with applicable labor standards, Should we fail to comply with relevant labor laws and regulations, we might be exposed to fines which could have a negative impact on our profitability, financial condition and result of operations.

Sensitive customer data is an important part of our daily business and leakage of such data may violate laws and regulations which could result in fines reputational damage and customer churn, and adversely affect our business.

We accumulate, store and use in our operating business data which is protected by data protection laws. The data protection authorities in the jurisdictions in which we operate have the right to audit us and impose fines if they find we have not complied with the applicable laws and adequately protected customer data. Although we take precautions to protect customer data in accordance with the applicable privacy requirements, it is possible that sensitive data may leak in the future. We cooperate with third-party service providers, for instance for the provision of call center services, and independent sales agents. Although the terms of our contracts restrict the usage of customer data, we cannot guarantee that they will abide by the contractual terms. Violation of data protection laws by such third party or by ourselves may result in fines, reputational damage and customer churn and may adversely affect our business, financial condition and results of operations.

We are involved in a number of legal proceedings.

From time to time, we may become involved in legal or regulatory proceedings, claims or investigations, including by governmental bodies, customers, suppliers, former employees, class action plaintiffs and others. On an ongoing basis, we attempt to assess the likelihood of any adverse judgments or outcomes to these proceedings or claims, although it is difficult to predict final outcomes with any degree of certainty and we can offer no assurances in this regard.

We are currently involved in a number of legal proceedings that have arisen in the ordinary course of our business, including disputes related to intellectual property rights. Presently, we are litigating a dispute with the Slovenian Association of Composers and Authors relating to infringement of copyrights and a dispute with Telekom Srbija relating to duct leases. Please see "*Business—Legal Proceedings*."

Except as disclosed in our financial statements, we do not believe that any of the proceedings or claims to which we are party will result in costs, charges or liabilities that will have a material adverse effect on our financial position. However, we cannot assure you that the costs, charges and liabilities associated with these matters will not be material, or that those costs, charges and liabilities will not exceed any amounts reserved for them in our financial statements. In future periods, we could be subject to cash costs or non-cash charges to earnings if any of these matters are resolved unfavorably to us. See "*Business—Legal Proceedings*."

Our intellectual property rights and other security measures may not fully protect our operations, and any failure to protect our content, technology and know-how could result in loss of customers to our competitors and decreased profits.

Our intellectual property rights and other security measures may not fully protect our operations.

A part of our products is comprised of proprietary or licensed content that is transmitted through our pay-TV channels. We rely on trademark, copyright and other intellectual property laws to establish and protect our rights to this content. However, we cannot guarantee that the intellectual property rights we rely on will not be challenged, invalidated or circumvented. Further, we cannot guarantee that we will be able to renew our rights to such content when the term of protection for any such trademark or copyright expires.

Even if our intellectual property rights remain intact, we cannot assure you that security and anti-piracy measures will prevent unauthorized access to our services and piracy of our content. Further, third parties may be able to copy, infringe or otherwise profit from our proprietary and licensed content, without our, or the respective right holders', authorization. The risk of piracy is especially acute in our pay-TV business segment. Media piracy occurs in many parts of the world, including the former Yugoslav region, and is facilitated by technological advances and the conversion of media content into digital formats, which makes it easier to create, transmit and share high quality unauthorized copies, on videotapes and DVDs, from pay-per-view through set-top boxes and through unlicensed broadcasts on free-to-air TV and the Internet. In addition, the lack of Internet-specific legislation relating to trademark and copyright protection creates additional challenges for us in protecting our intellectual property rights in cyberspace. The unauthorized use of our intellectual property may adversely affect our business by harming our reputation and by decreasing the confidence our business partners rest in our ability to protect our proprietary and licensed content.

If third parties claim that we breached their intellectual property rights, we may be forced to make significant expenditures to either defend ourselves against such claims, license rights to the third party's technology or to identify ways to conduct our operations without breaching such rights.

The success of our business depends to an extent on the use of intellectual property rights, in particular rights to advanced technological solutions, software and programming content. We cannot guarantee that we have not breached or that we will not in the future breach the intellectual property rights of third parties. Any alleged breach could expose us to liability claims from third parties. In addition, we might be required to obtain a license or acquire new solutions that allow us to conduct our business in a manner that does not breach such third party rights and we may be forced to expend significant time, resources and money in order to defend ourselves against such allegations. The diversion of management's time and resources along with potentially significant expenses that could be involved could materially adversely affect our business, financial condition, results of operations and prospects.

We are subject to increases in operating costs and inflation risks which may adversely affect our earnings.

We are subject to increasing operating costs. We are also impacted by inflationary increases in salaries, wages, benefits and other administrative costs. While we aim to increase our subscription rates to offset increases in operating costs, we may not be successful in doing so. For example, see "*—We may become subject to more extensive regulation due to our scale*." Price increases are also associated with expenses, in particular, service costs. As a result, our operating costs may increase faster than associated revenues, resulting in a material adverse effect on our business, financial condition and results of operations.

We may be adversely affected by changes to tax legislation or its interpretation or increases in effective tax rates in the jurisdictions in which we operate.

We are subject to taxation in multiple jurisdictions, in particular, in the Netherlands, Luxembourg, Serbia, Slovenia and Bosnia and Herzegovina. Our effective tax rate and tax liability will be affected by a number of factors in addition to our operating results, including the amount of taxable income in particular jurisdictions, the tax rates in those jurisdictions, tax treaties between jurisdictions, the manner in which and extent to which we transfer funds to and repatriate funds from our subsidiaries, accounting standards and changes in accounting standards, and future changes in the law. As we operate in more than one tax jurisdiction and may therefore incur losses in one jurisdiction that cannot be offset against income earned in a different jurisdiction, we may pay income taxes in one jurisdiction for a particular period even though on an overall basis we incur a net loss for that period. In addition, the tax systems in the markets in which we operate are unpredictable, which gives rise to uncertainties in our tax planning.

Furthermore, we did not apply withholding tax to pay-TV content fees paid to foreign broadcasting organizations between April 2010 and September 2012. We have applied withholding tax payments beginning in September 2012 as a result of the opinion issued by the Serbian Ministry of Finance. We explained our position as well as our decision not to apply withholding tax in a letter to the Serbian tax authorities in 2010. As of the date of this offering memorandum, we have not received a reply from the tax authorities. Should the analysis of the Serbian tax authorities on withholding tax on fees paid to foreign content providers differ, we might face an additional tax liability, which could materially affect our business, financial condition and results of operations.

Risks Related to the Transactions

The Acquisition is subject to uncertainties and risks.

On October 15, 2013, the Issuer and Broadband Investments II S.à r.l. entered into the Acquisition Agreement providing for the sale of all of the securities of Slovenia Broadband to the Issuer. Pursuant to the terms of the Acquisition Agreement, the parties further agreed to cause Adria Cable B.V. and Adria Bidco d.o.o. Beograd to enter into a Serbian share purchase agreement for the purchase and sale of the share of SBB Serbia prior to the Completion Date. The closing of the Acquisition is subject to certain conditions, including the approval of merger control authorities in Bosnia and Herzegovina, Macedonia, Montenegro, Serbia and Slovenia. In the event that the closing conditions are not satisfied by April 15, 2014, the Acquisition Agreement automatically terminates.

The merger control authorities may prohibit the Acquisition from taking place. Alternatively, the merger control authorities may permit the Acquisition but demand that the Issuer and the Group implement certain remedies. Any such remedies may make the Acquisition less attractive.

The Issuer does not currently control Slovenia Broadband and its subsidiaries and will not control Slovenia Broadband and its subsidiaries until completion of the Acquisition.

Slovenia Broadband and its subsidiaries are currently controlled by Broadband Investment S.à r.l., which is itself an investee company owned in the majority by funds advised/managed by Mid Europa Partners LLP. The Issuer will not obtain control of Slovenia Broadband and its subsidiaries until the completion of the Acquisition. We cannot assure you that Mid Europa will operate the business of Slovenia Broadband during the interim period in the same way that the Issuer and its affiliates would.

The information contained in this offering memorandum has been derived from public sources and, in the case of historical information relating to Slovenia Broadband and its subsidiaries, has been provided to us by Mid Europa, Slovenia Broadband and its subsidiaries, and we have relied on such information supplied to us in its preparation. Furthermore, the Transactions themselves have required, and will likely continue to require, substantial time and focus from management, which could adversely affect their ability to operate the business. Likewise, other employees may be uncomfortable with the Transactions, which could have an impact on work quality and retention.

In addition, prior to the Completion Date, neither Slovenia Broadband nor any of its subsidiaries will be subject to the covenants described in "*Description of the Notes*," to be included in the Indenture. As such, we cannot assure you that, prior to such date, Slovenia Broadband or any of its subsidiaries will not take an action that would otherwise have been prohibited by the Indenture had those covenants been applicable.

The Issuer may not be able to enforce claims with respect to the representations and warranties that the sellers have provided to the Issuer under the Acquisition Agreement.

In connection with the Acquisition, the sellers have given certain customary representations and warranties related to their shares, the Group and the business of the Group under the Acquisition Agreement. There can be no assurance that the Issuer will be able to enforce any claims against the sellers relating to breaches of such representations and warranties. The sellers' liability with respect to breaches of their representations and warranties under the Acquisition Agreement is very limited.

Amendments made to the Acquisition Agreement may have adverse consequences for holders of the Notes.

The Acquisition is expected to be consummated in accordance with the terms of the Acquisition Agreement. However, the Acquisition Agreement may be amended and the closing conditions may be waived at any time by the parties thereto. Any amendment made to the Acquisition Agreement, or waiver of the conditions to the closing of the Acquisition, may be adverse to the interests of the holders of the Notes, which, in turn, may have an adverse effect on the investment return you expect to receive on the Notes.

Certain of our contracts contain change of control provisions, which may allow our counterparties to terminate the contract under circumstances such as the Acquisition.

Certain of our contracts contain "change of control" provisions that require us to notify the counterparty of a potential change of control or contain language that could be interpreted as allowing, subject to certain conditions, the counterparty to terminate the contract. There can be no assurance that counterparties will not seek to exercise termination rights in the future. If a substantial number of these contracts were terminated as a result of the Acquisition we may be forced to enter into new contracts. Some of these new counterparties may have stronger bargaining positions than when our existing contracts were originally negotiated. As a result, we may not be able to secure replacement contracts, or we may only be able to secure replacement contracts on less favorable terms. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to our Indebtedness

Our substantial leverage and debt service obligations could adversely affect our business and prevent us from fulfilling our obligations with respect to the Notes and the Guarantees.

After the issuance of the Notes, we will be highly leveraged. As of June 30, 2013, on a pro forma basis after giving effect to the Transactions and the application of the proceeds therefrom, we would have had total debt of €478.4 million. The terms of the Indenture will permit the Issuer and its restricted subsidiaries to incur substantial additional indebtedness, including in respect of borrowings of up to €60.0 million under the Revolving Credit Facility.

The degree to which we will be leveraged following the issuance of the Notes could have important consequences to holders of the Notes in this Offering, including:

- making it difficult for us to satisfy our obligations with respect to the Notes;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures, acquisitions, joint ventures, product research and development or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we operate;
- placing us at a competitive disadvantage compared to our competitors, to the extent that they are not as highly leveraged; and
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the Notes.

We will be subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.

The Indenture and the Senior Facilities Agreement will, among other things, restrict our ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to, and on the transfer of, assets to the Issuer or any restricted subsidiary;
- sell, lease or transfer certain assets, including stock of restricted subsidiaries;
- engage in certain transactions with affiliates;
- consolidate or merge with other entities; and
- impair security interests for the benefit of the holders of the Notes.

Our Revolving Credit Facility will in addition require us to comply with a leverage ratio. See "*Description of Certain Indebtedness—Senior Facilities Agreement*." Our ability to meet this test can be affected by events beyond our control, and we cannot assure you that we will meet it. A breach of this test could result in a restriction on the ability to make new drawings under the Revolving Credit Facility. Upon the occurrence of any event of default under our Revolving Credit Facility, subject to applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel the availability of the facilities and elect to declare all amounts outstanding under the Revolving Credit Facility, together with accrued interest, immediately due and payable. In addition, any default under the Revolving Credit Facility could lead to an event of default and acceleration under other debt instruments that contain cross default or cross-acceleration provisions, including the Indenture. If our creditors, including the creditors under our Revolving Credit Facility, accelerate the payment of those amounts, we cannot assure you that our assets and the assets of our subsidiaries would be sufficient to repay in full those amounts, to satisfy all other liabilities of our subsidiaries which would be due and payable and to make payments to enable us to repay the Notes, in full or in part. In addition, if we are unable to repay those amounts, our creditors could enforce against any Collateral granted to them to secure repayment of those amounts.

All of these limitations will be subject to significant exceptions and qualifications. See "*Description of the Notes—Certain Covenants.*" The covenants to which we are subject could limit our ability to finance future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interests.

We will require a significant amount of cash to meet our obligations under our indebtedness and to sustain our operations, which we may not be able to generate or raise.

Our ability to make principal or interest payments when due on our indebtedness, including the Revolving Credit Facility and our obligations under the Notes, and to fund our ongoing operations, will depend on our future performance and our ability to generate cash, which, to a certain extent, is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in these "Risk Factors," many of which are beyond our control.

The Notes will mature in 2020. At the maturity of the Notes and any other debt which we incur, if we do not have sufficient cash flows from operations and other capital resources to pay our debt obligations, or to fund our other liquidity needs, or we are otherwise restricted from doing so due to corporate, tax or contractual limitations, we may be required to refinance our indebtedness. The type, timing and terms of any future financing will depend on our cash needs and the conditions prevailing in the financial markets. If we are unable to refinance all or a portion of our indebtedness or obtain such refinancing on terms acceptable to us, we may be forced to reduce or delay our business activities or capital expenditures or sell assets or raise additional debt or equity financing in amounts that could be substantial. We cannot assure you that we will be able to accomplish any of these measures in a timely manner or on commercially reasonable terms, if at all. In addition, the terms of our Senior Facilities Agreement, the Indenture and any future debt may limit our ability to pursue any of these measures.

Despite our current level of indebtedness, we may still be able to incur substantially more debt in the future, which may make it difficult for us to service our debt, including the Notes, and impair our ability to operate our businesses.

We may incur substantial additional debt in the future. Any debt that our subsidiaries incur could be structurally senior to the Notes, and other debt could be secured or could mature prior to the Notes. In addition to the Revolving Credit Facility and certain hedging obligations, we may incur additional indebtedness that is permitted to share in proceeds from enforcement of the Collateral on a super priority basis. Although the Senior Facilities Agreement and the Indenture will contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to our and our subsidiaries' existing debt levels, the related risks that we now face would increase. In addition, the Revolving Credit Facility and the Indenture will not prevent us from incurring obligations or entering other arrangements that do not constitute indebtedness under those agreements, such as receivables securitization financings.

The loans under our Senior Facilities Agreement bear interest at floating rates that could rise significantly, increasing our costs and reducing our cash flow.

The loans under our Senior Facilities Agreement bear interest at floating rates of interest per annum equal to EURIBOR or LIBOR (as the case may be), as adjusted periodically, plus a margin. These interest rates could rise significantly in the future. To the extent that interest rates were to increase significantly, our interest expense would correspondingly increase, reducing our cash flow.

Our hedging and other derivative arrangements may not effectively or sufficiently offset the negative impact of interest rate fluctuations.

We may use a combination of natural hedging techniques and financial derivatives to protect against certain interest rate risks. Historically, we have made use of hedging arrangements to protect our business against interest rate fluctuations on our local credit facilities, and we may make use of hedging and other derivative arrangements going forward. Such hedging activities may be ineffective or may not offset more than a portion of the adverse financial impact resulting from foreign currency variations. Gains or losses associated with hedging activities also may negatively impact operating results.

Risks Related to the Notes and the Notes Guarantees

If the proceeds of the Offering are deposited in the Escrow Account and if the conditions to the escrow are not satisfied, the Issuer will be required to redeem the Notes, which means that you may not obtain the return you expect on the Notes.

If the Issue Date occurs prior to the Completion Date, pending consummation of the Acquisition, the Initial Purchasers will deposit the gross proceeds from the Offering less certain deductions in respect of fees and expenses into the Escrow Account in the name of the Issuer. If the Acquisition is not consummated on or prior to April 30, 2014 and upon the occurrence of certain other events, the Notes will be subject to a special mandatory redemption as described in "*Description of the Notes—Escrow of Proceeds; Special Mandatory Redemption*". The special mandatory redemption price will be a price equal to 100% of the aggregate issue price of the Notes plus accrued and unpaid interest and additional amounts, if any, from the Issue Date to the date of special mandatory redemption. As a result, if the Acquisition is not consummated on or prior to April 30, 2014 or upon the occurrence of certain other events, you may not obtain the return you expect to receive on the Notes.

Our subsidiaries located in Serbia, as well as other subsidiaries representing a significant portion of our revenue and EBITDA, will not guarantee the Notes, and the Notes and each of the Notes Guarantees will be structurally subordinated to the liabilities and preference shares (if any) of our non-Guarantor subsidiaries.

Generally, claims of creditors of a non-Guarantor subsidiary, including trade creditors, and claims of preference shareholders (if any) of the subsidiary, will have priority with respect to the assets and earnings of the subsidiary over the claims of creditors of its parent entity, including claims under any intercompany loans and claims by holders of the Notes under the Notes Guarantees. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding of any of our non-Guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to such subsidiary's parent entity. As such, the Notes and each Notes Guarantee will each be structurally subordinated to the creditors (including trade creditors) and preference shareholders (if any) of our non-Guarantor subsidiaries for the Notes. Our Subsidiaries organized in Serbia will not guarantee the obligations under the Notes. As of June 30, 2013, the Guarantor subsidiaries of each of the Telemach Slovenia Group (including KabelTV which will be merged into Telemach Slovenia) and the Telemach BH Group comprised an aggregate of 27% of our total assets, and for the six months ended June 30, 2013, represented an aggregate of 35% of our total revenues and 32% of our total EBITDA. Our subsidiaries organized in Serbia, Macedonia, Croatia and Montenegro will not guarantee the obligations under the Notes.

Each Notes Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability.

The Guarantors will guarantee the payment of the Notes on a senior basis. Each Notes Guarantee will provide the holders of the Notes with a direct claim against the relevant Guarantor. However, the Indenture will include language to the effect that each Notes Guarantee and each security interest granted as well as any other obligation under a Security Document will be limited so as to ensure compliance with local law. The Notes Guarantees, security interests and other obligations will also be subject to applicable corporate and other laws. In general, these laws prohibit companies from providing financial assistance to anyone for the purpose of acquiring their shares and limit the circumstances in which companies can transfer economic benefits to their shareholders outside the payment of properly declared dividends. They also provide for limitations that affect the rights of creditors generally in case an entity becomes insolvent. See "*Limitations on Validity and Enforceability of the Notes Guarantees and the Security Interests*" for more details regarding limitations on Notes Guarantees and security interests in the Netherlands, Luxembourg, Serbia, Slovenia and Bosnia and Herzegovina.

While similar laws apply in many jurisdictions, because several of the Notes Guarantors and the substantial majority of the assets in which security interests are granted are located in CEE countries which have relatively young capital markets and where courts have limited experience with transactions of the type envisaged by this offering, there is considerable uncertainty as to how the relevant laws will be applied and ultimately to what extent the Notes Guarantees and other security interests granted under the Indenture will be enforceable. For example, while the Slovenian law prohibiting companies from providing financial assistance to a third party for the purpose of acquiring their shares applies only to joint stock companies, there is a significant risk that a court might extend this provision to the acquisition of shares of a joint stock company's direct or indirect parents or to stock corporations such as Telemach Tabor d.d. or Telemach Rotovž d.d. For those reasons, the risk of limitations on enforcement are greater in Slovenia, Serbia and Bosnia and Herzegovina than in European countries with more established legal systems and a long history of secured bond offerings.

Moreover, certain transaction documents are governed by U.S. law. Judgments rendered by a U.S. court will generally not be directly enforceable in any of the jurisdictions in which the majority of the assets by which the bonds are secured are located. Instead, in many of these jurisdictions, as a pre-condition to enforcing a U.S. judgment, a local court will subject the judgment to a multi-factor test. Several of the factors the court will consider involve a considerable amount of discretion. And even if the court ultimately finds that the judgment is enforceable, the process may take a lengthy amount of time to complete. For all of these reasons, an investment in the Notes involves unique risks that may not apply or apply different in a more conventional secured bond offering. If any of these risks materializes, your ability to collect payments of principal and interest under the Notes may be materially adversely affected.

Other than providing management services, the Issuer is a holding company and depends on distributions from its subsidiaries to service and repay the Notes; certain covenants in our financing arrangements and other agreements may limit the availability of operating cash flow to the Issuer.

Other than providing management services, the Issuer is a holding company and conducts its operations principally through, and derives its revenues principally from, its subsidiaries. The ability of the Issuer's subsidiaries to pay dividends or make other distributions or payments to the Issuer will be subject to the availability of profits or funds for such purpose which, in turn, will depend on the future performance of the subsidiary concerned which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that may be beyond its control. In addition, certain of our subsidiaries are subject to restrictions on the making of such distributions contained in its financing arrangements and in applicable laws and regulations. See "*Description of Certain Indebtedness.*" There can be no assurance that our subsidiaries will generate sufficient cash flow from operations or that alternative sources of financing will be available at any time in an amount sufficient to enable these subsidiaries to service their indebtedness, to fund their other liquidity needs and to make payments to the Issuer sufficient to allow all payment obligations under the Notes to be met.

The Notes will be secured only to the extent of the value of the assets that have been granted as security for the Notes, and in the event that the Collateral is enforced, the lenders under the Revolving Credit Facility, counterparties of certain hedging obligations and creditors for other super priority indebtedness will be paid with the proceeds from the enforcement of Collateral in priority to the holders of the Notes.

If we default on the Notes, the holders of the Notes will be secured only to the extent of the value of the Collateral underlying their security interest. Subject to certain exceptions, the Notes will be secured on a first-ranking basis by the same assets that secure the Revolving Credit Facility. We may incur additional indebtedness in the future, which may also be secured by the Collateral. If the value of the Collateral is less than the value of the claims of the holders of the Notes together with the claims of the other secured creditors, those claims may not be satisfied in full.

No appraisals of any of the security have been prepared by us or on our behalf in connection with the Offering. The fair market value of the security is subject to fluctuations based on factors that include, among others, our ability to implement our business strategy, the ability to sell the security in an orderly sale, general economic conditions, the availability of buyers and similar factors. The amount to be received upon a sale of any security would be dependent on numerous factors, including but not limited to the actual fair market value of the security at such time, general, market and economic conditions and the timing and the manner of the sale. There also can be no assurance that the security will be saleable and, even if saleable, the timing of any liquidation or foreclosure is uncertain. To the extent that liens, rights or easements granted to third parties encumber assets located on property owned by us, such third parties have or may exercise rights and remedies with respect to the property subject to such liens that could adversely affect the value of the security and the ability of the Security Agent to realize or foreclose on the security. By the nature of our business, some or all of the security may be illiquid and may have no readily ascertainable market value. In the event that a bankruptcy case is commenced by or against us, if the value of the security is less than the amount of principal and accrued and unpaid interest on the Notes and other senior secured obligations, interest may cease to accrue on the Notes from and after the date the bankruptcy petition is filed. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, we cannot assure you that the proceeds from any sale or liquidation of the security will be sufficient to pay the obligations due under the Notes.

The security interests over property and assets of the Issuer and its subsidiaries and any additional security interests are subject to the Agreed Security Principles and the Intercreditor Agreement. The Agreed Security Principles set forth limitations on the requirement to grant security interests in favor of the Notes in certain circumstances and may result in recoveries from security interests being limited or security not being granted at all over particular types or classes of assets.

Furthermore, the Intercreditor Agreement will provide that proceeds from the enforcement of the Collateral will be applied to repay claims of the lenders under the Revolving Credit Facility and creditors of other priority indebtedness in priority to the holders of the Notes and other secured obligations. Holders of the Notes may therefore receive less from the proceeds of the Collateral in an enforcement or insolvency scenario than if they were not required to share the proceeds.

Holders of the Notes will not control certain decisions regarding the Collateral.

The Notes will generally be secured by the same Collateral securing the obligations under our Revolving Credit Facility and certain hedging obligations. We can incur significant additional indebtedness and other obligations that may be secured by the same Collateral under the terms of the Indenture.

The Intercreditor Agreement provides that the agent of the creditor class who wishes to deliver an enforcement instruction must first consult with every agent or representative of the other creditor classes, certain creditors and the Security Agent for a period of not less than 30 days. After an initial consultation period, the Security Agent may act upon the instructions of an instructing group, which may be holders of 66⅔% of the aggregate principle amount of the Notes outstanding or creditors of 66⅔% of the aggregate principal amount of super senior indebtedness (which includes drawn and undrawn commitments under the Revolving Credit Facility). To the extent there are conflicting instructions, those on behalf of holders of the Notes will prevail. However, in certain circumstances the creditors under the Revolving Credit Facility and any future counterparties to certain hedging arrangements and other indebtedness secured by the Collateral in priority to the Notes will have control over enforcement of the Collateral, including if (i) such creditors have not been fully repaid within six months of the end of the first 30-day consultation period, (ii) the Security Agent has not commenced any enforcement action within three months of the end of the first 30-day consultation period or (iii) an insolvency event has occurred and the Security Agent has not commenced any enforcement action.

These arrangements could result in the enforcement of the Collateral in a manner that results in lower recoveries by holders of the Notes. Furthermore, other creditors not subject to the Intercreditor Agreement could commence enforcement action against the Company or its subsidiaries during such period, the Company or one or more of its subsidiaries could seek protection under applicable bankruptcy laws, or the value of certain Collateral could otherwise be impaired or reduced in value.

If the Security Agent sells Collateral comprising the shares of any of our subsidiaries as a result of an enforcement action in accordance with the Intercreditor Agreement, claims under the Notes and the Notes Guarantees and the liens over any other assets securing the Notes and the Notes Guarantees may be released. See "*Description of Certain Indebtedness—Intercreditor Agreement*" and "*Description of the Notes—Security—Release of Liens*."

There are circumstances other than repayment or discharge of the Notes under which the collateral securing the Notes and the Notes Guarantees will be released automatically, without your consent or the consent of the Trustee.

Under various circumstances, the Notes Guarantees and the Collateral securing the Notes will be released automatically. See "*Description of the Notes—Guarantees*" and "*Description of the Notes—Security—Release of Liens*." In addition, if the Security Agent sells Collateral comprising the shares of the Issuer or any of the Issuer's subsidiaries as a result of an enforcement action in accordance with the Intercreditor Agreement, then claims under the Notes and the Notes Guarantees may be released or transferred. See "*Description of Certain Indebtedness—Intercreditor Agreement*" and "*Description of the Notes—Security—Release of Liens*." Your ability to recover on the Notes could be materially impaired in such circumstances.

The Issuer and the Notes Guarantors will have control over certain of the Collateral, and the operation of the business or the sale of particular assets could reduce the pool of assets securing the Notes.

The security documents allow the Issuer and the Guarantors to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from certain of the Collateral. So long as no default or event of default under the Indenture would result therefrom, the Issuer and the Guarantors may, among other things, subject to the terms of the security documents, without any release or consent by the Trustee or the Security Agent, conduct ordinary course activities with respect to the Collateral such as selling, modifying, factoring, abandoning or otherwise disposing of the Collateral and making ordinary course cash payments, including repayments of indebtedness. Any of these activities could reduce the value of the Collateral, which could reduce the amounts payable to you from the proceeds of any sale of the Collateral in the case of an enforcement of the liens on the Notes.

Your rights in the Collateral may be adversely affected by the delay in or failure to grant or perfect security interests in the Collateral.

Under applicable law, a security interest in certain assets can only be properly perfected, and its priority retained, through certain actions undertaken by the secured party and the grantor of the security. The liens on the Collateral securing the Notes may not be perfected with respect to the claims of the Notes if we or the Security Agent, as applicable, fail or are unable to take the actions required to perfect any of these liens or if it has been agreed that such perfection steps shall not be taken on the basis that such steps have undesirable effects. In addition, applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, equipment subject to a certificate and certain proceeds, can only be perfected at or promptly following the time such property and rights are acquired and identified.

The Issuer and the Guarantors have limited obligations to assist the Security Agent in perfecting the security interest of the holders of the Notes in specified Collateral. There can be no assurance that the Security Agent will monitor, or that the Issuer will inform the Security Agent of, the future acquisition of property and rights that should constitute Collateral, and that the necessary action will be taken to properly create and perfect the security interest in such property and rights acquired post completion. The Security Agent has no obligation to monitor the acquisition of additional property or rights that should constitute Collateral or the creation or perfection of any security interest. The failure to create or perfect such additional security interests may adversely affect the relevant security interest and/or the priority of such security interest in favor of the Notes.

It may be difficult to realize the value of the Collateral securing the Notes.

The Collateral securing the Notes will be subject to defects, encumbrances, liens and other imperfections permitted under the Indenture and the Intercreditor Agreement. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral securing the Notes, as well as the ability of the Security Agent to realize or foreclose on such Collateral. Furthermore, the ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or re-characterization under the laws of certain jurisdictions. There can be no assurance that the assets comprising the Collateral are, or will be, free and clear from third party prior ranking security rights or other interests, such as security interests arising under standard contract terms or by operation of law. Any such rights or interests would adversely affect the value of the Collateral and the ability of the Security Agent to realize or foreclose such Collateral.

The security interests of the Security Agent will be subject to practical problems generally associated with the realization of security interests in Collateral. The Security Agent may also need to obtain the consent of a third party to enforce a security interest in certain jurisdictions. We cannot assure you that the Security Agent will be able to obtain any such consent. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the Security Agent may not have the ability to foreclose upon those assets, and the value of the Collateral may decline significantly.

Enforcement of the Collateral across multiple jurisdictions may be difficult.

The Collateral will be governed by the laws of multiple jurisdictions. In the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in any of these jurisdictions. The rights under the Collateral will thus be subject to the laws of the respective jurisdiction, and it may be difficult to effectively enforce such rights in multiple bankruptcies, insolvency and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability to enforce the security and to realize any recovery under the Notes and the Notes Guarantees. See also "*Limitations on Validity and Enforceability of the Notes Guarantees and the Security Interests*."

The security interests in the Collateral will be granted to the Security Agent rather than directly to you. The ability of the Security Agent to enforce certain of the Collateral may be restricted by local law.

The security interests in the Collateral that will secure the obligations of the Issuer under the Notes and the obligations of the Guarantors under the Notes Guarantees will not be granted directly to the holders of the Notes but will be granted only in favor of the Security Agent. The Indenture and the Intercreditor Agreement will provide that only the Security Agent has the right to enforce the Security Documents. As a consequence, holders of the Notes will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral securing the Notes, except through the Trustee, who will (subject to the provisions of the Indenture) provide instructions to the Security Agent in respect of the Collateral.

In addition, the ability of the Security Agent to enforce the security interests in the Collateral is subject to mandatory provisions of the laws of each jurisdiction in which security interests over the Collateral are taken. For example, the laws of certain jurisdictions may not allow for an appropriation of certain pledged assets, but require a sale through a public auction and certain waiting periods may apply. There is some uncertainty under the laws of certain jurisdictions as to whether obligations to beneficial owners of the Notes that are not identified as registered holders in a Security Document will be validly secured.

Under Dutch law it is uncertain as to whether security interests can be granted to a party other than the creditor of the claim which is purported to be secured by such security interests. As a consequence, the Intercreditor Agreement will provide for the creation of parallel debt ("Parallel Debt") obligations in favor of the Security Agent mirroring the obligations of the Issuer and Guarantors towards the holders of the Notes under or in connection with the Intercreditor Agreement (the "Principal Obligations"). The Dutch law security interests will be granted to the Security Agent as security for the Parallel Debt and will not directly secure the Principal Obligations. As a result, the holders of the Notes bear some risks associated with a possible insolvency or bankruptcy of the Security Agent. In addition, the Parallel Debt construct has not been tested under Dutch law and, to the extent that the security interests in the collateral created to secure the Parallel Debt are successfully challenged by other parties, holders of the Notes will not (directly) receive any proceeds from an enforcement of the security interests in the collateral. Similar considerations apply with respect to Slovenia, Serbia and Bosnia and Herzegovina.

The insolvency laws of the Netherlands and the respective jurisdictions of incorporation of the Guarantors may not be as favorable to you as the U.S. bankruptcy laws and may preclude holders of the Notes from recovering payments due on the Notes.

The Issuer is incorporated under the laws of the Netherlands, and the Guarantors are incorporated under the laws of various jurisdictions, including the laws of the Netherlands, Slovenia, Bosnia and Herzegovina and Luxembourg. In the event that the Issuer, the Guarantors, any future Guarantors, if any, or any other of our subsidiaries experienced financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Notes Guarantees and Collateral provided by entities organized in jurisdictions not discussed in this offering memorandum are also subject to material limitations pursuant to their terms, by statute or otherwise. Any enforcement of the Notes Guarantees or security after bankruptcy or an insolvency event in such other jurisdictions will be subject to the insolvency laws of the relevant entity's jurisdiction of organization or other jurisdictions. The insolvency and other laws of each of these jurisdictions may be materially different from, or in conflict with, each other, including in the areas of rights of secured and other creditors, the ability to void preferential transfer, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect your ability to enforce your rights under the Notes Guarantees or the Collateral in these jurisdictions and limit any amounts that you may receive.

Insolvency laws and other limitations on the Notes Guarantees and the security may adversely affect their validity and enforceability.

Our obligations under the Notes will be guaranteed by, and secured by certain assets of, the Guarantors or their shares. The Guarantors are organized or incorporated under the laws of Luxembourg, the Netherlands, Bosnia and Herzegovina and Slovenia. Although laws differ among these jurisdictions, in general, applicable fraudulent transfer and conveyance laws, equitable principles and insolvency laws and limitations on the enforceability of judgments obtained in New York courts in such jurisdictions could limit the enforceability of the Notes Guarantee and the security against a Guarantor or collateral provider. Courts may also in certain circumstances avoid the security or the Notes Guarantee where the Collateral provider is close to or in the vicinity of insolvency. The following discussion of fraudulent transfer, conveyance and insolvency law, although an overview, describes generally applicable terms and principles, which are defined under the relevant jurisdiction's fraudulent transfer and insolvency statutes.

In insolvency proceedings, it is possible that creditors of the Guarantors, the collateral providers or the appointed insolvency administrator may challenge the Notes Guarantees and security, and intercompany obligations generally, as fraudulent transfers or conveyances or on other grounds. If so, such laws may permit a court, if it makes certain findings, to:

- avoid or invalidate all or a portion of a Guarantor's obligations under its guarantee or the security provided by us or such Guarantor;
- direct that the Issuer and/or the holders of the Notes return any amounts paid under a guarantee or any security document to the relevant Guarantor or to the respective collateral provider or to a fund for the benefit of the Guarantor's creditors or the collateral provider; and
- take other action that is detrimental to holders of the Notes.

If we cannot satisfy our obligations under the Notes and any Notes Guarantee or security is found to be a fraudulent transfer or conveyance or is otherwise set aside, we cannot assure the holders of the Notes that we can ever repay in full any amounts outstanding under the Notes. In addition, the liability of each Guarantor under its guarantee of the Notes and the liability of each collateral provider will be limited to the amount that will result in such guarantee or security not constituting a fraudulent conveyance or improper corporate distribution or otherwise being set aside. The amount recoverable from a Guarantor or a collateral provider under the security documents will also be limited. However, there can be no assurance as to what methodology a court would apply in making a determination of the maximum liability of each Guarantor or each collateral provider and whether a court would give effect to such attempted limitation. Also, there is a possibility that the entire guarantee or security may be set aside, in which case, the Guarantor's or collateral provider's entire liability may be extinguished.

Different jurisdictions evaluate insolvency on various criteria, but a Guarantor or collateral provider generally may in different jurisdictions be considered insolvent at the time it issued a guarantee or created any security if:

- its liabilities exceed the fair market value of its assets;
- it cannot pay its debts as and when they become due (and it is unable to get further credit); or
- the present saleable value of its assets is less than the amount required to pay its total existing debts and liabilities, including contingent and prospective liabilities, as they mature or become absolute.

We cannot assure you which standard a court would apply in determining whether a Guarantor or a collateral provider was "insolvent" as of the date the Notes Guarantees were issued or security was created or that, regardless of the method of valuation, a court would not determine that we or a Guarantor were insolvent on that date, or that a court would not determine, regardless of whether or not a Guarantor or a collateral provider was insolvent on the date the respective guarantee was issued or security was created, that payments to holders of the Notes constituted fraudulent transfers on other grounds.

The interests of our shareholders may conflict with the interests of the holders of the Notes.

Our shareholders have and will continue to have, directly or indirectly, the power to affect our legal and capital structure, as well as the ability to elect and change our management and to approve other changes to our operations and to control the outcome of matters requiring action by shareholders. The interests of our shareholders may conflict with the interests of holders of the Notes. Investment funds advised by KKR are in the business of making investments in companies and may have an interest in pursuing acquisitions, divestiture, financing or other transaction that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to you as holders of the Notes. Conversely, our shareholders may have an interest in not pursuing acquisitions, divestitures and other transactions that could enhance our cash flow and be beneficial to you. Moreover, investment funds advised by KKR may, from time to time, acquire and hold interests in businesses that compete directly, or indirectly, with us.

You may not be able to recover in civil proceedings for U.S. securities law violations.

The Issuer and all of the Guarantors and their respective subsidiaries are organized outside the United States. Most of the directors and executive officers of the Issuer and the Guarantors are non-residents of the United States and substantially all of their assets are located outside of the United States. Although we and the Guarantors will submit to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws, you may be unable to effect service of process within the United States on our directors and executive officers located outside of the United States. In addition, as the assets of the Issuer and certain of the Guarantors and their respective subsidiaries and those of their directors and executive officers are located outside of the United States, you may be unable to enforce judgments obtained in the U.S. courts against them. Moreover, in light of recent decisions of the U.S. Supreme Court, actions of the Issuer and the Guarantors may not be subject to the civil liability provisions of the federal securities laws of the United States.

The transfer of the Notes is restricted, which may adversely affect their liquidity and the price at which they may be sold.

The Notes and the Notes Guarantees have not been registered under, and we are not obliged to register the Notes or the Notes Guarantees under, the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See "*Notice to Investors*." We have not agreed to or otherwise undertaken to register any of the Notes or the Notes Guarantees, and do not have any intention to do so.

The Notes will initially be held in book-entry form and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

Unless and until definitive Notes are issued in exchange for book-entry interests in the Notes (which will only occur in very limited circumstances), owners of the book-entry interests will not be considered owners or holders of Notes. The common depositary (or its nominee) for the accounts of Euroclear and Clearstream will be the registered holder of the Notes. After payment to Euroclear and Clearstream, we and the Trustee will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear or Clearstream, as applicable, and if you are not a participant in Euroclear or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder under the Indenture. See "*Book-Entry, Delivery and Form*."

Unlike holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear or Clearstream or, if applicable, from a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Indenture, unless and until Definitive Registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear or Clearstream. We cannot assure you that the procedures to be implemented through Euroclear or Clearstream will be adequate to ensure the timely exercise of rights under the Notes.

There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited.

We cannot assure you as to:

- the liquidity of any market in the Notes;
- your ability to sell your Notes; or
- the prices at which you would be able to sell your Notes.

Future trading prices for the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. The trading market for the Notes may attract different investors and this may affect the extent to which the Notes may trade. It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Notes, regardless of our prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the Notes. If no active trading market develops, you may not be able to resell your holding of the Notes at a fair value, if at all.

Although an application will be made for the Notes to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange, which is the exchange regulated market of the Irish Stock Exchange, we cannot assure you that the Notes will become or remain listed and traded. Although no assurance is made as to the liquidity of the Notes as a result of the admission to trading on the Global Exchange Market of the Irish Stock Exchange, failure to be approved for listing or the delisting (whether or not for an alternative admission to listing on another stock exchange) of the Notes may have a material effect on a holder's ability to resell the Notes, as applicable, in the secondary market.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed herein and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financing and could adversely affect the value and trading of such Notes.

We may not have the ability to raise the funds necessary to finance an offer to repurchase the Notes upon the occurrence of a change of control as required by the Indenture and the change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events.

Upon the occurrence of certain events constituting a "change of control," the Issuer will be required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest to the date of purchase. If a change of control were to occur, we cannot assure you that we would have sufficient funds available at such time, or that we would have sufficient funds to provide to the Issuer to pay the purchase price of the outstanding Notes or that the restrictions in our Senior Facilities Agreement, the Intercreditor Agreement or our other then existing contractual obligations would allow us to make such required repurchases. A change of control may result in an event of default under, or acceleration of, our Senior Facilities Agreement and other indebtedness. The repurchase of the Notes pursuant to such an offer could cause a default under such indebtedness, even if the change of control itself does not. The ability of the Issuer to receive cash from its respective subsidiaries to allow it to pay cash to the holders of the Notes, respectively, following the occurrence of a change of control may be limited by our then existing financial resources. Sufficient funds may not be available when necessary to make any required repurchases. If an event constituting a change of control occurs at a time when we are prohibited from providing funds to the Issuer for the purpose of repurchasing the Notes, we may seek the consent of the lenders under such indebtedness to the purchase of the Notes or may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, the Issuer will remain prohibited from repurchasing any Notes. In addition, we expect that we would require third-party financing to make an offer to repurchase the Notes upon occurrence of a change of control. We cannot assure you that we would be able to obtain such financing.

Any failure by the Issuer to offer to purchase the Notes would constitute a default under the Indenture, which would, in turn, constitute a default under the Senior Facilities Agreement and certain other indebtedness. See "*Description of the Notes—Change of Control*."

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "change of control" as defined in the Indenture. Except as described under "*Description of the Notes—Change of Control*," the Indenture will not contain provisions that would require the Issuer to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

The definition of "Change of Control" in the Indenture will include a disposition of all or substantially all of the assets of Adria Midco B.V. and its restricted subsidiaries, taken as a whole, to any person. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of Adria Midco B.V.'s assets and its restricted subsidiaries taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Issuer is required to make an offer to repurchase the Notes.

Furthermore, the occurrence of certain events that might otherwise constitute a change of control under the Indenture will be deemed not to be a change of control if the consolidated leverage ratio is less than certain specified levels. See "*Description of the Notes—Certain Definitions—Specified Change of Control Event*."

Investors may face foreign exchange risks by investing in the Notes.

The Notes will be denominated and payable in euros. If investors measure their investment returns by reference to a currency other than euros, an investment in the Notes will entail foreign exchange-related risks due to, among other factors, possible significant changes in the value of the euro relative to the currency by reference to which investors measure the return on their investments because of economic, political and other factors over which we have no control. Depreciation of the euro against the currency by reference to which investors measure the return on their investments could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to investors when the return on the Notes is translated into the currency by reference to which the investors measure the return on their investments. Investments in the Notes denominated in a currency other than U.S. dollars by U.S. Holders (as defined in "*Tax Considerations—U.S. Federal Income Taxation*") may also have important tax consequences as a result of foreign exchange gains or losses, if any. See "*Tax Considerations—U.S. Federal Income Taxation*."

USE OF PROCEEDS

We estimate that the gross proceeds from the Offering will be approximately €475.0 million. If the Issue Date occurs prior to the Completion Date, pending the consummation of the Acquisition, the Initial Purchasers will deposit the gross proceeds from the Offering less certain deductions in respect of fees and expenses into the Escrow Account for the benefit of the holders of the Notes. See "*Description of the Notes—Escrow of Proceeds; Special Mandatory Redemption.*"

The total consideration payable under the Acquisition Agreement for the shares, profit participating preferred equity certificates and a yield free convertible loan note of Slovenia Broadband as well as payments made to repay existing indebtedness and estimated outstanding net liabilities of the Group at closing, including the acquisition consideration for Elektro Turnsek and NetTV.plus, is expected to be approximately €1,009 million. Certain managers and certain of their affiliates will receive a portion of the proceeds to be paid in the Acquisition and will re-invest a portion of such proceeds in equity instruments of Adria Luxco S.à r.l., the indirect parent of the Issuer. In addition, the Issuer will pay transaction fees and expenses currently expected to amount to approximately €53 million. At closing of the Acquisition we expect that approximately €5 million of cash will remain on the balance sheet.

We expect that the total consideration for the Acquisition, related transactions and payment of transaction fees and expenses will be financed with (i) the Equity Contribution and (ii) the proceeds of the Offering.

In connection with the Transactions, the Issuer will enter into the Senior Facilities Agreement to provide for a Revolving Credit Facility in the amount of €60.0 million to finance the ongoing working capital needs. The Revolving Credit Facility is not currently expected to be drawn as of the Completion Date. However, the Group expects to roll over certain of its existing working capital facilities into the Revolving Credit Facility, which will reduce the amount available under that facility. See "*Description of Certain Indebtedness—Ancillary Facilities*."

The expected estimated sources and uses of the funds necessary to consummate the Transactions are shown in the table below. Actual amounts will vary from estimated amounts depending on several factors, including differences from our estimates of fees and expenses, the actual Completion Date and the roll-over of certain shares held by management. Any changes in these amounts may affect the amount of the Equity Contribution. For example, if the amount of indebtedness under the Existing Facilities is higher as of the Completion Date than expected, the Issuer will have to fund a higher amount for the repayment of the Existing Facilities. Such additional funds would be provided by increasing the Equity Contribution.

Sources of Funds	**(€ million)**	**Uses of Funds**	**(€ million)**
Notes offered hereby	475	Total consideration(2)	1,009
Equity Contribution	588	Transaction costs(3)	53
Cash on balance sheet(1)	5	Cash on balance sheet(4)	5
Total sources	**1,068**	**Total uses**	**1,068**

(1) Represents the amount of cash expected to be available on the balance sheet prior to the closing of the Acquisition.

(2) The total consideration represents (i) the consideration for the share capital of Slovenia Broadband (including preferred equity certificates and a yield-free convertible loan note) to be paid to the seller, representing approximately €701 million plus (ii) the repayment of existing indebtedness and of our estimated outstanding net liabilities, including the acquisition consideration for Elektro Turnsek and *NetTV.plus*.

(3) Represents estimated fees and expenses associated with the Transactions, including commitment, placement, financial advisory and other transaction costs and professional fees.

(4) Represents the amount of cash expected to remain on the balance sheet at closing of the Acquisition.

CAPITALIZATION

The following table sets forth, in each case, as of June 30, 2013, the cash and cash equivalents and capitalization of:

- Slovenia Broadband and its consolidated subsidiaries on an actual basis; and
- the Issuer as adjusted to give effect to the Offering, the Acquisition and the Revolving Credit Facility. The adjustments are based on available information and contain assumptions made by our management.

You should read this table in conjunction with "*Summary—The Transactions*," "*Use of Proceeds*," "*Selected Consolidated Historical Financial Data*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Description of Certain Indebtedness*," "*Description of the Notes*" and our financial statements included elsewhere in this offering memorandum.

	As of June 30, 2013		
	Target	**Adjustments**	**Issuer As Adjusted**
		(€ million)	
Cash and cash equivalents(1)	**16.2**	**(11.2)**	**5.0**
Notes offered hereby	—	475.0	475.0
Revolving Credit Facility	—	—	—
Capital leases	3.4	—	3.4
Existing Facilities(2)	252.2	(252.2)	—
Total indebtedness	**255.6**	**222.8**	**478.4**
Capitalized transaction costs(3)	(13.3)	(11.6)	(24.9)
Total financial liabilities	**242.3**	**211.2**	**453.5**
Total equity(4)	451.6	117.5	569.1
Total capitalization	**693.9**	**328.7**	**1,022.6**

(1) Cash and cash equivalents in the amount of €16.2 million represents the amount of cash and cash equivalents as of June 30, 2013. At closing, €5 million of cash and cash equivalents is expected to remain on the balance sheet pro forma for the sources and uses of the Acquisition.

(2) Represents the gross amount of loans and borrowings of the Target as of June 30, 2013 that will be refinanced at closing of the Acquisition.

(3) Represents the existing capitalized transaction costs of €13.3 million that will be extinguished in the context of refinancing the Existing Facilities and €24.9 million of estimated transaction costs related to debt issuance that will be capitalized.

(4) Issuer as adjusted total equity represents €588.4 million of equity contributed by KKR, management and certain co-investors and an estimated €9.2 million of equity attributable to minority interests remaining in the Group at closing less €28.5 million transaction costs that will not be capitalized.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

We derived the following unaudited pro forma condensed combined statements of comprehensive income of Slovenia Broadband for the year ended December 31, 2012 and the six months ended June 30, 2012 by adding the historical statement of comprehensive income data of Telemach Slovenia, SBB Serbia and Telemach BH appearing elsewhere in this Offering Memorandum, which entities were combined as subsidiaries of Slovenia Broadband in the Business Combination that was completed in December 2012, and applying certain pro forma adjustment to such results. In addition, we have also added the results of certain entities that were subsidiaries of Slovenia Broadband as of June 30, 2013 (the "Other Entities") but were not consolidated in the results of Telemach Slovenia, SBB Serbia and Telemach BH included below.

The unaudited pro forma combined consolidated statements of comprehensive income give effect to the Business Combination as if it had occurred as of January 1, 2012 and the consolidation of Other Entities as if each of them had been consolidated from January 1, 2012, or, if otherwise, from the date that Slovenia Broadband acquired control of such entities.

The unaudited pro forma adjustments are based upon available information and assumptions which the Company believes are reasonable in the circumstances. We describe the assumptions underlying the pro forma adjustments in the accompanying notes, which should be read in conjunction with these unaudited pro forma condensed combined financial statements.

The unaudited pro forma combined consolidated statements should not be considered indicative of actual results that would have been achieved had the Business Combination been consummated on the date or for the periods indicated and do not purport to indicate results of operations as of any future date or for any future period.

The unaudited pro forma combined consolidated financial statements should be read in conjunction with the information contained in "*Selected Consolidated Historical Financial Data*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the consolidated financial statements and the accompanying notes appearing elsewhere in this Offering Memorandum. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if each transaction had been consummated as of January 1, 2012. Pro forma adjustments reflect only those adjustments which are factually determined and do not include the impact of contingencies which will not be known until resolution of contingency.

Slovenia Broadband

Unaudited Pro Forma Condensed Combined Statement of Comprehensive Income for the six-month period ended June 30, 2012

	Telemach Slovenia(a)	SBB Serbia(a)[(1)]	Telemach BH(a)[(2)]	Other Entities(b)	Intercompany Eliminations(c)	Fair Value Adjustments and Financing Adjustments(d)	Pro Forma Condensed Combined
			(Euro in thousands)				
Revenue	31,493	56,526	6,265	3,720	(6,405)	—	91,599
Other income	831	319	9	669	—	—	1,828
Content cost	(5,469)	(14,345)	(1,061)	(623)	5,666	—	(15,832)
Satellite capacity cost	—	(3,304)	—	—	—	—	(3,304)
Internet link cost	(142)	(1,391)	(445)	(374)	—	—	(2,352)
Materials costs	(1,050)	(2,224)	(318)	(192)	739	—	(3,045)
Staff costs	(2,936)	(4,772)	(655)	(474)	—	—	(8,837)
Depreciation costs	(6,439)	(8,475)	(1,749)	(345)	—	(2,593)[(i)]	(19,601)
Amortization of intangible assets	(2,028)	(2,213)	(171)	—	—	(1,471)[(i)]	(5,883)
Other operating expenses	(6,889)	(8,929)	(1,570)	(2,735)	—	—	(20,123)
Results from operating activities	7,371	11,192	305	(354)	—	(4,064)[(i)]	14,450
Finance income	62	1,575	4	86	(126)	—	1,601
Finance costs	(2,951)	(28,470)	(1,391)	(392)	126	(2,617)[(ii)]	(35,695)
Net finance costs	(2,889)	(26,895)	(1,387)	(306)	—	(2,617)	(34,094)
Profit / (loss) before tax	4,482	(15,703)	(1,082)	(660)	—	(6,681)	(19,644)
Income tax (expenses) / benefit	(521)	45	31	(3)	—	704[(iii)]	256
Profit / (loss) after tax	3,961	(15,658)	(1,051)	(663)	—	(5,977)	(19,388)
Other comprehensive income / (loss)							
Currency translation differences	—	778	—	(352)	—	—	426
Other comprehensive income / (loss) for the period, net of tax	—	778	—	(352)	—	—	426
Total comprehensive income / (loss) for the period	3,961	(14,880)	(1,051)	(1,015)	—	(5,977)	(18,962)
Total Profit / (loss) for the period	3,961	(15,658)	(1,051)	(663)	—	(5,977)	(19,388)
Total Comprehensive income / (loss) for the period	3,961	(14,880)	(1,051)	(1,015)	—	(5,977)	(18,962)
Total comprehensive (loss) / profit	3,961	(15,658)	(1,051)	(663)	—	(5,977)	(19,388)

(1) Amounts shown in euro are converted from Serbian dinar at a rate equal to RSD 110.941 per €1.00, which was the average rate during the period indicated.

(2) Amounts shown in euro are converted from Bosnian mark at a rate equal to BAM 1.9558 per €1.00. The Bosnian mark is pegged to the euro.

Slovenia Broadband S.à r.l. notes to the unaudited pro forma condensed combined financial information for the six months ended June 30, 2012

(a) Amounts have been derived from the (i) unaudited consolidated statement of comprehensive income data for SBB Serbia for the six months ended June 30, 2012, (ii) the unaudited consolidated statement of comprehensive income data for Telemach Slovenia for the six months ended June 30, 2012 and (iii) the unaudited consolidated statement of comprehensive income data for Telemach BH for the six months ended June 30, 2012, in each case included elsewhere in this Offering Memorandum.

(b) These amounts give effect to the consolidation of certain entities that were subsidiaries of Slovenia Broadband as of June 30, 2013 but were not consolidated in the results of Telemach Slovenia, SBB Serbia and Telemach BH for the six months ended June 30, 2012. The historical financial information for the Other Entities column has been derived from the accounting records of Slovenia Broadband, Broadband Kabel d.o.o., BBB, KIT B-H d.o.o., Monet d.o.o., Monet CATV d.o.o., Adria Media Ltd., Knight Development Support d.o.o., Absolut OK d.o.o., Beogrid d.o.o. and include the results of these entities from January 1, 2012, or if later, from the date of their acquisition by the Group. Certain reclassifications and adjustments related to transition to IFRS have been made to present the financial information in accordance with the other comprehensive income presentation format in the historical financial statements of Slovenia Broadband. The financial information has been translated from local currencies to euro where applicable at the average exchange rate for the period indicated.

The table set forth in Annex A-1 to this section "*Unaudited Pro Forma Condensed Combined Financial Information*" shows the results of these entities included in this column.

(c) Intercompany eliminations present the elimination of revenue and certain expenses, primarily content and programming rights and materials costs, resulting from the transactions between entities within our Group as it existed at June 30, 2012. Interest charges and interest income related to intercompany loans have also been eliminated

(d) (i) On December 12, 2012, Slovenia Broadband acquired Adria Cable B.V. together with its subsidiaries, representing the business of SBB Serbia. As part of the purchase price allocation under IFRS, we identified additional intangibles and recorded an increase in fair value of both on our tangible and intangible assets amounting to a total of €65,793 thousand. The adjustment of €4,064 thousand is the six months' depreciation and amortization considering the useful life defined as of the date of acquisition.

(ii) The adjustment on finance costs amounting to €2,617 thousand increased interest expense which relates to the additional €74,830 thousand external debt raised by us to finance a part of the acquisition.

(iii) The adjustment which relates to the purchase price allocation had a deferred tax impact of €442 thousand. An additional €262 thousand is the estimated tax shield on the additional interest charge.

The historical financial information of our Group does not include effects of these purchase price allocation adjustments and the cost of the additional financing.

Slovenia Broadband

Unaudited Pro Forma Condensed Combined Statement of Comprehensive Income for the year ended December 31, 2012

	Telemach Slovenia(a)	SBB Serbia(a)[1]	Telemach BH(a)[2]	Other Entities(b)	Intercompany Eliminations(c)	Fair Value Adjustments and Financing Adjustments(d)	Pro Forma Condensed Combined
	(Euro in thousands)						
Revenue	64,311	116,636	13,464	10,038	(12,995)	—	191,454
Other income	1,264	702	59	4,591	(3,942)	—	2,674
Content cost	(10,950)	(28,026)	(2,481)	(3,650)	8,919	—	(36,188)
Satellite capacity cost	—	(6,959)	—	(64)	(64)	—	(7,087)
Internet link cost	(288)	(2,616)	(1,081)	(215)	476	—	(3,724)
Materials costs	(2,666)	(5,803)	(688)	(741)	4,965	—	(4,933)
Staff costs	(6,055)	(9,618)	(1,428)	(870)	—	—	(17,971)
Depreciation costs	(12,975)	(17,613)	(4,463)	(635)	—	(5,086)[i]	(40,772)
Amortization of intangible assets	(4,113)	(4,500)	—	(99)	—	(2,884)[i]	(11,596)
Other operating expenses	(14,466)	(18,648)	(3,623)	(8,975)	1,552	—	(44,160)
Results from operating activities	14,062	23,555	(241)	(620)	(1,089)	(7,970)[i]	27,697
Finance income	363	43,439	142	5,673	(47,730)	—	1,887
Finance costs	(4,615)	(32,272)	(2,171)	(52,261)	47,730	(4,962)[ii]	(48,551)
Net finance (costs)/income	(4,252)	11,167	(2,029)	(46,588)	—	(4,962)	(46,664)
Profit/(loss) before tax	9,810	34,722	(2,270)	(47,208)	(1,089)	(12,932)	(18,967)
Income tax (expenses)/benefit	(682)	(8,554)	56	7,817	—	1,364[iii]	1
Profit/(loss) after tax	9,128	26,168	(2,214)	(39,391)	(1,089)	(11,568)	(18,966)
Other comprehensive income							
Currency translation differences	—	710	—	—	—	—	710
Other comprehensive income for the period, net of tax	—	710	—	—	—	—	710
Total comprehensive income/(loss) for the period	9,128	26,878	(2,214)	(39,391)	(1,089)	(11,568)	(18,256)
Total Profit/(loss) for the period	9,128	26,168	(2,214)	(39,391)	(1,089)	(11,568	(18,966)
Total Comprehensive income/(loss) for the period	9,128	26,878	(2,214)	(39,391)	(1,089)	(11,568)	(18,256)
Total comprehensive (loss)/profit	9,128	26,168	(2,214)	(39,391)	(1,089)	(11,568)	(18,966)

(1) Amounts shown in euro are converted from Serbian dinar at a rate equal to RSD 113.1277 per €1.00, which was the average rate during the period indicated.

(2) Amounts shown in euro are converted from Bosnian mark at a rate equal to BAM 1.9558 per €1.00. The Bosnian mark is pegged to the euro.

Slovenia Broadband S.à r.l. notes to unaudited pro forma condensed combined financial information for the year ended December 31, 2012

(a) Amounts have been derived from (i) the audited consolidated statement of comprehensive income for SBB Serbia for the year ended December 31, 2012, (ii) the audited consolidated statement of comprehensive income for Telemach Slovenia for the year ended December 31, 2012 and (iii) the audited consolidated statement of comprehensive income for Telemach BH for the year ended December 31, 2012. Expenses for Telemach Slovenia are presented on a "by function" basis in the audited consolidated statement of comprehensive income which for the purpose of the unaudited pro forma condensed consolidated financial information are presented on a "by nature" basis.

(b) These amounts give effect to the consolidation of certain entities that were subsidiaries of Slovenia Broadband as of June 30, 2013 but were not consolidated in the results of Telemach Slovenia, SBB Serbia and Telemach BH for the year ended December 31, 2012. The pro forma balances relating to "Other entities" were derived from historical financial statements of Slovenia Broadband, Broadband Kabel d.o.o., BBB, KIT B-H d.o.o., Monet d.o.o., Monet CATV d.o.o., Adria Cable B.V., Totalna Televizija d.o.o., Adria Media B.V., TV Kanal Ultra d.o.o., Adria Media Ltd., Knight Development Support d.o.o., Absolut OK d.o.o., Beogrid d.o.o., and include the results of these entities from January 1, 2012, or if later, from the date of their acquisition by the Group. Certain reclassifications, adjustments related to transition to IFRS have been made to present the financial information following the Group's profit and loss and other comprehensive income presentation and the financial information has been translated from local currencies to euro where applicable at the average rate for the period indicated.

The table set forth in Annex A-2 to this section "*Unaudited Pro Forma Condensed Combined Financial Information*" shows the results of these entities included in this column.

(c) Intercompany eliminations present the elimination of revenue and certain expenses, primarily content and programming rights and materials costs, resulting from the transactions between entities within our Group as it existing at June 30, 2013. Interest charges and interest income related to intercompany loans have also been eliminated. Unrealized profit within the Group is also eliminated resulting in a decrease of net profit of €1,089 thousand.

(d) (i) On December 12, 2012, Slovenia Broadband acquired Adria Cable B.V. together with its subsidiaries, representing the business of SBB Serbia. As part of the purchase price allocation under IFRS, we identified additional intangibles and recorded an increase in fair value of both on our tangible and intangible assets amounting to a total of €65,793 thousand. The adjustment of €7,970 thousand is the increase in depreciation and amortization that would have been realized had the purchase accounting adjustments, based on the useful life defined at of the date of acquisition, been made as of January 1, 2012.

(ii) The adjustment to finance costs of €4,962 thousand relates to the increased interest expense resulting from the additional €74,830 thousand external debt raised by us to finance the acquisition. The historical financial information of SBB Serbia does not include effects of these purchase price allocation adjustments and the cost of the additional financing relating to its acquisition.

(iii) The adjustment which relates to the purchase price allocation had a deferred tax impact of €868 thousand. An additional €496 thousand is the estimated tax shield on the additional interest charge.

Annex A-1

Breakdown of Other Entities for the six-month period ended June 30, 2012

	Slovenia Broadband	KDS NS	Beogrid	AOK	BBK	Bosnia Broadband S.á r.l.	Adria Media Ltd	Cinemania	Monet	IFRS adjustments related to other entities	Other entities
						(in €)					
Revenue	—	1,520	201	917	—	—	—	527	555	—	3,720
Other income	434	57	—	1	—	—	—	—	—	177	669
Content cost	—	(442)	—	—	—	—	—	(30)	(151)	—	(623)
Satellite capacity cost	—	—	—	—	—	—	—	—	—	—	—
Internet link cost	—	—	(12)	(195)	—	—	—	—	(167)	—	(374)
Materials cost	—	(19)	(42)	(122)	—	—	—	—	(9)	—	(192)
Staff costs	—	(140)	(95)	(204)	—	—	—	(2)	(33)	—	(474)
Depreciation	—	(116)	(13)	(73)	—	—	—	(1)	(142)	—	(345)
Amortization of intangible assets	—	—	—	—	—	—	—	—	—	—	—
Other operating expenses	(2,305)	(99)	(13)	(148)	—	(50)	—	(2)	(118)	—	(2,735)
Results from operating activities	(1,871)	761	26	176	—	(50)	—	492	(65)	177	(354)
Finance income	—	2	—	20	64	(0)	—	—	—	—	86
Finance costs	(201)	(27)	—	(2)	(0)	14	(12)	—	(164)	—	(392)
Net finance costs	(201)	(25)	—	18	64	14	(12)	—	(164)	—	(306)
(Loss)/Profit before tax	(2,072)	736	26	194	64	(36)	(12)	492	(229)	177	(660)
Income tax expense	(2)	—	—	—	—	(1)	—	—	—	—	(3)
(Loss)/Profit for the year	(2,074)	736	26	194	64	(37)	(12)	492	(229)	177	(663)
Other comprehensive income											
Currency translation differences	—	(133)	(8)	(211)	—	—	—	—	—	—	(352)
Other comprehensive income for the year, net of tax	—	(133)	(8)	(211)	—	—	—	—	—	—	(352)
Total comprehensive income for the year	**(2,074)**	**603**	**18**	**(17)**	**64**	**(37)**	**(12)**	**492**	**(229)**	**177**	**(1,015)**

Annex A-2

Breakdown of Other Entities for the year ended December 31, 2012

	Slovenia Broadband	Broadband Kabel	Bosnia Broadband	Bosnia Broadband	Adria Cable B.V. (Netherlands)	Totalna Televizija (Croatia)	Adria Media BV	TV Kanal Ultra	Adria Media Ltd	KDS NS	AOK	Beogrid	IFRS adjustments related to other entities	Other entities
						(in € thousands)								
Revenue	—	—	—	947	—	227	—	181	3,302	3,196	1,795	390	—	10,038
Other income	4,318	—	6	30	—	5	—	—	23	32	—	—	177	4,591
Content cost	—	—	—	(236)	—	(38)	—	—	(2,595)	(781)	—	—	—	(3,650)
Satellite capacity cost	—	—	—	—	—	(64)	—	—	—	—	—	—	—	(64)
Internet link cost	—	—	—	(209)	—	—	—	—	—	(6)	—	—	—	(215)
Materials cost	—	—	—	(341)	—	(34)	—	—	(190)	(37)	(124)	(15)	—	(741)
Staff costs	—	—	—	(59)	—	(14)	—	(14)	(9)	(224)	(360)	(190)	—	(870)
Depreciation	—	—	—	(180)	—	(54)	—	(1)	(1)	(255)	(119)	(25)	—	(635)
Amortization of intangible assets	—	—	—	(55)	—	—	—	(16)	—	—	(28)	—	—	(99)
Other operating expenses	(5,441)	(3)	(167)	(103)	(2,081)	(205)	(13)	(21)	(416)	(285)	(502)	(128)	390	(8,975)
Results from operating activities	(1,123)	(3)	(97)	(270)	(2,081)	(177)	(13)	129	114	1,640	662	32	567	(620)
Finance income	3,362	1,084	240	—	319	—	296	296	33	15	28	—	—	5,673
Finance costs	(16,463)	(2,864)	(26)	(1)	(1,415)	(12)	(320)	(320)	(206)	(37)	(1)	—	(30,596)(1)	(52,261)
Net finance costs	(13,101)	(1,780)	214	(1)	(1,096)	(12)	(24)	(24)	(173)	(22)	27	—	(30,596)	(46,588)
(Loss)/Profit before tax	(14,224)	(1,783)	117	(271)	(3,177)	(189)	(37)	105	(59)	1,618	689	32	(30,029)	(47,208)
Income tax expense	(2)	1,395	(2)	(18)	—	—	—	—	—	30	(22)	(2)	6,438(2)	7,817
(Loss)/Profit for the year	(14,226)	(388)	115	(289)	(3,177)	(189)	(37)	105	(59)	1,648	667	30	(23,591)	(39,391)
Other comprehensive income														—
Currency translation differences	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other comprehensive income for the year, net of tax	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total comprehensive income for the year	**(14,226)**	**(388)**	**115**	**(289)**	**(3,177)**	**(189)**	**(37)**	**105**	**(59)**	**1,648**	**667**	**30**	**(23,591)**	**(39,391)**

(1) (i) Out of total adjustments, €12,325 thousand relates to financial charges of Slovenia Broadband arising on third party loans that were recognized as expenses in the local GAAP financial statements. In the IFRS financial statements, these fees are treated as transaction costs and are included in the effective interest of the loan and charged to finance expenses over the term of the loan.

(ii) Additional €21,998 thousand and €20,923 thousand, increasing finance costs are related to the effect of discounting of the loans provided to SBB Serbia by Adria Media B.V. and Adria Cable B.V., respectively. In the local GAAP financial statements of these companies, the intercompany loans are measured at their book value, while under IFRS it is required to measure loans at their amortized cost using a reasonable market rate, which resulted in an additional charge to the finance cost.

(2) The adjustment of €6,438 thousand is the deferred tax impact of the adjustments to finance costs.

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA

The following table sets forth certain historical and other data of SBB Serbia, Telemach Slovenia and Telemach BH and their respective consolidated subsidiaries for the periods ended on and as of the dates indicated below. We have derived the historical consolidated financial data for SBB Serbia as of and for the years ended December 31, 2011 and 2012 from the audited consolidated financial statements of SBB Serbia, which are included elsewhere in this offering memorandum. We have derived the historical consolidated financial data for Telemach Slovenia, as of and for the years ended December 31, 2011 and 2012 from the audited consolidated financial statements of Telemach Slovenia, which are included elsewhere in this offering memorandum. We have derived the historical combined financial data for Telemach BH as of and for the years ended December 31, 2011 and 2012 from the audited consolidated financial statements of Telemach BH included elsewhere in this offering memorandum. The audited consolidated financial statements below have been prepared in accordance with IFRS.

Prospective investors should read the selected data presented below in conjunction with "*Presentation of Financial Information*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and our combined and consolidated financial statements and the related notes included elsewhere in this offering memorandum.

	Telemach Slovenia Year ended December 31,	
	2011	2012
	(in € thousands)	
Net sales revenues	56,893	64,311
Other operating revenues	194	1,264
Cost of goods, materials and services	(21,431)	(26,539)
Cost of purchase of goods and materials sold and cost of materials used	(1,582)	(2,666)
Cost of services	(19,849)	(23,873)
Labour costs	(5,776)	(6,055)
Cost of wages and salaries	(4,374)	(4,537)
Social security contributions	(702)	(769)
Other labour costs	(700)	(749)
Depreciation	(16,051)	(17,088)
Depreciation of intangible long-term fixed assets	(3,924)	(4,113)
Depreciation of tangible fixed assets	(12,127)	(12,975)
Other operating expenses	(1,404)	(1,831)
Operating profit	12,425	14,062
Finance revenues	447	363
Financial expenses	(5,600)	(4,615)
Net operating profit	7,272	9,810
Taxes	(1,430)	(682)
Income tax	(158)	(125)
Deferred tax	(1,272)	(557)
Net profit before adjustments	**5,843**	**9,128**

	SBB Serbia Year ended December 31,		
	2011	2012	
	(in RSD thousands)	(in RSD thousands)	(in € thousands)[(1)]
Revenue	11,192,858	13,194,808	116,636
Other income	152,678	79,456	702
Content costs	(2,712,498)	(3,170,467)	(28,026)
Satellite capacity cost	(288,653)	(787,255)	(6,959)
Internet link costs	(278,671)	(295,950)	(2,616)
Materials cost	(545,784)	(656,461)	(5,803)
Staff costs	(923,173)	(1,088,040)	(9,618)
Depreciation	(1,681,358)	(1,992,568)	(17,613)
Amortization of intangible assets	(486,518)	(509,075)	(4,500)
Other operating expenses	(1,668,826)	(2,109,628)	(18,648)
Results from operating activities	2,760,055	2,664,820	23,555
Finance income	43,198	4,914,121	43,439
Finance costs	(2,357,238)	(3,650,812)	(32,272)
Net finance income/(loss)	(2,314,040)	1,263,309	11,167
Profit before tax	446,015	3,928,129	34,723
Income tax expense	(31,886)	(967,662)	(8,554)
Profit for the year	414,129	2,960,467	26,169
Other comprehensive income/(loss)	(2,134)	80,306	710
Currency translation differences	(2,134)	80,306	710
Total comprehensive income for the year	**411,995**	**3,040,773**	**26,879**

(1) Amounts shown in euro are converted from Serbian dinar at a rate equal to RSD 113.1277 per €1.00, which was the average rate during that period.

	Telemach BH Year ended December 31,		
	2011	2012	
	(in BAM thousands)	(in BAM thousands)	(in € thousands)[(1)]
Revenue	14,726	26,334	13,465
Other revenue	187	115	59
Content costs	(3,028)	(4,853)	(2,481)
Internet costs	(998)	(2,115)	(1,081)
Cost of materials and services	(1,475)	(1,345)	(688)
Staff costs	(1,760)	(2,792)	(1,428)
Amortization and depreciation	(5,123)	(8,728)	(4,463)
Other operating expenses	(3,209)	(7,085)	(3,623)
Results from operating activities	(680)	(469)	(240)
Finance income	119	278	142
Finance costs	(510)	(4,247)	(2,171)
Net finance costs	(391)	(3,969)	(2,029)
Loss before tax	(1,071)	(4,438)	(2,269)
Income tax benefit	—	109	56
Loss for the year	(1,071)	(4,329)	(2,213)
Other comprehensive income	—	—	—
Total comprehensive loss	**(1,071)**	**(4,329)**	**(2,213)**

(1) Amounts shown in euro are converted from Bosnian mark at a rate equal to BAM 1.9558 per €1.00. The Bosnian mark is pegged to the euro.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following review relates to our historical financial condition and results of operations as of and for the periods discussed below. This "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" is based on the historical and pro forma financial statements included in this Offering Memorandum and should be read in conjunction with "*Presentation of Financial Information*," "*Unaudited Pro Forma Condensed Combined Financial Information*" and the historical financial statements included in this Offering Memorandum. Prospective investors should read the entire Offering Memorandum and not just rely on the information set out below. The following discussion of our results of operations and financial condition contains forward-looking statements. Our actual results could differ materially from those that we discuss in these forward looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this Offering Memorandum, particularly under "*Risk Factors*" and "*Forward-Looking Statements*."

Overview

We are the leading distributor of cable and satellite pay-TV in Slovenia, Serbia and Bosnia and Herzegovina where we also provide broadband internet and fixed-line telephony services via our cable infrastructure. Additionally, we distribute satellite pay-TV across the six countries of former Yugoslavia, Slovenia, Serbia, Bosnia and Herzegovina, Croatia, Macedonia and Montenegro and offer mobile telephony services in Slovenia. We are the only pan-regional distribution platform in a region of approximately 20 million people. Despite economic differences, these countries share a joint history and form a single media market in which small local differences are compensated by the influence of similarities in cultural preferences and language across the region. The former Yugoslav region represents the third largest Central Eastern European ("CEE") market after Poland and Romania and is characterized by rapidly growing pay-TV and broadband markets that are currently underpenetrated relative to CEE and Western European markets. We are the leading multi-play provider in our primary markets, where we combine our services into packages, or bundles, and which offer subscribers the convenience of being able to purchase television, broadband internet and telephony services from a single provider, and provides us with significant opportunities to cross-sell our products. We believe that we have been able to establish our business as the leading distribution platform in our region due to our leading content portfolio, which we have secured through long-term contracts with providers as well as ownership of key channels, our best-in-class well-invested network that provides, among other things, the highest internet download speeds in our markets, and our superior customer service, which has led to low churn rates that we believe evidence a satisfied customer base.

For purposes of our financial reporting for periods beginning after December 31, 2012, we have four reportable segments, three of which reflect our cable businesses in our primary jurisdictions, Slovenia, Serbia and Bosnia and Herzegovina, and one which reflects our media content business as well as the operations of smaller and newly acquired entities within the Group across the former Yugoslav region. Our Serbian reportable business also includes our DTH pay-TV operations in our six markets of operation, Slovenia, Serbia, Bosnia and Herzegovina, Croatia, Montenegro and Macedonia. These reportable segments reflect our strategic divisions that we use to manage our business. Cable strategic divisions in each of our key markets offer similar services and are managed jointly since they have unified service development and marketing strategy. Segment revenue is attributed to a country based on the location of the business reporting the revenue. The following summary describes the operations in each of our reportable segments:

- SBB Group includes cable services in Serbia and DTH operations in the former Yugoslav region (Slovenia, Croatia, Bosnia, Serbia, Montenegro and Macedonia);
- Telemach Slovenia Group includes cable services in Slovenia;
- Telemach BH Group includes cable services in Bosnia and Herzegovina; and
- Adria Media Group and Other Businesses includes content operations in the former Yugoslav region and other operating businesses, such as KDS, JET TV, Absolut OK and *NetTV.plus*.

For the six months ended June 30, 2013, Telemach Slovenia Group generated 31% of our revenue and 32% of our EBITDA, SBB Group generated 55% of our revenue (including €20.6 million from DTH) and 49% of our EBITDA, Telemach BH Group generated 8% of our revenue and 7% of our EBITDA and

Adria Media Group and Other Businesses generated 7% of our revenue and 12% of our EBITDA (all figures shown before inter company eliminations).

Key Factors Affecting Our Businesses and Results of Operations

Our operations and the operating metrics discussed below have been and will continue to be affected by various key factors. Certain of these factors are discussed below.

Products, Services and Content

Our results are impacted by our ability to introduce new products and upgrades and successfully sell those products and upgrades to increase our RGUs and ARPUs. We continually evaluate our suite of products and services we provide to our subscribers in order to ensure that we are able to remain competitive with other providers in our markets and provide us with an opportunity to increase our subscriber base and increase the number of products we sell to our subscribers. We accomplish this through product innovation, investments in technology and acquisitions of complementary businesses. For example, we have expanded our product offering by introducing fixed-line telephony services to offer three-play packages in Slovenia, Serbia and Bosnia and Herzegovina, and have recently added mobile telephony to our product portfolio in Slovenia, where we now offer four-play bundles to our customers, including pay television, broadband internet access, fixed-line telephony and mobile telephony services. We believe that customers of media and communications services will increasingly choose bundled products because of the convenience and better value that result from acquiring TV, broadband internet and telephony services from a single provider for one price. As at June 30, 2013, 33% of our subscribers in Slovenia, Serbia and Bosnia and Herzegovina subscribed for one of our multi-play packages. Our continued ability to convert subscribers to these packages will increase our revenue and RGUs. Since 2006, we have leveraged DTH and complementary cable networks to expand across the former Yugoslav region. We have invested in upgrading our cable network to EuroDOCSIS 3.0 to provide our customers with the highest broadband speed in our markets and we have gradually increased broadband speeds while maintaining stable pricing. We have also actively pursued expansion opportunities, including entering the Slovenian market through acquisition of Telemach Slovenia and consolidating the fragmented Bosnian market by rolling small subscale cable operators into Telemach BH and by acquiring our *NetTV.plus* platform, which allows us to sell local ethnic content to a former Yugoslav expat community around the world. Future product development will impact our capital expenditures and cash flow used in investing activities, and successful development will allow us to expand our business according to our business plan.

We also seek to be the leader in our markets in pay television content and we have entered into long-term strategic partnerships with key international and regional content providers, and have acquired leading regional content providers such as IKO Balkan (the owner of the *Sport Klub* family of channels, which includes *Sport Klub*, *Golf Klub* and our fishing and hunting channels), *Cinemania* and the *Ultra* family of pay-TV channels (*Ultra, Mini Ultra and IQS Life*). We believe that this provides us with an advantage over our competitors and allows us to expand our product offerings to new markets. Our ability to maintain the strength of our content in the future will impact our ability to sell our pay television offerings as well as bundled packages.

Pricing of our Products and Services

We regularly review the prices of our products and services and in the past have adjusted our subscription fees as necessary in line with inflation, changes in foreign exchange rates or in response to market conditions and content costs. Changes in the pricing of our products and services will impact the revenues and margins that we generate from these products and services and will impact our ability to attract new customers. For example, our multi-play bundles offer subscribers more value in terms of channels, speeds functionality and add-on features. The pricing of all of our services, including our multi-play bundles, is dependent on market conditions and pricing by competitors with similar offerings and the perceived superiority of our products to other products.

Subscriber Churn

The television, broadband internet and telephony industries exhibit churn as a result of high levels of competition. In addition to competitive alternatives, churn levels may be affected by changes in our prices or our competitors' prices, our level of subscriber satisfaction, subscriber mortality and the relocation of subscribers, as well as from the termination of agreements. Increases in churn may lead to increased costs as we incur additional marketing and advertising costs when subscribers cancel our services to find new subscribers, and reduced revenues. We have historically experienced low churn rates and the churn we have experienced has primarily been driven by customers moving outside of our current geographic area of services as well as termination of services due to their inability to pay.

Cost of Services Provided

Our most significant costs include (i) carriage fees which we pay to our own internal content company (for content such as *Sport Klub* or *Ultra*) as well as several international and regional broadcasters such as *Fox*, *Discovery* and *Pink*, in order to carry their programs on our distribution network, (ii) licensing fees payable to content owners such as the English and Spanish Premier Leagues in order to create our own channels, for example sports channels that are part of our *Sport Klub* family of channels, (iii) satellite capacity costs, (iv) payroll costs, (v) internet and interconnection fees, (vi) costs of materials used to connect subscribers to our network and (vii) costs for marketing and sales. A majority of our costs, such as a portion of our network operations, customer care, billing and administration costs, is relatively fixed, while a portion of our marketing and customer services cost is variable. Our content acquisition costs are mostly fixed with a decreasing portion being subscriber-based. Where possible, we aim to negotiate fixed-rate content costs. This allows us to anticipate the input price of our content and price our products accordingly. The costs associated with the growth of our business, including RGU acquisition costs, are variable.

The largest portion of our costs is content costs, accounting for 23% of our operating expenses in the six months ended June 30, 2013. While we own a portion of our content, we are dependent on broadcasters and other content providers for most of our programming. We pay license fees to several regional and international broadcasters in order to broadcast their programs. For on-demand content purchased by our subscribers, we generally pay a revenue share of the retail price, subject, for certain on-demand content, to fixed minimum guarantees. For packaged on-demand content (subscription video on demand) we pay on a per-subscriber basis, sometimes with minimum guarantees. We generally expect that our content costs (above the minimum amounts) will increase in line with increased revenues from digital pay TV and on-demand content. In the past we have successfully been able to obtain rebates and discounts for our content, but these may not continue in the future.

Our staff costs are impacted by the number of personnel we employ, the experience levels at which such persons are employed and increases in salaries and bonuses due to performance factors. Labor costs of technicians spent on the construction and upgrade of our network and acquisition of subscribers are capitalized as tangible and intangible assets.

RGU acquisition costs include campaign costs and sales costs. We target to recover RGU acquisition costs over the duration of the service contract. Factors that contribute to successful recovery of RGU acquisition costs include our operational efficiency, the density of our subscriber base and the fact that we have direct relationships with our subscribers, which enables us to know our customers and not to rely on intermediaries to interact with our subscribers.

We pay fees to satellite operators to uplink and transmit our content to our DTH subscribers, and we also use other network operators to have telephone calls of our customers connected to customers of their respective networks (interconnection). Generally the amount we pay in interconnection fees in any period will depend on the level of usage of our services.

Network

Our ability to provide new high definition and on-demand digital TV services, broadband internet access at higher speeds and telephony services to subscribers depends in large part on our ability to upgrade and maintain our network. For example, since 2009, we have been upgrading our broadband network to EuroDOCSIS 3.0 technology, which allows us to offer our customers higher broadband internet access speeds and additional premium digital video and voice services. We incur capital expenditures in periods in which these upgrades are made with the aim of recouping these investments through increased revenues or profitability.

Technological Advances

Our ability to compete effectively and maintain or increase our customer base depends on our ability to anticipate and react quickly to technological developments and evolving industry standards and develop successful new and enhanced products and services to adapt to the changing market. We need to make investments in new or enhanced technologies, products or services in periods in which industry standards change or to upgrade our technologies. Additionally, we incur capital expenditures relating to the replacement of existing equipment.

Foreign Currency Exchange Rates

As explained in "*Presentation of Financial Information*" above, SBB Serbia and Telemach BH record their financial results in their respective functional currencies (the Serbian dinar and the Bosnian mark, respectively), which are then translated into euros in preparing our consolidated financial statements. We generated 49% of our revenue for the six months ended June 30, 2013 in Serbian dinar. While the Bosnian mark is pegged against the euro at a fixed exchange rate of BAM 1.9558 per €1.00, the Serbian dinar freely fluctuates against the euro. In recent years, the value of the Serbian dinar has fluctuated considerably relative to the euro and declined approximately 10% relative to the euro in the twelve months ended December 31, 2012. We estimate that an appreciation (depreciation) of the Serbian dinar against the euro by 10% would have increased (decreased) our revenue for the six months ended June 30, 2013 by approximately €5.6 million. Due to the historic indexation of the Serbian dinar against the German mark, which was replaced by the euro in 2001, we believe the Serbian consumer price index ("CPI") closely tracks the depreciation of the Serbian dinar against the euro which has historically allowed us to "pass-through" a portion of the impact of the depreciation of the dinar to our customers. We believe that our pricing strategy reflects this "pass-through" principle.

We have significant exposure to the euro as we present our consolidated financial statements in euro. As a result, we must translate the assets, liabilities, revenue and expenses of all of our operations with a functional currency other than the euro into euro at then-applicable exchange rates. Consequently, increases or decreases in the value of these currencies against the euro may affect the value of our assets, liabilities, revenue and expenses with respect to our non-euro businesses in our consolidated financial statements, even if their value has not changed in their original currency. These translations could significantly affect the comparability of our results between financial periods and result in significant changes to the carrying value of our assets, liabilities and stockholders' equity.

Additionally, certain of our expenses, primarily content and satellite costs, are in euro and U.S. dollar. Where we are unable to match sales received in foreign currencies with costs paid in the same currency, our results of operations are impacted by currency exchange rate fluctuations. We currently do not seek to reduce the effect of exchange rate fluctuations through the use of derivative financial instruments.

Growth in our Markets

Two of our key markets, Serbia and Bosnia and Herzegovina, are generally characterized by lower pay television and internet broadband household penetration rates compared to elsewhere in Western Europe and CEE. As a result, growth in our markets has been higher than in Western Europe or the CEE. We believe this is primarily due to increasing importance of high-quality broadband internet and an increasing convergence of our regions with the EU. Slovenia is a more mature market, with subscriber rates similar to the CEE, and as a result growth in that market will depend more on our ability to effectively compete with other market participants and to continue to offer superior customer propositions. A number of factors will impact the rate of growth in our markets, including economic conditions, political stability, increases in infrastructure and an increased distribution of wealth. Our markets may not grow at the same rate as they have in the past.

Regulation

Our operations are subject to numerous regulations in Europe and in our regional markets. We are generally free from price regulation other than with respect to our Basic TV package in Serbia due to SBB Serbia's significant market power (SMP) in the Serbian pay-TV market. As a result, the pricing of our Basic TV-package in Serbia which accounted for 17% of our revenue in the six months ended June 30, 2013, and which we use as platform to up- and cross-sell our products, is regulated and we are not permitted to increase the price for such packages without regulatory approval. However, to date, we have been successful in applying for price increases. We began our telephony operations following regional governments' acceptance of competition with state owned telephony monopolies, and in Serbia we believe that regulations being implemented by the government to allow numbers to be retained as subscribers switch to other providers will be beneficial for our telephony operations. In addition we will be subject to various competition clearances as we continue to expand our business through bolt-on, value accretive acquisitions and we may be subject to market power analysis from the relevant regulators, which could force us to adjust our prices or sell various parts of our businesses. See also "*Risk Factors—Risks Relating to Our Business and Industry—We may become subject to more extensive regulation due to our scale*" and "*Business—Regulatory Framework.*"

Key Operating Measures

We use several key operating measures, including homes passed, unique subscribers, RGUs and ARPU, to track the performance of our business. None of these terms are measures of financial performance under IFRS, nor have these measures been reviewed by an outside auditor, consultant or expert. These measures are derived from management information systems. As these terms are defined by our management, they may not be comparable to similar terms used by other companies.

Unique subscribers, RGUs and ARPU

Cable unique subscribers represent the number of individual end-users who have subscribed to one or more of our cable-based services. In all of our cable markets, cable pay-TV is the basic service that a cable unique subscriber is typically required to subscribe to in order to receive our other services such as broadband internet access and telephony (one exception is our 6,000 legacy internet-only customers in Slovenia). A unique cable subscriber may subscribe to several different services, thereby accounting for only one unique cable subscriber, but several RGUs.

DTH subscribers represent the number of individuals outside of our cable footprint across the six former Yugoslav markets (Slovenia, Serbia, Bosnia and Herzegovina, Croatia, Montenegro and Macedonia) who have subscribed to our DTH pay-TV services. Typically, DTH subscribers are only able to subscribe to DTH based pay-TV services and represent a single RGU, however, recently we have started to re-sell ADSL services purchased from our competitors in the respective markets to DTH subscribers.

Average monthly revenue per user, or ARPU, is a measure we use to evaluate how effectively we are realizing potential revenues from subscribers. ARPU is calculated by dividing total subscription related revenues, from all our services, for a period by the average number of subscribers served in the period and by the number of months in the period.

The following table sets forth certain key operating measures for the Group as of, and for the year ended December 31, 2011 and 2012 and as of, and for the six months ended, June 30, 2013.

	Group		
	As of, and for the year ended, December 31,		As of, and for the six months ended, June 30,
	2011	2012	2013
	(in thousands)		
Key Operating Measures(1)			
Homes passed(2)	1,078	1,147	1,224
Unique cable subscribers(3)	691	735	777
RGUs(4)	1,399	1,565	1,680
Cable pay-TV(5)	681	725	772
DTH pay-TV	317	363	374
Broadband internet(6)	305	354	383
Fixed telephony(7)	84	111	131
Other services(8)	13	13	19
Penetration(9)			
Cable television	63.2%	63.2%	63.0%
Broadband internet	28.3%	30.8%	31.3%
Fixed telephony	7.8%	9.6%	10.7%
Cable-based services revenue divided by average cable pay-TV subscribers(10)	15.2	15.4	16.7
Blended Cable ARPU (in €)(11)			16.6

(1) Including KDS NS.

(2) Homes passed represents our estimate of the number of potential residential subscribers to whom we can offer our cable pay-TV services. Homes passed as of December 31, 2011 and 2012, respectively, represents the sum of homes passed at Telemach Slovenia, SBB Serbia and Telemach BH as of those dates.

(3) Unique cable subscribers represent the number of persons who subscribe for one or more of our services without regard to how many services the end user is subscribed.

(4) RGUs as of December 31, 2011 and 2012, respectively, represents the sum of RGUs of Telemach Slovenia, SBB Serbia and Telemach BH as of those dates.

(5) Cable pay-TV RGUs includes our analog and digital cable pay-TV RGUs in Slovenia and in Serbia and Bosnia and Herzegovina the sum of our total analog cable pay-TV RGUs (without separately counting analog cable RGUs that have purchased digital top-ups).

(6) Broadband internet RGUs represents both residential and business broadband internet provided via coaxial cable.

(7) Fixed telephony RGUs represents both residential and business fixed telephony provided via coaxial cable.

(8) Other services includes MMDS-based pay-TV services, MVNO services, ADSL internet services and IPTV services.

(9) Represents the number of RGUs at the end of the relevant period as a percentage of the number of homes passed by our network.

(10) Average cable pay-TV subscribers represents the average cable pay-TV subscribers at the beginning and the end of the period. For the six months ended June 30, 2013, Vi.Net and Art.Net were consolidated in the Group in January and February, respectively.

(11) Blended Cable ARPU is calculated as the sum of total cable-pay TV, broadband internet and telephony revenues (including telephony usage revenues and excluding minor installation fees) for the period divided by the period's average monthly total cable-pay TV RGUs and divided by the number of months in that period.

The following table provides a breakdown of our key operating measures for Telemach Slovenia, SBB Serbia and Telemach BH as at December 31, 2011 and 2012, respectively:

	Telemach Slovenia December 31,		SBB Serbia[(1)] December 31,		Telemach BH December 31,	
	2011	2012	2011	2012	2011	2012
			(in thousands)			
Footprint:						
Homes passed[(2)]	238	243	710	730	107	149
Unique cable subscribers[(3)]	168	166	425	448	71	94
RGUs[(4)]						
Cable pay-TV	158	156	425	448	71	94
DTH pay-TV[(5)]	—	—	317	363	—	—
Broadband internet	89	96	179	202	29	46
Telephony	83	99	—	5	1	7
Total Residential RGUs	336	359	921	1,030	107	152

(1) SBB Serbia excludes KDS NS which was not consolidated in SBB Serbia's historical audited financial statements but is now consolidated in the Group.

(2) Homes passed represents all homes connected to our network directly and through third party networks. We provide our services to subscribers directly over our network and over certain cable networks owned by third parties with whom we have entered into exclusive or non-exclusive agreements to provide our services over their networks.

(3) Unique cable subscribers represent the number of persons who subscribe for one or more of our services without regard to how many services the end user is subscribed.

(4) RGUs, or revenue generating units. Total RGUs are not equal to the total number of subscribers. For example, one subscriber who receives cable pay TV and telephony services over our network is counted as two RGUs, and our subscriber who receives cable pay TV, broadband internet and telephony services over our network is counted as three RGUs.

(5) We report our DTH operations within the SBB Serbia group.

Six months ended June 30, 2013 compared to the year ended December 31, 2012

Homes passed increased by 72 thousand from 1,147 thousand as of December 31, 2012 to 1,224 thousand as of June 30, 2013, primarily as a result of the expansion of the network through bolt-on acquisitions.

As of June 30, 2013, we had 1,146 thousand cable pay-TV and DTH pay-TV RGUs, which represented an increase of 58 thousand, or 5.3%, compared to 1,088 thousand at December 31, 2012. As a result of organic growth of our operations and acqusitions, cable pay-TV RGUs increased by 47 thousand, or 6.5%, to 772 thousand at June 30, 2013 compared to 725 thousand at December 31, 2012. DTH pay-TV RGUs increased by 11 thousand, or 3.0%, to 374 thousand at June 30, 2013 compared to 363 thousand at December 31, 2012.

Our total RGUs increased by approximately 115 thousand, or 7.3%, from approximately 1.6 million at December 31, 2012 to approximately 1.7 million at June 30, 2013. The RGUs added over this period were a result of an increase in the number of cable pay-TV subscribers and DTH subscribers as well as increasing proportions of multi-play subscribers.

As of June 30, 2013, we had 383 thousand internet RGUs, which represented an increase of 29 thousand, or 8.2%, compared to December 31, 2012. The total number of telephony RGUs rose to 131 thousand as at June 30, 2013, an increase of 18.0% compared to December 31, 2012, primarily attributable to the increase in multi-play subscriptions over this period.

Year ended December 31, 2012 compared to the year ended December 31, 2011

Homes passed increased by 69 thousand from 1,078 thousand as of December 31, 2011 to 1,147 thousand as of December 31, 2012, primarily as a result of the expansion of the network through bolt-on acquisitions.

As of December 31, 2012, we had 1,088 thousand cable pay-TV and DTH pay-TV RGUs, which represented an increase of 90 thousand, or 9.3%, compared to 998 thousand at December 31, 2011. As a result of organic growth of our operations, cable pay-TV RGUs increased by 44 thousand, or 6.7%, to 725 thousand at December 31, 2012 compared to 681 thousand at December 31, 2011. DTH pay-TV RGUs increased by 46 thousand, or 14.5%, to 363 thousand at December 31, 2012 compared to 317 thousand at December 31, 2011.

Our total RGUs increased by approximately 166 thousand, or 11.9%, from 1.4 million at December 31, 2011 to more than 1.6 million at December 31, 2012. The RGUs added over this period were a result of an increase in the number of cable pay-TV subscribers and DTH subscribers as well as increasing proportions of multi-play cable subscribers.

As of December 31, 2012, we had 354 thousand broadband internet RGUs, which represented an increase of 52 thousand, or 17.0%, compared to December 31, 2011. The total number of telephony RGUs rose to 111 thousand as at December 31, 2012, an increase of 32.1% compared to December 31, 2011, primarily attributable to the increase in multi-play subscriptions over this period.

The following table sets forth the ARPU for Telemach Slovenia, SBB Serbia and Telemach BH generated by the products and services we offer.

	Telemach Slovenia For the year ended December 31,		SBB Serbia For the year ended December 31,		Telemach BH For the year ended December 31,	
	2011	**2012**	**2011**	**2012**	**2011**	**2012**
ARPU(1)						
Cable-pay-TV	15.1	16.3	7.4	7.0	5.8	6.5
Broadband internet	15.5	15.6	11.8	10.8	10.3	9.3
Telephony	5.9	5.8	—	8.0	6.0	11.9
Blended Cable ARPU(3)	**24.4**	**27.2**	**12.2**	**11.7**	**9.6**	**11.4**
DTH pay-TV(2)	—	—	9.5	9.2	—	—

(1) Our ARPU is presented in euro per month (excluding VAT) for the periods indicated. ARPU from broadband internet includes value-added services subscriptions include online backup, internet security and anti-virus services.

(2) We report our DTH operations within the SBB Serbia group.

(3) Blended Cable ARPU is calculated as the sum of total cable-pay TV, broadband internet and telephony revenues (including telephony usage revenues and excluding minor installation fees) for the period divided by the period's average monthly total cable-pay TV RGUs and divided by the number of months in that period.

Year ended December 31, 2012 compared to the year ended December 31, 2011

Telemach Slovenia. Blended Cable ARPU per customer for Telemach Slovenia in the year ended December 31, 2012 was €27.2, an increase of €2.8, or 11.5%, compared to the year ended December 31, 2011. This increase in blended Cable ARPU per customer was driven by the growth in the number of subscribers for our multi-play offering in combination with subscriber migration from our lower-priced analog cable pay-TV services to higher-priced digital pay-TV services and a price increase of our triple-play package.

SBB Serbia. Blended Cable ARPU per customer for SBB Serbia in the year ended December 31, 2012 was €11.7, a decrease of €0.5, or 4.1%, compared to the year ended December 31, 2011. This decrease in blended Cable ARPU per customer was primarily a result of the depreciation of the Serbian dinar and a delay in effecting a price increase, as well as the continued impact of promotional campaigns, including discounts on subscription fees for pay-TV and broadband internet services.

Telemach BH. Blended Cable ARPU per customer for Telemach BH in the year ended December 31, 2012 was €11.4, an increase of €1.8, or 18.8%, compared to the year ended December 31, 2011. This increase in blended Cable ARPU per customer was driven by the growth in the number of subscribers for our multi-play offering in combination with price increases for our cable pay-TV and broadband internet services as well as an increase in revenue from our telephony services which we launched in late 2011.

Description of Key Line Items

Revenue. Revenues are generated from the following services: cable television, broadband internet, DTH television, OTT subscriptions, telephony subscriptions and telephony usage and other sources (primarily related to the sale of end-user equipment). Revenues generated from our bundle subscriptions are allocated to the individual products of standard cable, broadband internet and telephony subscriptions based on the individual product prices for each product as a percentage of the sum of the individual product prices. Revenue for these services is charged and recognized in the period in which these services are provided. We recognize revenues for connection fees upon delivery of installation and we defer and amortize connection fees over the average remaining useful life of the customer relationship.

Other income. Other income arises mainly from the sale of programming rights, advertising and lease of cable network.

Content cost. Content costs include author rights and royalties we pay to procure our content, and include fees paid to channel providers, primarily related to foreign television channels. Our content fees are predominantly determined on a flat monthly amount and to a lesser extent on a per-subscriber basis.

Satellite capacity cost. Satellite link costs relate to the lease of satellite capacity from third party providers, which currently is Eutelsat. These costs are impacted by the type and amount of commercial discounts obtained from satellite providers.

Internet link cost. These costs relate to fees payable in order to transfer data over third party networks. Internet connection links are leased from various parties.

Materials cost. Materials cost include costs to procure set-top boxes, other products, such as telephones and routers, and materials used to connect subscribers to our network.

Staff costs. Staff costs include wages and salaries, social security costs, pension costs and other post-employment benefits and the cost of temporary and external personnel, adjusted for own work capitalized based on direct labor hours spent on projects which are capitalized.

Depreciation cost. Depreciation cost relates to the depreciation and impairment of our property, plant and equipment over their useful lives.

Amortization of intangible assets. Amortization of intangible assets relates to the amortization and impairment of our intangible assets over their useful lives. Our intangible assets include our customer base and direct subscriber acquisition costs, which are capitalized and amortized over the useful life of the cable and DTH customer relationship. Intangible assets also include computer software and licenses.

Other operating expenses. Other operating expenses includes rent of premises, poles and ducts, marketing and promotion expenses, legal and administrative fees and maintenance costs.

Finance income. Finance income includes interest income on funds invested (including short-term bank deposits) and foreign currency gains.

Finance costs. Finance costs include interest expense on borrowings and foreign currency losses.

Operating income. Operating income represents the amount of profit from business operations, and includes total revenues less total operating expenses (which contains cost of goods sold, personnel expenses, contracted work, materials and logistics, marketing and sales, office expenses, other operating expenses, amortization, depreciation and impairments).

Factors Affecting Comparability

Acquisition History

Between January 2010 and June 30, 2013, we expanded our business by acquiring and integrating the following cable TV operators, B2B service providers and ISPs in Serbia and Bosnia and Herzegovina that had EBITDA ranging between €0.5 million and €10 million:

- In 2010, we acquired three cable pay-TV platforms in Bosnia & Herzegovina, KT Global Net, BH Cabel Net and ELOB;
- In 2011, we acquired KDS in Serbia;
- In 2011, we acquired Monet, a cable operator in Mostar, Bosnia & Herzegovina, adding approximately 17,000 subscribers to our customer base;
- In January 2012, we acquired Telegrad, a Serbian cable company, adding approximately 10,000 subscribers to our customer base;
- In 2012, we acquired Cinemania, a Serbian pay-TV channel;
- In 2012, we acquired Telekabel, a cable operator in Zenica, adding approximately 19,000 subscribers to our customer base;
- In January 2013, we acquired a Serbia cable company, JetTV adding approximately 10,000 subscribers to our customer base;
- In January 2013, we acquired the content company IKO Balkan;
- In January 2013 and February 2013, respectively, we acquired Vi.Net and Art.Net, adding a total of approximately 21,000 subscribers to our customer base;
- During the first six months ended June 30, 2013, we acquired Kabel TV and Elektro Turnsek, adding approximately 35,000 subscribers to our customer portfolio;
- In August 2013, we acquired *NetTV.plus*, an OTT content platform that delivers ethnic content to former Yugoslav expatriates around the world; and
- In 2013, we acquired an additional 25% stake in *Ultra*, the owner of three Serbian pay-TV channels.

Acquisitions affect our results of operations in several ways. Firstly, our results for the period during which an acquisition takes places are affected by the inclusion of the results of the acquired business in our consolidated results. In addition, the results of the acquired businesses after their acquisition may be impacted positively by synergies. Additionally, we may experience an increase in operating expenses, including staff costs, as we integrate the acquired business into our network. Finally, because acquired entities are consolidated from the date of their acquisition, the full impact of an acquisition is only reflected in our financial statements in the subsequent period. As a result, the combined audited results for our three separate entities, Telemach Slovenia, SBB Serbia and Telemach BH, for 2011 are not comparable with those for 2012., and our results for the six months ended June 30, 2013 are not comparable to our results for the six months ended June 30, 2012. See "*Business—Our History*" for a discussion of these acquisitions.

Impact of the Transactions

The following is based on preliminary assessment of the impact we expect the Transactions to have on our financial condition and results of operations.

Overview of the Transactions

On October 15, 2013, the Issuer and Broadband Investments II S.à r.l. entered into the Acquisition Agreement providing for the sale of all of the securities of Slovenia Broadband to the Issuer. Pursuant to the terms of the Acquisition Agreement, the parties further agreed to cause Adria Cable B.V. and Adria Bidco d.o.o. Beograd to enter into a Serbian share purchase agreement for the purchase and sale of the share of SBB Serbia prior to the Completion Date. We expect that the Financing of the Acquisition will consist of (i) the Equity Contribution in an amount of approximately €588 million and (ii) the proceeds of the Offering. See "*Summary—The Transactions*".

Acquisition Accounting Impact on our Financial Statements

Our IFRS consolidated financial statements for the periods following the Acquisition will not be comparable to the historical condensed consolidated financial statements for the periods ending prior to the Acquisition, including those presented in this offering memorandum. We will account for the Acquisition using the acquisition method of accounting, which requires that the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the purchasers plus the liabilities incurred by the purchasers to the former owners of the targets and the equity interests issued by the purchasers in exchange for control of the target. Acquisition-related costs are generally recognized in profit or loss as incurred. At the Completion Date, the identifiable assets acquired and the liabilities and contingencies of Slovenia Broadband and SBB Serbia will be recognized at its fair value at the Completion Date.

Where the sum of the consideration transferred, any non-controlling interests and Completion Date fair value of previously held equity interest exceeded the Completion Date fair value of identifiable net assets of the Targets, we will recognize the difference as goodwill in our consolidated statement of financial position.

The allocation of the purchase price of the identifiable assets acquired in the Acquisition will result in an increase in amortization and depreciation expense relating to acquired identifiable intangible assets and property and equipment currently carried at amortized cost due to remeasurement of the basis in the respective tangible and intangible assets to fair value and reconsideration of the remaining depreciable lives based on the policies of the Purchaser. Initial estimated amounts will be adjusted during the measurement period (not to exceed one year from the Completion Date), to reflect new information obtained about facts and circumstances that existed at the Completion Date that, if known, would have affected the amounts recognized at that date. We will recognize a substantial amount of goodwill in connection with the Acquisition.

Increased Leverage

As of June 30, 2013 on a pro forma basis giving effect to the Transactions, we would have had €478.4 million of outstanding indebtedness. We also would have had approximately €60.0 million available for borrowing under our Revolving Credit Facility. As a result of the Transactions we will be a highly leveraged company and our interest expense will increase significantly in the periods following the consummation of the Acquisition. We will also be permitted to incur additional debt under the Revolving Credit Facility and the Indenture, which debt may be used to fund acquisitions or for other purposes. Our large amount of indebtedness may limit our flexibility in planning for, or reacting to, changes in our business and future business opportunities, since a substantial portion our cash flow from operations will be dedicated to the servicing of our indebtedness, and this may place us at a competitive disadvantage as some of our competitors are less leveraged. Our leverage may make us more vulnerable to a downturn in our business, industry or the economy in general. See "*Risk Factors—Risks Related to our Indebtedness—Despite our current level of indebtedness, we may still be able to incur substantially more debt in the future, which may make it difficult for us to service our debt, including the Notes, and impair our ability to operate our businesses.*"

Results of Operations

In this "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," we have presented financial data for (i) our company for the six months ended June 30, 2013 compared to the Pro Forma six months ended June 30, 2012 and (ii) for each of SBB Serbia, Telemach Slovenia and Telemach BH for 2012 compared to their respective results for 2011. We believe that presenting the discussion and analysis of the results of operations in this manner promotes the overall usefulness of the comparison given the complexities involved with comparing periods of differing lengths and the impact of the various acquisitions, including the Business Combination, on the historical financial statements. We have also presented a supplemental discussion of our Group's results for the Pro Forma year ended December 31, 2012 compared to the Pro Forma year ended December 31, 2011, which for purposes of the measures presented gives effect to the completion of the Combination as of January 1, 2011 and which are set forth in "—*Unaudited Pro Forma Financial Information for the year ended December 31, 2011.*" This data is for informational purposes only and investors should rely on our historical financial data and use this pro forma data only supplementally.

We have derived such unaudited pro forma financial information for 2011 through the addition of results of Telemach Slovenia, SBB Serbia and Telemach BH and certain other entities, and have made certain consolidation adjustments by excluding intercompany revenues. These amounts do not reflect pro forma adjustments and are not comparable to the data for Pro Forma 2012.

The unaudited pro forma condensed consolidated financial information should not be considered indicative of actual results that would have been achieved had the Business Combination been consummated on the date or for the periods indicated and do not purport to indicate results of operations as of any future date or for any future period.

We do not separately present the consolidated financial information of the Issuer because the Issuer is a direct parent of Slovenia Broadband and is a holding company. As of the date of this offering memorandum, the Issuer does not conduct any operating activities, hold any assets (other than shares in its subsidiaries) or have any material liabilities.

Pro Forma six months ended June 30, 2012 compared to six months ended June 30, 2013

We present and compare in the following section unaudited consolidated historical financial information for our company for the six months ended June 30, 2013 and unaudited consolidated financial information for the Pro Forma six months ended June 30, 2012, which are not directly comparable.

	Group	
	Pro Forma Six months ended June 30, 2012	**Six months ended June 30, 2013**
	(in € thousands)	
Statement of Comprehensive Income Data		
Revenue	91,599	116,295
Other income	1,828	1,839
Content cost	(15,832)	(23,321)
Satellite capacity cost	(3,304)	(3,652)
Internet cost	(2,352)	(3,346)
Materials costs	(3,045)	(3,449)
Staff costs	(8,837)	(10,796)
Depreciation	(19,601)	(23,471)
Amortization of intangible assets	(5,883)	(9,052)
Other operating expenses	(20,123)	(26,074)
Results from operating activities	14,450	14,973
Finance income	1,601	1,632
Finance costs	(35,695)	(10,691)
Net finance costs	(34,094)	(9,059)
Profit/(loss) before tax	(19,644)	5,914
Income tax (expenses)/benefit	256	(1,743)
Profit/(loss) for the period	(19,388)	4,171

Revenue. Revenue increased by €24,696 thousand, or 27.0%, to €116,295 thousand for the six months ended June 30, 2013 from €91,599 thousand for the Pro Forma six months ended June 30, 2012. This was primarily due to the growth of our business operations resulting from the consolidation of newly-acquired companies as well as organic growth of our existing subscriber base and an overall increase in ARPU.

Revenue by Segment.

Telemach Slovenia Group. Revenue for our Telemach Slovenia Group segment increased by €3,884 thousand, or 12.3%, to €35,377 thousand for the six months ended June 30, 2013 from €31,493 thousand generated by Telemach Slovenia for the six months ended June 30, 2012, primarily due to the acquisition of KabelTV, continued subscriber migration from our lower-priced analog cable pay-TV services to higher-priced digital pay-TV services as well as an increase in the number of multi-play subscribers.

SBB Serbia Group. Revenue for our SBB Serbia Group segment increased by €6,465 thousand, or 11.4%, to €62,991 thousand for the six months ended June 30, 2013 from €56,526 thousand generated by SBB Serbia for the six months ended June 30, 2012, primarily due to the organic growth of our cable and DTH pay-TV subscriber base as well as an increase in the number of multi-play subscribers. Revenue for the six months ended June 30, 2013 also increased as a result of price increases in late 2012 and a subsequent stabilization of the RSD to euro exchange rate.

Telemach BH Group. Revenue for our Telemach BH Group segment increased by €2,800 thousand, or 44.7%, to €9,065 thousand for the six months ended June 30, 2013 from €6,265 thousand generated by Telemach BH for the six months ended June 30, 2012, primarily due to the acquisition of a number of small local cable companies, organic growth of our subscriber base and an increase in service penetration.

Adria Media Group and Other Businesses. Revenue for our Adria Media Group and Other Businesses segment was €7,826 thousand for the six months ended June 30, 2013, primarily driven by the acquisition of additional businesses.

Other income. Other income increased by €11 thousand, or 0.6%, to €1,839 thousand for the six months ended June 30, 2013 from €1,828 thousand for the Pro Forma six months ended June 30, 2012.

Content cost. Content cost increased by €7,489 thousand, or 47.3%, to €23,321 thousand for the six months ended June 30, 2013 from €15,832 thousand for the Pro Forma six months ended June 30, 2012, primarily as a result of our acquisition of IKO Balkan on January 1, 2013 as well as the expiration of discounts on several carriage agreements which we had received in 2012.

Satellite capacity cost. Satellite capacity cost increased by €348 thousand, or 10.5%, to €3,652 thousand for the six months ended June 30, 2013 from €3,304 thousand for the Pro Forma six months ended June 30, 2012, primarily as a result of the expiration of 2012 discounts on satellite capacity costs and increased demand for satellite capacity due to the growth of our DTH pay-TV business.

Internet link cost. Internet link cost increased by €994 thousand, or 42.3%, to €3,346 thousand for the six months ended June 30, 2013 from €2,352 thousand for the Pro Forma six months ended June 30, 2012, primarily as a result of the provision of increased internet speed levels as well as, to a smaller extent, an increase in our broadband internet subscriber base.

Materials cost. Materials cost increased by €404 thousand, or 13.3%, to €3,449 thousand for the six months ended June 30, 2013 from €3,045 thousand for the Pro Forma six months ended June 30, 2012, primarily as a result of our increasing scale.

Staff costs. Staff costs increased by €1,959 thousand, or 22.2%, to €10,796 thousand for the six months ended June 30, 2013 from €8,837 thousand for the Pro Forma six months ended June 30, 2012. This increase was primarily attributable to an increase in headcount and an increase in the average salary costs for our employees during this period. The increase in average salary costs was in turn driven by the recruitment of additional skilled staff for management and certain technical positions.

Depreciation. Depreciation increased by €3,870 thousand, or 19.7%, to €23,471 thousand for the six months ended June 30, 2013 from €19,601 thousand for the Pro Forma six months ended June 30, 2012. This increase was due to continued investment in state-of-the-art equipment.

Amortization of intangible assets. Amortization of intangible assets increased by €3,169 thousand, or 53.9%, to €9,052 thousand for the six months ended June 30, 2013 from €5,883 thousand for the Pro Forma six months ended June 30, 2012. This was primarily due to the continued upgrade of our software, an increase in the amount of capitalized subscriber acquisition costs and an increase in the fair value of SBB Serbia's customer base.

Other operating expenses. Other operating expenses increased by €5,951 thousand, or 29.6%, to €26,074 thousand for the six months ended June 30, 2013 from €20,123 thousand for the Pro Forma six months ended June 30, 2012. This was primarily due to an increase in support services costs, such as content production and content distribution costs, an increase in insurance premiums for our property and staff insurance policies, an increase in tax withholding costs, costs related to the disposal of outdated equipment and expenses related to our implementation of the Existing Credit Facilities.

Net finance costs. Net finance costs decreased by €25,035 thousand, or 73.4%, to €9,059 thousand for the six months ended June 30, 2013 from €34,094 thousand for the Pro Forma six months ended June 30, 2012, primarily due to the conversion of Serbian intercompany liabilities into equity as well as a positive impact of foreign exchange rate differences.

Profit before tax. Profit before tax increased by €25,558 thousand to €5,914 thousand for the six months ended June 30, 2013 from a loss of €19,644 thousand for the Pro Forma six months ended June 30, 2012, primarily as a result of an increase in revenue and a relatively stable Serbian dinar to euro exchange rate which resulted in lower exchange losses during the six months ended June 30, 2013.

Income tax expenses. Income tax expenses increased by €1,999 thousand to €1,743 thousand for the six months ended June 30, 2013 from an income tax benefit of €256 thousand for the Pro Forma six months ended June 30, 2012. This was primarily the result of an increase in the result before income taxes for the period.

Group Pro Forma year ended December 31, 2012 compared to the Group Pro Forma year ended December 31, 2011

	Group	
	Pro Forma year ended December 31, 2011	Pro Forma year Ended December 31, 2012
	(in € thousands)	
Statement of Comprehensive Income Data		
Revenue	173,486	191,454
Other income	1,996	2,674
Content cost	(34,216)	(36,188)
Satellite capacity cost	(2,836)	(7,087)
Internet cost	(3,755)	(3,724)
Materials costs	(3,990)	(4,933)
Staff costs	(16,846)	(17,971)

Revenue. Revenue increased by €17,968 thousand, or 10.4%, to €191,454 thousand for the Pro Forma year ended December 31, 2012 from €173,486 thousand for the Pro Forma year ended December 31, 2011. This was primarily due to the growth of Telemach BH's operations resulting from the acquisition of cable assets in Bosnia and Herzegovina, the growth of our subscriber base driven by increased service penetration level and an increase in our ARPU.

Other income. Other income increased by €678 thousand, or 34.0%, to €2,674 thousand for the Pro Forma year ended December 31, 2012 from €1,996 thousand for the Pro Forma year ended December 31, 2011. This was primarily due to organic growth of our business.

Content cost. Content cost increased by €1,972 thousand, or 5.8%, to €36,188 thousand for the Pro Forma year ended December 31, 2012 from €34,216 thousand for the Pro Forma year ended December 31, 2011. This was primarily due to the growth of our business through acquisitions which was partially offset by one-time content cost discounts from content providers in 2012.

Satellite capacity cost. Satellite capacity cost increased by €4,251 thousand to €7,087 thousand for the Pro Forma year ended December 31, 2012 from €2,836 thousand for the Pro Forma year ended December 31, 2011. This was primarily due the expiration of 2011 discounts on satellite capacity costs and increased demand for satellite capacity due to the growth of our DTH pay-TV business.

Internet cost. Internet cost decreased by €31 thousand, or 0.8%, to €3,724 thousand for the Pro Forma year ended December 31, 2012 from €3,755 thousand for the Pro Forma year ended December 31, 2011.

This was primarily due to our switch of internet link suppliers from the higher-priced state-owned telecom companies to private operators.

Material costs. Material costs increased by €943 thousand, or 23.6%, to €4,933 thousand for the Pro Forma year ended December 31, 2012 from €3,990 thousand for the Pro Forma year ended December 31, 2011. This was primarily due to the expansion of our cable network.

Staff costs. Staff costs increased by €1,125 thousand, or 6.7%, to €17,971 thousand for the Pro Forma year ended December 31, 2012 from €16,846 thousand for the Pro Forma year ended December 31, 2011. This was primarily due to an increase in headcount as a result of the expansion of our business.

Telemach Slovenia year ended December 31, 2012 compared to the year ended December 31, 2011

	Telemach Slovenia Year ended December 31,	
	2011	**2012**
	(in € thousands)	
Net sales revenues	56,893	64,311
Other operating revenues	194	1,264
Cost of goods, materials and services	(21,431)	(26,539)
Cost of purchase of goods and materials sold and cost of materials used	(1,582)	(2,666)
Cost of services	(19,849)	(23,873)
Labour costs	(5,776)	(6,055)
Cost of wages and salaries	(4,374)	(4,537)
Social security contributions	(702)	(769)
Other labour costs	(700)	(749)
Depreciation	(16,051)	(17,088)
Depreciation of intangible long-term fixed assets	(3,924)	(4,113)
Depreciation of tangible fixed assets	(12,127)	(12,975)
Other operating expenses	(1,404)	(1,831)
Operating profit	12,425	14,062
Finance revenues	447	363
Financial expenses	(5,600)	(4,615)
Financial expenses	(5,153)	(4,252)
Net operating profit	7,272	9,810
Taxes	(1,430)	(682)
Income tax	(158)	(125)
Deferred tax	(1,272)	(557)
Net profit before adjustments	**5,843**	**9,128**

Net sales revenue. Net sales revenue increased by €7,418 thousand, or 13.0%, to €64,311 thousand for the year ended December 31, 2012 from €56,893 thousand for the year ended December 31, 2011. The most important drivers for the growth in revenue was continued growth in RGUs, primarily broadband internet and telephony subscribers, driven by further uptake of our multi-play packages, as well as growth in cable pay-TV ARPU primarily due to a migration of users from analog to digital television. The number of multi-play subscribers increased by 15% primarily driven by cross-selling of additional services to existing customers. Multi-play bundle subscribers represented 55.7% of cable subscribers in 2012, compared with 48.2% in 2011.

Other operating revenues. Other operating revenues increased to €1,264 thousand for the year ended December 31, 2012 from €194 thousand for the year ended December 31, 2011, primarily as a result of transactions with related parties.

Cost of goods, materials and services. Cost of goods, materials and services increased by €5,108 thousand, or 23.8%, to €26,539 thousand for the year ended December 31, 2012 from €21,431 thousand for the year ended December 31, 2011. This was primarily due to an increase in programming costs for digital television resulting from subscribers' switch from analog television, as well as an increase in other costs relating to the sale of equipment to related parties and to existing customers

Labor costs. Labor costs increased by €279 thousand, or 4.8%, to €6,055 thousand for the year ended December 31, 2012 from €5,776 thousand for the year ended December 31, 2011. This was primarily due to a 13% increase in employees primarily in customer service and support functions.

Depreciation. Depreciation increased by €1,037 thousand, or 6.5%, from €16,051 thousand for the year ended December 31, 2011 to €17,088 thousand for the year ended December 31, 2012. This increase was primarily due to significant investments in customer premise equipment for multi-play bundles including Digital TV, which are depreciated over four years.

Other operating expenses. Other operating expenses increased by €427 thousand, or 30.4%, to €1,831 thousand for the year ended December 31, 2012 from €1,404 thousand for the year ended December 31, 2011. This increase is primarily attributable to higher bad debt expenses.

Financial expenses. Financial expenses decreased by €985 thousand, or 17.6%, to €4,615 thousand for the year ended December 31, 2012 from €5,600 thousand for the year ended December 31, 2011. This decrease is primarily attributable to reduction in outstanding debt balance.

Net operating profit. Net operating profit increased €2,538 thousand, or 34.9%, to €9,810 thousand for the year ended December 31, 2012 from €7,272 thousand for the year ended December 31, 2011, primarily as a result of the increase in revenues and a lower rate of increase in operating expenses. This was primarily due to lower rate of increase in indirect costs, mainly labor costs which increased at a significantly lower rate versus rate of growth in revenues.

Taxes. Tax expenses decreased €748 thousand, or 52.3%, to €682 thousand for the year ended December 31, 2012 from €1,430 thousand for the year ended December 31, 2011. This was primarily the result of a tax benefit available to Telemach starting in 2012.

SBB Serbia year ended December 31, 2012 compared to the year ended December 31, 2011

	SBB Serbia Year ended December 31,		
	2011	2012	
	(in RSD thousands)	(in RSD thousands)	(in € thousands)(1)
Revenue	11,192,858	13,194,808	116,636
Other income	152,678	79,456	702
Content costs	(2,712,498)	(3,170,467)	(28,026)
Satellite capacity cost	(288,653)	(787,255)	(6,959)
Internet link costs	(278,671)	(295,950)	(2,616)
Materials cost	(545,784)	(656,461)	(5,803)
Staff costs	(923,173)	(1,088,040)	(9,618)
Depreciation	(1,681,358)	(1,992,568)	(17,613)
Amortization of intangible assets	(486,518)	(509,075)	(4,500)
Other operating expenses	(1,668,826)	(2,109,628)	(18,648)
Results from operating activities	2,760,055	2,664,820	23,555
Finance income	43,198	4,914,121	43,439
Finance costs	(2,357,238)	(3,650,812)	(32,272)
Net finance income/(loss)	(2,314,040)	1,263,309	11,167
Profit before tax	446,015	3,928,129	34,723
Income tax expense	(31,886)	(967,662)	(8,554)
Profit for the year	414,129	2,960,467	26,169

(1) Amounts shown in euro are converted from Serbian dinar at a rate equal to RSD 113.1277 per €1.00, which was the average rate during the period.

Revenue. Revenue increased by RSD 2,001,950 thousand, or 17.9%, to RSD 13,194,808 thousand for the year ended December 31, 2012 from RSD 11,192,858 thousand for the year ended December 31, 2011. This was primarily due to continued growth in RGUs, primarily driven by growth in Cable and DTH based pay-TV subscriber growth as well as growth in internet broadband RGUs. The number of multi-play subscribers increased by 102%, representing 23.6% of cable pay-TV subscribers at December 31, 2012, compared with 12.3% at December 31, 2011.

Other income. Other income decreased by RSD 73,222 thousand, or 48.0%, to RSD 79,456 thousand for the year ended December 31, 2012 from RSD 152,678 thousand for the year ended December 31, 2011, primarily as a result of transferring accrued expenses for management and organization fees from Adria Cable S.à.r.l to income at the end of 2011.

Content cost. Content cost increased by RSD 457,969 thousand, or 16.9%, to RSD 3,170,467 thousand for the year ended December 31, 2012 from RSD 2,712,498 thousand for the year ended December 31, 2011, primarily as a result of increased subscribers and growing adoption of Digital TV packages, and partially offset due to fixed rate programming contracts and one-off discounts from content providers in 2012.

Satellite capacity cost. Satellite capacity cost increased by RSD 498,602 thousand to RSD 787,255 thousand for the year ended December 31, 2012 from RSD 288,653 thousand for the year ended December 31, 2011, primarily as a result of the expiration of discounts received from Eutelsat in 2011 and increased usage stemming from an increase in subscribers.

Internet link cost. Internet link cost increased by RSD 17,279 thousand, or 6.2%, to RSD 295,950 thousand for the year ended December 31, 2012 from RSD 278,671 thousand for the year ended December 31, 2011, primarily as a result of increased usage as a result of an increase in subscribers.

Materials cost. Materials cost increased by RSD 110,677 thousand, or 20.3%, to RSD 656,461 thousand for the year ended December 31, 2012 from RSD 545,784 thousand for the year ended December 31, 2011, primarily as a result of increased subscribers which led to an increase in material used for installation and goods sold.

Staff costs. Staff costs increased by RSD 164,867 thousand, or 17.9%, from RSD 923,173 thousand during the year ended December 31, 2011 to RSD 1,088,040 thousand during the year ended December 31, 2012. This increase was primarily attributable to an increase in headcount and an increase in the average salary costs for our employees during this period. The increase in average salary costs was in turn driven by discretionary individual salary raises and higher employer charges for social security and pension contributions. The increase in both headcount and average salary costs was partly offset by an increase in capitalized personnel expenses.

Depreciation. Depreciation increased by RSD 311,210 thousand, or 18.5%, from RSD 1,681,358 thousand in the year ended December 31, 2011 to RSD 1,992,568 thousand in the year ended December 31, 2012. This increase was primarily due to increased purchases of equipment to support increased revenues.

Amortization of intangible assets. Amortization of intangible assets increased by RSD 22,557 thousand, or 4.6%, from RSD 486,518 thousand in the year ended December 31, 2011 to RSD 509,075 thousand in the year ended December 31, 2012. This was primarily due to a change in the accounting estimate of the remaining useful life of our customer base.

Other operating expenses. Other operating expenses increased by RSD 440,802 thousand, or 26.4%, to RSD 2,109,628 thousand for the year ended December 31, 2012 from RSD 1,668,826 thousand for the year ended December 31, 2011. This increase was primarily attributable to higher costs of rental, advertising, external services (legal, audit, security, etc), and maintenance. Such increases in costs, particularly increases in external services costs, was primarily attributable to the re-financing transaction consummated at the end of 2012.

Net finance income (costs). Net finance income increased by RSD 3,577,349 thousand to a net finance income of RSD 1,263,309 thousand for the year ended December 31, 2012 from net finance loss of RSD 2,314,040 thousand for the year ended December 31, 2011. This increase was primarily attributable to positive effects of loan discounting from Adria Cable B.V. and Adria Media B.V.

Profit before tax. Profit before tax increased by RSD 3,482,114 thousand to RSD 3,928,129 thousand for the year ended December 31, 2012 from RSD 446,015 thousand for the year ended December 31, 2011, primarily as a result of positive effects of loan discounting as discussed above.

Income tax expense. Income tax expense increased by RSD 935,776 thousand to an expense of RSD 967,662 thousand for the year ended December 31, 2012 from an expense of RSD 31,886 thousand for the year ended December 31, 2011. This was primarily the result of an increase in the result before income taxes for the period.

Telemach BH year ended December 31, 2012 compared to the year ended December 31, 2011

	Telemach BH Year ended December 31,		
	2011	2012	
	(in BAM thousands)	(in BAM thousands)	(in € thousands)(1)
Revenue	14,726	26,334	13,465
Other revenue	187	115	59
Content costs	(3,028)	(4,853)	(2,481)
Internet costs	(998)	(2,115)	(1,081)
Cost of materials and services	(1,475)	(1,345)	(688)
Staff costs	(1,760)	(2,792)	(1,428)
Amortization and depreciation	(5,123)	(8,728)	(4,463)
Other operating expenses	(3,209)	(7,085)	(3,623)
Results from operating activities	(680)	(469)	(240)
Finance income	119	278	142
Finance costs	(510)	(4,247)	(2,171)
Net finance costs	(391)	(3,969)	(2,029)
Loss before tax	(1,071)	(4,438)	(2,269)
Income tax benefit	—	109	56
Loss for the year	(1,071)	(4,329)	(2,213)
Other comprehensive income	—	—	—
Total comprehensive loss	**(1,071)**	**(4,329)**	**(2,213)**

(1) Amounts shown in euro are converted from Bosnian mark at a rate equal to BAM 1.9558 per €1.00. The Bosnian mark is pegged to the euro.

Revenue. Revenue increased by BAM 11,608 thousand, or 78.8%, to BAM 26,334 thousand for the year ended December 31, 2012 from BAM 14,726 thousand for the year ended December 31, 2011. The most important driver for the growth in revenue was the continued growth in Subscribers and RGUs, both of which were due to organic growth and acquisitions. Multi-play bundle subscribers represented 9.1% of cable subscribers in 2012, compared with 1.2% in 2011.

Other revenue. Other revenue decreased by BAM 72 thousand, or 38.5%, to BAM 115 thousand for the year ended December 31, 2012 from BAM 187 thousand for the year ended December 31, 2011.

Content costs. Content costs increased by BAM 1,825 thousand, or 60.3%, to BAM 4,853 thousand for the year ended December 31, 2012 from BAM 3,028 thousand for the year ended December 31, 2011, primarily as a result of higher programming costs driven by increasing attractiveness of programming offers of Telemach and the increasing adoption of digital TV packages.

Internet costs. Internet costs more than doubled to BAM 2,115 thousand for the year ended December 31, 2012 from BAM 998 thousand for the year ended December 31, 2011, primarily driven by the increase in the number of cable internet subscribers and improvements in the quality of service provided, notably higher speed offerings.

Cost of material and services. Costs of materials and services decreased by BAM 130 thousand, or 8.8%, from BAM 1,475 thousand for the year ended December 31, 2011 to BAM 1,345 thousand for the year ended December 31, 2012, primarily as a result of an optimization of management of materials related to telephony services.

Staff costs. Staff costs increased by BAM 1,032 thousand, or 58.6%, from BAM 1,760 thousand during the year ended December 31, 2011 to BAM 2,792 thousand during the year ended December 31, 2012. This increase was primarily attributable to acquisitions as well as the organic growth of the business.

Amortization and depreciation. Amortization and depreciation increased by BAM 3,605 thousand, or 70.4%, from BAM 5,123 thousand in the year ended December 31, 2011 to BAM 8,728 thousand in the year ended December 31, 2012. This increase was due to significant investment in network and customer premise equipment in 2011, as well as the acquisition of Tele Kabel in March 2012.

Other operating expenses. Other operating expenses increased by BAM 3,876 thousand from BAM 3,209 thousand for the year ended December 31, 2011 to BAM 7,085 thousand for the year ended December 31, 2012. This increase is primarily attributable to increased rent expenses as a result of our new head office and new showroom as well as additional advertising with TV marketing campaigns to communicate the new offerings and value of Telemach products.

Net finance costs. Net finance costs increased by BAM 3,578 thousand from an expense of BAM 391 thousand for the year ended December 31, 2011 to an expense of BAM 3,969 thousand for the year ended December 31, 2012 primarily due to additional costs incurred in connection with an increase in borrowings to finance our acquisitions.

Loss before tax. Loss before tax increased by BAM 3,367 thousand from BAM 1,071 thousand for the year ended December 31, 2011 to BAM 4,438 thousand for the year ended December 31, 2012, primarily as a result of a BAM 11,608 thousand, or 78.8%, increase in total revenues and a BAM 11,328 thousand, or 72.7%, increase in operating expenses. The increase in operating expenses resulted from an increase in content and internet costs due to higher number of subscribers, rent expenses, advertising and amortization and depreciation as described above.

Income tax benefit. Income tax benefit was BAM 109 thousand for the year ended December 31, 2012. This was primarily the result of a decrease in the result before income taxes for the period.

Liquidity and Capital Resources

Our principal source of liquidity on an ongoing basis has been our operating cash flow. Our ability to generate cash from our operations will depend on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control.

We maintain cash and cash equivalents to fund the day-to-day requirements of our business. We hold cash in euro as well as Serbian dinar, Bosnian Mark and U.S. dollar. Historically, we have relied primarily upon bank borrowings under senior secured credit facilities and cash flow from operations to provide funds required for investments in capital expenditures and operations.

As at June 30, 2013, we had €16.2 million in cash and cash equivalents and €255.6 million of debt, €252.2 million of which we expect will be repaid in connection with the Transactions.

Cash Flow

The table below summarizes the consolidated cash flow for SBB Serbia, Telemach Slovenia and Telemach BH for the years ended December 31, 2011 and 2012.

	Group	Telemach Slovenia		SBB Serbia		Telemach BH	
	Six months ended June 30,	For the year ended December 31,					
	2013	2011	2012	2011	2012	2011[(1)]	2012[(1)]
	(in € thousands)	(in € thousands)		(in RSD thousands)		(in € thousands)	
Net cash from/(used in) operating activities	20,718	26,796	20,691	4,319,784	4,023,490	1,280	5,015
Net cash from/(used in) investing activities	(37,898)	(24,283)	(14,668)	(2,220,229)	(3,024,960)	(5,323)	(15,736)
Cash flow from/(used in) financing activities	18,208	(1,042)	(6,874)	(1,316,020)	(1,350,207)	4,242	11,532
Net increase/(decrease) in cash and cash equivalents	1,028	1,471	(851)	783,535	(351,677)	199	811

(1) Amounts shown in euro are converted from Bosnian mark at a rate equal to BAM 1.9558 per €1.00. The Bosnian mark is pegged to the euro.

Six months ended June 30, 2013

Cash flow from operating activities. Cash flow from operating activities was €20,718 thousand for the six months ended June 30, 2013, primarily driven by positive operating results which was partially offset by an increase in receivables by €7,749 thousand.

Cash flow used in investing activities. Cash flow used in investing activities was a cash outflow of €37,898 thousand for the six months ended June 30, 2013, primarily driven by the continued investment in our network and bolt-on acquisitions of smaller cable assets. See "—*Capital Expenditure.*"

Cash flow from financing activities. Cash flow from financing activities was €18,208 thousand for the six months ended June 30, 2013, primarily driven by additional borrowings under committed capital expenditure facilities to finance our acquisitions.

Telemach Slovenia year ended December 31, 2012 compared to year ended December 31, 2011

Net cash from / (used in) operating activities. Net cash flow from operating activities decreased by €6,105 thousand, or 22.8%, from a net cash inflow of €26,796 thousand for the year ended December 31, 2011 to a net cash inflow of €20,691 thousand for the year ended December 31, 2012. This decrease was primarily driven by negative impact of change in net working capital as a result of increase in operating receivables by €4,699 thousand from a cash outflow of €2,676 thousand for the year ended December 31, 2011 to a cash outflow of €7,375 thousand for the year ended December 31, 2012 as well as lower cash inflows from change in payables.

Net cash from / (used in) investing activities. Net cash flow used in investing activities decreased by €9,615 thousand, or 39.6% from a cash outflow of €24,283 thousand for the year ended December 31, 2011 to a cash outflow of €14,668 thousand for the year ended December 31, 2012. This decrease was primarily driven by a decrease in purchase of intangible assets, primarily relating to sports rights, by €4,464 thousand from a cash outflow of €8,521 thousand for the year ended December 31, 2011 to a cash outflow of €4,058 thousand for the year ended December 31, 2012 and a one-off sale of sports rights of €3,650 thousand for the year ended December 31, 2012.

Net cash from / (used in) financing activities. Net cash flow used in financing activities increased by €5,832 thousand from a cash outflow of €1,042 thousand for the year ended December 31, 2011 to a cash outflow of €6,874 thousand for the year ended December 31, 2012 primarily as a result of debt repayment.

SBB Serbia year ended December 31, 2012 compared to year ended December 31, 2011

Net cash from / (used in) operating activities. Net cash flow from operating activities decreased by RSD 296,294 thousand, or 6.9%, from a net cash inflow of RSD 4,319,784 thousand for the year ended December 31, 2011 to a net cash inflow of RSD 4,023,490 thousand for the year ended December 31, 2012. This decrease was primarily driven by an increase in net interest in related expenses by RSD 5,324,599 thousand from a cash inflow of RSD 2,440,867 thousand for the year ended December 31, 2011 to a cash outflow of RSD 2,883,732 thousand for the year ended December 31, 2012, which was mostly offset by higher net profit before tax and unrealized exchange rate difference.

Net cash from / (used in) investing activities. Net cash flow used in investing activities increased by RSD 804,731 thousand, or 36.2%, from a cash outflow of RSD 2,220,229 thousand for the year ended December 31, 2011 to a cash outflow of RSD 3,024,960 thousand for the year ended December 31, 2012. This increase was primarily driven by a higher purchase of property, plant and equipment by RSD 501,977 thousand from a cash outflow of RSD 1,927,136 thousand for the year ended December 31, 2011 to a cash outflow of RSD 2,429,113 thousand for the year ended December 31, 2012.

Net cash from / (used in) financing activities. Net cash flow used in financing activities increased by RSD 34,187 thousand, or 2.6%, from a cash outflow of RSD 1,316,020 thousand for the year ended December 31, 2011 to a cash outflow of RSD 1,350,207 thousand for the year ended December 31, 2012. This decrease was primarily due to the repayment of a revolving credit facility in 2012.

Telemach BH year ended December 31, 2012 compared to year ended December 31, 2011

Net cash from / (used in) operating activities. Net cash flow from operating activities increased by €3,735 thousand, or 291.8%, from a net cash inflow of €1,280 thousand for the year ended December 31, 2011 to a net cash inflow of €5,015 thousand for the year ended December 31, 2012. Net cash generated from operating activities also benefitted from an increase in trade and other payables by €4,070 thousand from a cash outflow of €162 thousand for the year ended December 31, 2011 to a cash inflow of €3,908 thousand for the year ended December 31, 2012. Such impact was partially offset by a significant increase in interest payments from €149 thousand in the year ended December 31, 2011 to €1,504 thousand in the year ended December 31, 2012.

Net cash from / (used in) investing activities. Net cash flow used in investing activities increased by €10,413 thousand, or 195.6%, from a cash outflow of €5,323 thousand for the year ended December 31, 2011 to a cash outflow of €15,736 thousand for the year ended December 31, 2012. This increase was primarily driven by the acquisition of subsidiaries and net of cash acquired in the amount of €8,885 thousand for the year ended December 31, 2012.

Net cash from / (used in) financing activities. Net cash flow from financing activities increased by €7,290 thousand from a cash inflow of €4,242 thousand for the year ended December 31, 2011 to a cash inflow of €11,532 thousand for the year ended December 31, 2012 due to a draw down of debt to fund the acquisitions completed in the year ended December 31, 2012.

Credit Arrangements Following this Offering

Revolving Credit Facility

On or prior to the Issue Date, we expect to enter into the Revolving Credit Facility, with, among others, the guarantors named therein as original guarantors or borrowers, the financial institutions named therein as original lenders, UniCredit Bank AG, London Branch, as facility agent and English security agent and UniCredit Bank Serbia JSC Belgrade, as Serbian security agent. Our Revolving Credit Facility will provide for borrowings up to an aggregate of €60.0 million on a committed basis. Subject to certain exceptions, loans may be borrowed, repaid and reborrowed at any time. The interest rate on cash advances under the Revolving Credit Facility is the sum of the applicable margin and LIBOR/EURIBOR (both as defined in the Revolving Credit Facility). The margin may range from 3.25% to 4.25%, or as otherwise determined in accordance with the Revolving Credit Facility. The Revolving Credit Facility will mature on the sixth anniversary of the Closing Date (as defined in the Revolving Credit Facility). See "*Description of Certain Indebtedness—Senior Facilities Agreement*."

Notes Offered Hereby

Following this offering, we expect to have €475.0 million in aggregate principal amount of Notes outstanding. We will pay interest on the Notes semi-annually in cash at an annual interest rate and on the dates as set forth on the cover of this offering memorandum. Interest will accrue from the issue date.

The Indenture will contain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: incur additional indebtedness; pay dividends on or make distributions in respect of capital stock or make certain other restricted payments or investments; enter into agreements that restrict distributions from restricted subsidiaries; sell or otherwise dispose of assets, including capital stock of restricted subsidiaries; enter into transactions with affiliates; create or incur liens; and merge, consolidate or sell substantially all of our assets. These covenants will be subject to important exceptions and qualifications. See "*Description of the Notes—Certain Covenants*".

Contractual Obligations

We enter into long-term contractual obligations and commitments in the normal course of business, primarily debt obligations and non-cancellable operating leases. As of June 30, 2013, our contractual cash obligations and commercial commitments are set forth below on an as adjusted basis giving effect to the

Transactions, this Offering and the application of proceeds therefrom as set forth in the sources and uses for the Transactions.

	Less than one year	1-3 Years	3-5 Years	More than 5 years	Total
		(in € millions)			
Notes offered hereby(1)	—	—	—	475.0	475.0
Finance leases(2)	0.6	2.8	—	—	3.4
Operating leases(3)	12.7	27.5	28.0	20.3	88.5
Total(4)	13.3	30.4	28.0	495.3	566.9

(1) Represents €475.0 million aggregate principal amount of the Notes as of the issue date, but does not include any interest payments required in respect of the Notes.

(2) Represents leases of network equipment and vehicles.

(3) Represents leases of satellite transponder capacities, telecom ducts, electricity poles, optical nodes and buildings and stores. Our satellite transponder capacity and electricity poles leases will expire during or prior to 2018. We intend to renew these agreements.

(4) Does not include any borrowings under our Revolving Credit Facility.

The foregoing table does not include working capital facilities entered into in the ordinary course of business.

Capital Expenditure

Our capital expenditure relates primarily to the purchase of property and equipment, including expansion of the network in terms of capacity and new homes connected, purchase of modems and set-top boxes to be installed in customer premises, growth in RGUs and maintenance of our network and infrastructure, purchase of intangible assets such as software, investments in our core infrastructure and systems to facilitate the addition of new services and acquisitions. Therefore, capital expenditure is primarily driven by extending, upgrading and maintaining our network, the installation and in-home wiring for new subscribers and the cost of cable modems, including high-speed modems for our subscribers for our high-speed broadband internet. Our capital expenditure has historically included costs to integrate acquired businesses.

Capital expenditure also includes increases in intangible assets (except our customer list) and does not include financial assets. As part of our strategy to focus capital expenditures on improving returns, we have instituted measures to ensure a more efficient usage of capital investment. We intend to manage capital expenditures to maintain our well-invested asset base. The members of our board review all material capital expenditure programs and plan to review and approve future material programs.

Over the next several years, our capital expenditures will be largely success and capacity based. Success and capacity based capital expenditure includes capital expenditure related to the expansion of our network footprint to additional homes, the provision of EuroDOCSIS 3.0 modem/WiFi routers to new subscribers and existing subscribers, the replacement of set-top boxes, expanding network capacity and new product and service development and expenditure incurred in connecting business subscribers to our network. Success based capital expenditures do not include capital expenditure for maintenance, upgrade and replacement of our systems and infrastructure.

We plan to continue to invest in our services and infrastructure in order to maintain and strengthen our competitive position. Group capital expenditures are budgeted at approximately €60 million for 2013, of which €24.5 million were spent during the six months ended June 30, 2013, and nearly half of this capital expenditures are related to acquisition of new customers and cross-selling of multi-play packages to the existing customers. In addition, other primary areas of investment include investment in build-out of coaxial cable networks for organic expansion of our group's footprint, further investment in the fiber network including node segmentation and continued investment in enhancing capacity of the EuroDOCSIS 3.0 to enable increasing speeds to out broadband customers.

The table below sets forth our capital expenditure for the six months ended June 30, 2013.

	Six months ended June 30, 2013
	(€ in thousands)
Capital Expenditures:	**24,529**
Coaxial network	2,942
Fiber network	2,024
Backbone and DWDM.CWDM equipment	344
Head-end	461
IP equipment	2,622
Digital platform including D3 set-top boxes	5,606
OTT	272
Telephony	234
Modems including B2B CPE	3,406
DTH (including CPE and capital expenditures related to installation)	3,274
Other (including IT equipment, capitalization)	3,344

(1) Integration capital expenditure is capital expenditures related to the integration of acquired businesses.

(2) Capital expenditure ratio represents non-integration capital expenditure as a percentage of total revenues.

Capital Expenditure by Segment

Telemach Slovenia Group. Capital expenditures for our Telemach Slovenia Group decreased by €940 thousand to €5,382 thousand for the six months ended June 30, 2013 from €6,322 thousand by Telemach Slovenia for the six months ended June 30, 2012.

SBB Serbia Group. Capital expenditures for our SBB Serbia Group increasd by €6,032 thousand to €15,053 thousand for the six months ended June 30, 2013 from €9,021 thousand (RSD 1,000,818 thousand converted at a rate equal to of RSD 110.9411 per €1.00, which was the average exchange rate for the six months ended June 30, 2012) by SBB Serbia for the six months ended June 30, 2012.

Telemach BH Group. Capital expenditures for our Telemach Bosnia Group increased by €1,536 thousand to €3,649 thousand for the six months ended June 30, 2013 from €2,113 thousand by Telemach Bosnia for the six months ended June 30, 2012.

Off-Balance Sheet Arrangements

SBB Serbia is party to a tri-partite arrangement with the media company *Pink* and Erste GCIB Finance I B.V. (“Erste”) pursuant to which *Pink* obtained financing from Erste in return for pledging its media library as collateral. Simultaneously, SBB Serbia and Erste entered into a call option agreement pursuant to which SBB Serbia agreed to purchase *Pink’s* media library at €9.0 million, the amount *Pink* owes to Erste. The call option will expire on April 30, 2018 and is not recorded on our balance sheet.

Other than the call option in relation to *Pink’s* media library referred to above, we are not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity, capital expenditure or capital resources, except with respect to our interest rate hedging.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our income and cash flow from operations are affected by changes in market interest rates. Some items on our balance sheet, such as cash and bank balances, interest bearing investments and borrowings, are exposed to interest rate risk.

Borrowings under our Revolving Credit Facility will bear interest at varying rates, and as a result we will have interest risk with respect to this debt. We currently do not expect to enter into any interest rate hedging arrangements with respect to the debt under our Revolving Credit Facility. Borrowings under the Series Notes will bear interest at a fixed rate. For fixed rate debt, interest rate changes affect the fair market value of such debt, but do not impact earnings or cash flow.

Currency Risk

As a result of our operations in various countries, we generate a significant portion of our sales and incur a significant portion of our expenses in currencies other than the euro. Our primary exposure is to the RSD. For the six months ended June 30, 2013, 49% of our revenue were denominated in RSD and 51% was denominated in euro or other currency. The BAM is pegged to the euro. We currently do not intend to hedge our foreign exchange risk in the near term. We estimate that an appreciation (depreciation) of the Serbian dinar against the euro by 10% would have increased (decreased) our revenue for the six months ended June 30, 2013 by approximately €5.6 million.

Translation Risk

Translation risk is the risk that the value in euro of the consolidated income statement and balance sheet will fluctuate due to changes in foreign exchange rates connected with the translation of our subsidiaries that do not have the euro as their functional currency. Following the completion of the Transactions and this offering of the Notes, almost all of our indebtedness will be denominated in euro.

Transaction Risk

Transaction risk is the risk of exchange losses made by us from purchases and sales in currencies other than the local currency of the subsidiaries concerned. We have a limited amount of purchases of content and other items in U.S. dollar and other currencies. However, we currently do not hedge our transaction exposure. This form of currency exposure is therefore, we believe, not significant for us.

Critical Accounting Policies

Many of the amounts included in the consolidated financial statements involve the use of judgment and/or estimation. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ from these estimates.

The preparation of our financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors including expectations of future events that are considered to be reasonable and relevant under the circumstances. Actual results may differ from these estimates.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Business combinations

We have performed acquisitions during the current and the comparative periods that have been described in details in Note 17 to the unaudited consolidated financial statement as of and for the six months ended June 30, 2013, included elsewhere in this Offering Memorandum.

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, any non-controlling interest in the acquiree is measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. Consideration transferred includes any contingent consideration measured at its acquisition date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that qualifies for classification as equity is not re-measured until it is finally settled. Acquisition costs incurred are expensed.

Any excess of the cost of the acquisition over the net identifiable assets acquired is recognized as goodwill in the balance sheet. If the cost is lower than the net identifiable assets acquired, the difference is recognized in profit or loss.

Financial instruments

Non-derivative financial assets

We initially recognize loans and receivables and deposits on the date that they are originated.

We derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or we transfer the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by us is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, we have a legal right to offset the amounts and intend either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derivative financial instruments

Derivatives are classified as a current asset or liability. We do not apply hedge accounting and hence, gains and losses from fair value revaluation are recognized in the profit or loss.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Non-derivative financial liabilities

We initially recognize financial liabilities on the date that they are originated. We derecognize a financial liability when our contractual obligations are discharged, cancelled or expire.

Financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities comprise loans and borrowings, bank overdrafts, finance lease liabilities, trade and other payables.

Borrowings

Borrowings are recognized initially at fair value (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price). In subsequent periods, borrowings are carried at amortized cost using the effective interest method; any difference between fair value of the proceeds and the redemption amount is recognized as interest expense over the period of the borrowings. Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Trade and other payables

Short-term payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

Bank overdrafts that are repayable on demand and form an integral part of our cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment comprise mainly cable network (coaxial and optical primary and secondary network and backbone) and customer premise equipment (CPE—receivers and modems). Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognized net within other income/other expenses in profit or loss.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. Major renovations are depreciated over the shorter of the remaining useful life of an asset or the period until new renovation. All other repairs and maintenance are recognized in profit or loss during the financial period in which they are incurred.

Depreciation

Depreciation is based on the depreciable amount of an asset. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that we will obtain ownership by the end of the lease term.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of our share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

Intangible assets

Intangible assets that we acquire and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Trademarks

Trademarks are acquired in a business combination and are recognized at fair value at the acquisition date. Due to current trend of fast technological and market changes in telecommunication industry, we decided to start to amortize trademarks over a 15 year period from 1 January 2013. Trademarks acquired in a business combination are recognized at fair value at the acquisition date. Trademarks are amortized over their useful lives, unless it is indefinite, where they are carried at cost less accumulated impairment losses.

Trademarks include three trade names: SBB, Total TV and Sport Klub.

Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method over the expected life of the customer relationship.

Computer software

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Software is recognized at cost less accumulated amortization and accumulated impairment. Cost includes expenditure to acquire software and directly attributable costs to prepare it for its intended use.

Development costs that are directly attributable to the design and testing of identifiable and unique software products that we control are recognized as intangible assets when the relevant criteria are satisfied.

Directly attributable costs, capitalized as part of the software product, includes software development employee cost and appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognised as an expense are not recognized as an asset in a subsequent period. Computer software development costs recognized as assets are amortized over their estimated useful lives, which usually does not exceed 5 years.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization

Amortization is based on the depreciable amount of an asset and is calculated using the straight line method to allocate their cost over their estimated useful lives.

The useful lives of customer relations for cable and DTH are estimated through a valuation model using the income approach based on current market conditions.

Amortization methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Leased assets

Finance lease

Leases of property, plant and equipment, where we are the lessee and have substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance costs is charged to the statement of income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease. We lease premises mainly under operating lease contracts.

Programming rights held for sale

Programming rights include licensed program rights for various sport events. These rights are expensed at the moment of sale.

Impairment of non-financial assets

Non-financial assets, except for deferred tax assets, income tax receivables and inventories are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Impairment losses are recognized in the statement of profit or loss. Non-financial assets, excluding goodwill, that suffered impairment, are reviewed for possible reversal of the impairment at each reporting date.

Goodwill is reviewed annually for impairment.

Employee benefits

In accordance with the regulations prevailing in the countries where we operate, we are required to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. We are also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

We do not operate any private pension scheme or post retirement defined contribution plan except the state mandatory pension scheme in each country of operation.

The calculation of retirement benefits is performed annually by a qualified actuary using the projected unit credit method.

Termination benefits for voluntary redundancies are recognized as an expense if we have made an offer of voluntary redundancy, if it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Accumulating compensated absences may be carried forward and used in future periods if the current period's entitlement has not been fully used. The expected cost of accumulated compensated absences is recognized in the amount that is expected to be paid as a result of the unused entitlement that has accumulated as of the consolidated statement of financial position date.

In the instance of non-accumulating compensated absences no liability or expense is recognized until the time of the absence.

Provisions

Provisions are recognised when: we have a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be offset. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Impairment of goodwill and trademark

The Group tests annually whether goodwill and trademark with indefinite useful lives, suffer any impairment in accordance with our accounting policy. Discounted cash flow method for annual impairment testing is based on management assumptions as to projected revenue growth and liquidity position (Note 16).

Useful lives of property, plant and equipment and intangibles

Our management estimates the useful lives and related depreciation rates for its plant and equipment and intangibles on an annual basis. These estimates are based on technological development, projected growth in customer base and further development of service lines. They are subject to change and influenced by substitutes available on the market. The management will increase the depreciation charge when useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned. There are no residual values on long-term assets. We have assessed that the customer relationships have a useful economic life of between 7 and 14 years.

Annex 1 to the Management's Discussion and Analysis of Financial Condition and Results of Operations

Unaudited Pro Forma Financial Information for the year ended December 31, 2011

We have also presented certain unaudited pro forma condensed consolidated financial information for the year ended December 31, 2011. We have derived such unaudited pro forma financial information for 2011 through the addition of results of SBB Serbia, Telemach Slovenia, Telemach BH and certain other entities, and have made certain consolidation adjustments by excluding inter company revenues and costs. These amounts do not reflect pro forma adjustments and are not, except in the case of revenues, comparable to the data for Pro Forma 2012.

The unaudited pro forma adjustments are based upon available information and assumptions which the Company believes are reasonable in the circumstances. We describe the assumptions underlying the pro forma adjustments in the accompanying notes, which should be read in conjunction with these unaudited pro forma condensed consolidated financial statements.

The unaudited pro forma condensed consolidated statements should not be considered indicative of actual results that would have been achieved had the Business Combination been consummated on the date or for the periods indicated and do not purport to indicate results of operations as of any future date or for any future period.

The unaudited pro forma condensed consolidated financial statements should be read in conjunction with the information contained in "*Selected Consolidated Historical Financial Data,*" "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the consolidated financial statements and the accompanying notes appearing elsewhere in this Offering Memorandum.

	Telemach Slovenia[a]	SBB Serbia[a][1]	Telemach BH[a][2]	Other Entities	Consolidation Adjustments[3]	Pro Forma Financial Information
			(in € thousands)			
Revenue	56,893	109,788	7,529	7,286	(8,010)	173,486
Other income	194	1,498	96	228	(18)	1,996
Content cost	(7,784)	(26,606)	(1,548)	(563)	2,284	(34,216)
Satellite capacity cost	—	(2,831)	—	(217)	212	(2,836)
Internet link cost	(358)	(2,733)	(510)	(844)	692	(3,755)
Materials costs	(1,582)	(5,353)	(754)	(398)	4,098	(3,990)
Staff costs	(5,777)	(9,055)	(900)	(1,115)	—	(16,846)

(1) Amounts shown in euro are converted from Serbian dinar at a rate equal to RSD 101.9502 per €1.00, which was the average rate during the period indicated.

(2) Amounts shown in euro are converted from Bosnian mark at a rate equal to BAM 1.9558 per €1.00. The Bosnian mark is pegged to the euro.

(a) Amounts have been derived from (i) the consolidated statement of comprehensive income for Serbia Broadband—Srske Kablovske Mreže d.o.o. for the year ended December 31, 2011, (ii) the consolidated statement of comprehensive income for Telemach d.o.o. for the year ended December 31, 2011 and (iii) the consolidated statement of comprehensive income for Telemach d.o.o. Sarajevo for the year ended December 31, 2011. Expenses for Telemach Slovenia are presented on a "by function" basis in the consolidated statement of comprehensive income which for the purpose of the unaudited pro forma condensed consolidated financial information are presented on a "by nature" basis.

(3) Consolidation adjustments relate to intercompany elimination of revenue and certain expenses resulting from transactions between entities within our Group as it existed at December 31, 2011.

Annex 2 to the Management's Discussion and Analysis of Financial Condition and Results of Operations

Breakdown of Other Entities for the year ended December 31, 2011

	Beogrid	AOK	TV Kanal Ultra	KIT	Totalna Televizija (Croatia)	Other entities
	(in € thousands)					
Revenue	397	1,854	1,557	2,214	1,264	7,286
Other income	—	180	26	18	4	228
Content cost	—	—	—	(218)	(345)	(563)
Satellite capacity cost	—	—	—	—	(217)	(217)
Internet link cost	(58)	(418)	—	(368)	—	(844)
Materials costs	(18)	(305)	(11)	—	(64)	(398)
Staff costs	(217)	(471)	(104)	(217)	(106)	(1,115)

INDUSTRY AND MARKET OVERVIEW

We operate our business across the six countries in former Yugoslav region, Slovenia, Serbia, Bosnia and Herzegovina, Croatia, Macedonia and Montenegro. These counties have a combined population of approximately 20 million people which are distributed across approximately 6.7 million households. Despite economic differences, these countries share a joint history and form a single media market in which small local differences are compensated by the influence of similarities in cultural preferences and language across the region. As a result, the former Yugoslav region is the third largest media market in Central and Eastern Europe ("CEE") after Poland and Romania. The following table provides an overview of our countries of operations (except Montenegro):

	Slovenia	Serbia	Bosnia and Herzegovina	Croatia	Macedonia
Population (in million)	2.1	7.2	3.7	4.3	2.1
EU membership/	Member	Candidate	N/A	Member	Candidate
Local Currency	EUR	RSD	BAM	HRK	MKD
GDP/capita(1) (in U.S. dollar)	28,200	11,200	8,900	18,200	10,100
Real GDP growth(2)	(0.1)%	0.3%	0.3%	(1.4)%	1.8%

Source: EIU Country Data published by Bureau van Dijk

(1) Purchasing power parity.

(2) CAGR for the years 2009-2012.

Recently, our six countries of operations have implemented significant political and economic reforms aimed at, *inter alia*, reducing economic and structural imbalances, increasing the flexibility of their respective economies, including liberalization of the media and telecommunications sectors and creating a business-friendly environment that is conducive to foreign investment. As a result of such reforms, Slovenia and Croatia were admitted to the European Union in 2004 and 2013, respectively. Serbia officially applied for European Union membership in 2009, received full candidate status in 2012 and on June, 28 2013, the European Council announced that accession negotiations would commence by January 2014 at the latest. Montenegro was granted candidate status in 2010 and the accession negotiations started in June 2012. Macedonia has been a candidate for accession to the European Union since 2005, and in 2009 the European Commission recommended that accession negotiations be opened. Bosnia and Herzegovina has been recognized by the EU as a potential candidate country for accession since 2003 but has not yet formally applied for EU membership.

Slovenia has been a member of the Eurozone since 2007 and the Bosnian mark ("BAM") is pegged to the euro at a fixed exchange rate of BAM 1.9558 to €1.00. The Serbian dinar freely fluctuates against the euro and has depreciated by approximately 27% against the euro since 2008. Historically, the Serbian consumer price index ("CPI") has closely tracked the depreciation of the Serbian dinar against the euro leading to a constant "pass-through" of the impact of the depreciation of the dinar to the consumer. We believe that our pricing strategy reflects the "pass-through" principle outlined above.

Television, Broadband Internet and Telephony Markets

We operate mostly in the region's cable and satellite, or direct-to-home ("DTH"), television, broadband internet and fixed-line telephony markets and provide services to approximately 1.2 million subscribers with 1.7 million RGUs as of June 30, 2013. We believe this growth was mainly driven by the following factors:

- increase in pay-TV and broadband internet penetration due to increasing importance of television as information and entertainment medium across the region and increasing importance of broadband internet as communications medium of choice;
- increasing availability of attractive content at affordable price, including as a result of SBB Serbia's and Telemach BH's service offerings;
- generally rising standard of living leading to an increase in disposable income across the region;
- liberalization of media and telecommunications markets and removal of regulatory constraints on bundling;
- decrease in prices for television sets, personal computers and smartphones.

We believe that the communications and pay-TV markets in the former Yugoslav region will continue to grow over the next few years, and will be characterized by the following trends:

- continued growth in the pay-TV market driven by subscription growth opportunities as a result of relatively low pay-TV market penetration rates;
- growing demand for digital TV and other value added services that can be delivered through digital TV platforms, such as video-on-demand ("VoD") and CatchUp TV;
- further industry convergence as customers increasingly seek to receive their media and communication services from one provider;
- continued growth of the broadband internet market due to increasing service penetration driven by demand for higher speed and better quality broadband internet;
- further consolidation of the fragmented Serbian and Bosnian cable television markets;
- further decrease in cost of end-user equipment (such as personal computers and table devices);
- switchover from analog to digital television in Serbia and Bosnia and Herzegovina.

Bundling Trends

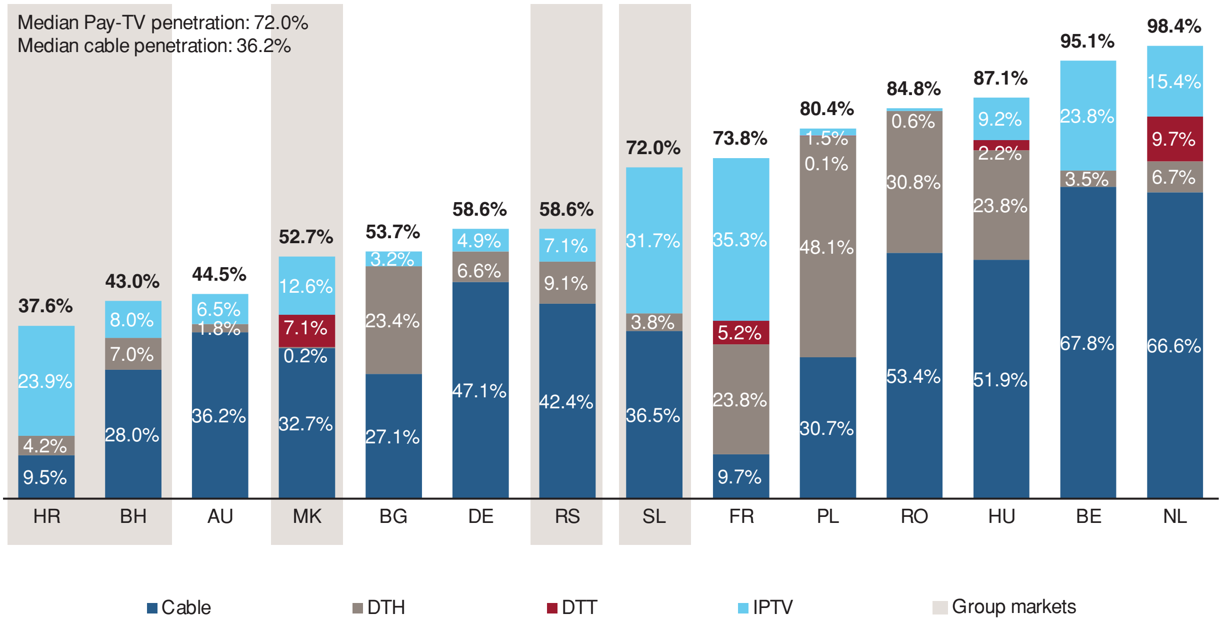
Customers in our core markets increasingly seek to receive their multimedia and communications services in a bundled offer from one provider. In response, service providers are providing television, broadband internet and fixed-line telephony services in bundled double- or triple-play offerings. We believe that offering bundled services allows media and telecommunication service providers to better meet customers' communication and entertainment demands, to increase ARPU per customer while also increasing customer loyalty as well as to attract new customers as the value proposition of the services offering is enhanced.

As of June 30, 2013, approximately 33% of our subscriber-base had subscribed to dual or triple-play packages. While such convergence has occurred at relatively fast pace in a number of Western and Eastern European markets, notably in Slovenia, a series of regulations, including those limiting alternative operators other than the incumbent service providers from providing telephony services in Serbia and Bosnia and Herzegovina, have historically prevented such convergence to occur in our core markets. We expect that the recent liberalization of the Serbian and Bosnian telephony markets, particularly the legislation mandating free portability of telephone numbers across Serbian telephony providers as of March 2014, as well as the rapid digitization of the region's television markets will accelerate the convergence in our core markets in the near future. As a result, we believe bundling to play an increasingly important role in our core markets going forward and believe cable operators will be well-positioned to benefit from this trend due to the competitive advantage of their networks across the vast majority of their service areas.

Pay-TV

The pay-TV market in the former Yugoslav region is characterized by relatively low service penetration rates compared to other Central Eastern European ("CEE") and Western European countries. Between 2008 and 2012, the number of pay-TV services subscribers in the region grew substantially: in Slovenia at a CAGR of 3.6% from 442,000 in 2008 to 509,400 in 2012, in Serbia at a CAGR of 9.7% from 993,000 in 2008 to 1,439,500 in 2012 and in Bosnia and Herzegovina at a CAGR of 21.4% from 404,617 in 2011) to 491,219 in 2012. The growth occurred primarily due to increasingly attractive content, increasing output quality (i.e. as a result of increasing digitization rates), decreased end-user equipment prices (including prices for television sets, smartphones and personal computers) and increased disposable income across the region. Pay-TV content is predominantly distributed through cable networks.

The following chart provides a comparison of selected CEE and Western European pay-TV market penetration rates by distribution platform[(1)]:



(1) HR, BH, AU, MK, BG, DE, RS, SL, FR, PL, RO, HU, BE and NL represent Croatia, Bosnia and Herzegovina, Austria, Macedonia, Bulgaria, Germany, Serbia, Slovenia, France, Poland, Romania, Hungary, Belgium and The Netherlands, respectively.

Source: Screendigest.

Cable

Cable is the most commonly used distribution network medium for pay-television services in Slovenia, Serbia and Bosnia and Herzegovina, and is characterized by easy-to-use technology, efficient installation of customer equipment and reliability of a protected signal delivered directly to the home. Population density is a key factor for cable operators when deciding whether to invest in extending their existing cable network. Higher population density reduces the overall cost associated with the deployment, operation and maintenance of cable infrastructure and allows for more efficient marketing. Cable operators that operate in urban areas with a high population density benefit from easier access to customers and more cost effective network upgrades and maintenance. As a result, cable networks in the former Yugoslav region are mainly concentrated across metropolitan regions in Slovenia, Serbia and Bosnia and Herzegovina, the region's most densely populated countries.

Given the trend towards offering bundled media and telecommunications services, we expect that the market share of cable television distribution will benefit from cable's ability to deliver multi-play services with higher bandwidths and consequently at a higher speed compared to DSL.

DTH Television

DTH television is the second most commonly used distribution network medium for television services in Serbia and third across the rest of the former Yugoslav region after cable television and IPTV. Pay-TV content providers can penetrate rural areas more cost-efficiently through DTH than through fixed-line cable networks which are economically unviable to develop. Satellite operators, such as *TotalTV* and *Digi*, distribute digital signals via satellite directly to television viewers. To receive programming distributed via satellite, viewers need a satellite dish and a set-top box. Depending on the service provider, viewers may also require a smart card for the subscription based and premium television services distributed via satellite.

We believe that DTH television has the following disadvantages compared to cable: (i) DTH television is a stand-alone video service with no or limited bundling options (ii) higher up-front costs of procuring and installing a satellite dish, as compared to the "plug-and-play" convenience of cable; (iii) the susceptibility of satellite reception to external interference, such as adverse weather conditions; and

(iv) the platform's struggle to offer non-linear or on-demand TV services, given the lack of integrated return path signaling.

Internet Protocol Television and Over the Top Television

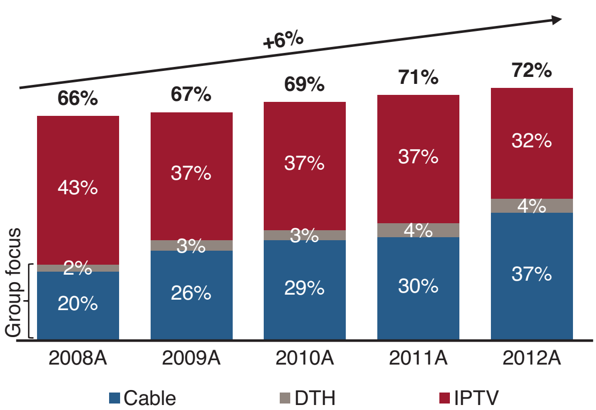
As a consequence of improvements in broadband internet technologies, the Internet Protocol is increasingly being used for the distribution of television services and as of June 30, 2013, was the second most commonly used distribution medium for television services in Slovenia, Bosnia and Herzegovina and Macedonia. Internet protocol television ("IPTV") subscribers, like digital terrestrial and DTH subscribers, must install a separate set-top box for each television set that receives its signal through IPTV. The principal provider of IPTV are Telekom Srbija in Serbia, Telekom Slovenije and T2 in Slovenia and BH Telecom and HT Eronet in Bosnia and Herzegovina, which provide IPTV services through ADSL, VDSL and Fiber-to-the-Home ("FttH") broadband internet connections. We estimate that demand for IPTV will increase in the future as overall broadband internet speeds continue to increase, IPTV becomes more widely available, the price of the receiving equipment decreases and the receiving equipment is built into television sets. However, we believe that providing television services over a DSL network decreases the amount of bandwidth available for other service offerings, in particular broadband internet, and may lead to relatively low quality of service and lower internet speeds than those delivered via cable.

Another emerging technology is the delivery of television content "over the top" of an existing broadband internet network ("OTT"), which allows pay-TV distributors to reach customers through the internet. We recently launched two own OTT content platforms, *D3i* and *NetTV.plus*. *D3i* is an OTT platform which offers customers of our broadband internet competitors within the region access to our full digital pay-TV channel offering. As a result, *D3i* subscribers can watch all of our digital pay-TV channels on their TV screens, computers, tablets, mobiles or other internet enabled devices. Through *NetTV.plus* we deliver extensive and unique local and regional content, including *Pink* and *Ultra*, to a former Yugoslav expatriate community of approximately 4 to 7 million people worldwide. Like *D3i*, our subscribers can watch *NetTV.plus* directly on their TV screens, computers, tablets, mobiles or other internet enabled devices.

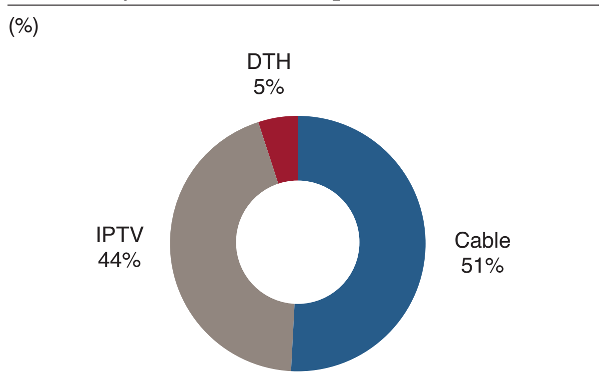
Slovenian pay-TV market

Between 2008 and 2012, overall pay-TV market penetration in Slovenia increased at a CAGR of 3.6% and in 2012, approximately 509 thousand households in Slovenia had subscribed to pay-TV services. The following graph provides an overview of the pay-TV market share of the different pay-TV distribution platforms in Slovenia:

Slovenian pay-TV market



Pay-TV distribution platform—2012



Cable is the dominant pay-TV distribution platform in Slovenia and in 2012, an estimated 51% of households that had subscribed to pay-TV services received their content via cable. Due to comparatively high broadband penetration and advanced network technologies, cable pay-TV providers face increasing competition from IPTV providers, and in 2012, approximately 44% of households that had subscribed to pay-TV services received their content via IPTV, an increase of 42% compared to 2008. However, following rapid roll-out of fiber broadband internet in 2009, which led to a significant increase in IPTV market share, we are currently observing trends indicating a stabilization of IPTV market share growth, as fiber roll-out did not prove economically viable for our Slovenian competitors, Telekom Slovenije and T2, who are currently not expanding their respective fiber networks. As a result, we believe the IPTV market share will remain stable in the near future. Additionally, the Slovenian pay-TV market is characterized by a high degree of digitization. Following the switch from analog to digital television in 2010, television services in Slovenia experienced strong digitization and in 2012, approximately 93% of Slovenian households had access to digital television.

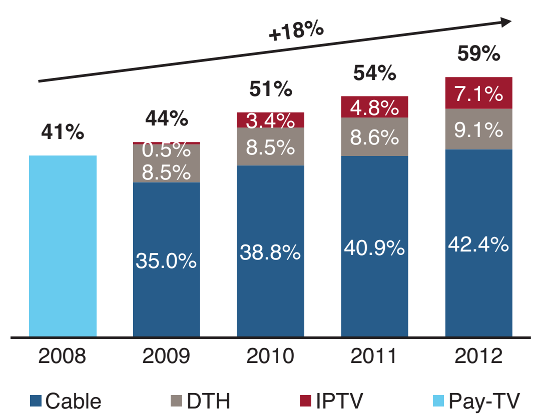
While the Slovenian pay-TV market is relatively mature, both in market penetration and digitization, we believe that continued subscriber migration from analog to digital television as well as up- and cross-selling of value added services, such as VoD services, will continue to provide existing market participants with attractive growth opportunities.

In 2012, we estimate that through our TotalTV brand we were the largest cable and DTH pay-TV content provider in Slovenia and accounted for a market share of approximately 37%. We mainly compete with the incumbent Telekom Slovenije and T2 in the Slovenian pay-TV market.

Serbian pay-TV market

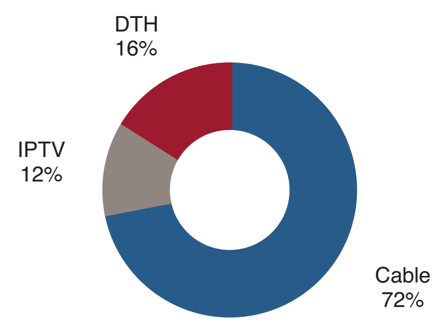
The Serbian pay-TV market experienced strong growth between 2008 and 2012 and overall pay-TV penetration increased at a CAGR of 9.5% from 41% in 2008 to 59% in 2012. This increase in pay-TV market penetration is primarily due to increasingly attractive content, increasing output quality (i.e. as a result of increasing digitization rates), decreased end-user equipment prices (including prices for television sets, smartphones and personal computers) and increased disposable income across the region. At the same time, pay-TV market penetration still lags significantly behind the median European pay-TV penetration rate of 72% which we believe will provide cable pay-TV providers with attractive growth opportunities in the future. The following graph provides an overview of the pay-TV market share of the different pay-TV distribution platforms in Serbia:

Serbian pay-TV market



Pay-TV distribution platform—2012

(%)



Cable is the dominant pay-TV distribution platform in Serbia. In 2012, approximately 72% of households that had subscribed to pay-TV services received their content via cable. We believe that the popularity of cable pay-TV is a result of the attractive content available on cable television and the superior service quality. In 2012, approximately 16% of households that had subscribed to pay-TV services received their content via DTH television. We believe that the majority of DTH pay-TV subscribers live in rural areas without access to a cable network, which limits the overlap between our cable pay-TV and DTH pay-TV offerings. Additionally, 12% of total pay-TV subscribers received their content via IPTV. IPTV is mainly offered by Telekom Srbija who initially offered IPTV at a significant discount to attract subscribers but subsequently raised prices which is reflective of a rationalizing competitive environment.

From 2008 to 2012, digitization of television services in Serbia increased significantly from 12% to 25%. We expect that television digitization will continue to increase following the switch from analog television to digital television in 2015 which would provide us with further opportunities to cross- and up-sell our products, such as VoD, to existing and new customers.

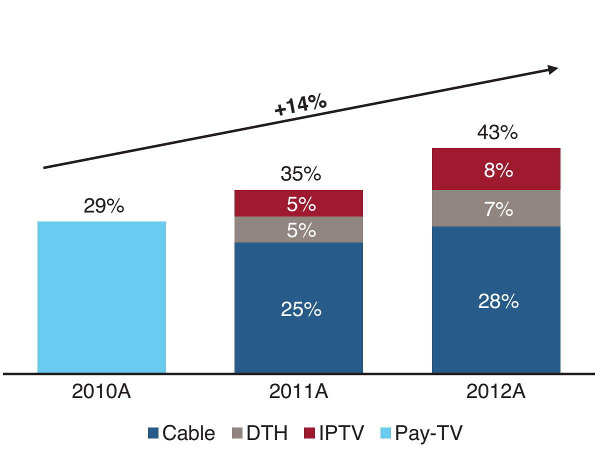
In 2012, we estimate that SBB Serbia was the largest cable and DTH pay-TV content provider in Serbia and accounted for a market share of approximately 45%. We mainly compete with the incumbent Telekom Srbija in the Serbian pay-TV market.

Bosnian pay-TV market

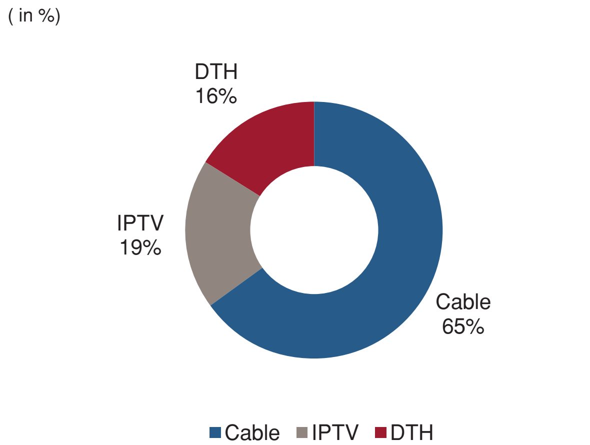
Between 2011 and 2012, the overall number of Bosnian pay-TV subscribers increased by approximately 21% and in 2012, approximately 43% of all households in Bosnia had subscribed to pay-TV. We believe that this increase in pay-TV adoption is primarily the result of the consolidation of fragmented sub-scale cable TV providers undertaken by Telemach BH which lead to an increase in content-quality of pay-TV over regular free-TV. We believe that the continued fragmentation of the Bosnian pay-TV marked will provide us with further attractive growth opportunities.

The following graph provides an overview of the pay-TV market share of the different pay-TV distribution platforms in BH:

Bosnian pay-TV market



Pay-TV distribution platform—2012



Cable is the dominant pay-TV distribution platform in Bosnia and Herzegovina. In 2012, an estimated 65% of households that had subscribed to pay-TV services received their content via cable compared to 19% of households that received pay-TV content via IPTV and 16% of households that received pay-TV content via DTH television. We believe that the dominant market share of cable pay-TV is the result of the continuing consolidation of sub-scale Bosnian cable TV providers, driven by the Group which has allowed us to leverage on our scale to provide attractive and unique content at affordable prices in Bosnia and Herzegovina. Additionally, from 2010 to 2012, television digitization increased significantly. We expect television digitization in Bosnia and Herzegovina to continue to increase in the future which would provide us with opportunities to cross- and up-sell our products to existing and new customers.

In 2012, we estimate that Telemach BH was the largest cable and DTH pay-TV content provider in Bosnia and Herzegovina (Telemach BH and Total TV BH are separate entities). We mainly compete with the incumbents in the ethnic regions in which we operate, BH Telecom and HT Eronet, as well as HS and Logosoft in the Bosnian ethnic region.

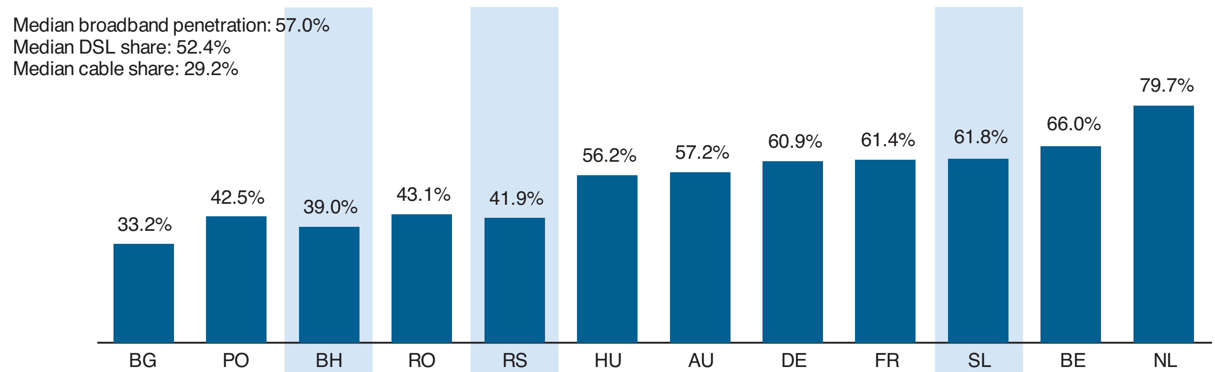
Broadband Internet

The broadband internet market in our core markets is characterized by continued growth and increasing demand for high-speed broadband internet services, which leads to increasing internet service penetration rates. We believe that cable is well positioned to be the primary beneficiary of these trends in the former Yugoslav region. Our network is currently being fully EuroDOCSIS 3.0 upgraded and due to the relatively small presence of fiber-to-the-home networks, we and other similarly situated cable operators are able to offer highest speed broadband internet services to subscribers across our service areas compared to DSL broadband. In addition, owing to our multiplatform technology and our contractual arrangements with Telekom Slovenije, we are also able to provide our content through Telekom Slovenije's infrastructure which includes both xDSL and FttH.

According to industry sources, fixed broadband internet household penetration in Slovenia grew from approximately 52% in 2008 to 62% in 2012, in Serbia from approximately 18% in 2008 to 42% in 2012 and in Bosnia and Herzegovina approximately 16% in 2008 to 39% in 2012. At the same time, fixed broadband penetration lags behind more developed European markets, such as Belgium and the Netherlands. We believe the combatively low penetration rates in Serbia, Slovenia and Bosnia and Herzegovina provide significant growth opportunities.

The following chart provides a comparison of selected CEE and Western European broadband internet penetration rates[(1)]:

Selected CEE and Western European broadband internet penetration rates



	BG	PO	BH	RO	RS	HU	AU	DE	FR	SL	BE	NL
DSL	31.9%	40.8%	59.0%	32.2%	62.0%	35.9%	68.9%	83.6%	93.6%	53.3%	51.2%	50.0%
Cable	12.5%	28.5%	27.0%	54.2%	31.1%	59.4%	29.4%	15.7%	4.4%	27.6%	48.5%	44.7%
FTTP	3.9%	–	14.0%	2.7%	–	–	0.5%	0.1%	1.3%	16.9%	–	5.3%
Others	51.7%	30.8%	–	10.9%	6.8%	4.7%	1.2%	0.6%	0.6%	2.2%	0.2%	–

Group markets

(1) BG, PO, BH, RO, RS, HU, AU, DE, FR, SL, BE and NL represent Bulgaria, Poland, Bosnia and Herzegovina, Romania, Serbia, Hungary, Austria, Germany, France, Slovenia, Belgium and the Netherlands, respectively.

Source: Screendigest

DSL

DSL uses basic telephone infrastructure to access the internet. DSL technology leverages the fact that copper wires used in telephone networks have a much higher bandwidth (7 MHz) than that required for normal voice conversation (0-3.4 KHz). DSL utilizes the extra bandwidth to provide broadband internet connections. The most commonly used variant of DSL is ADSL which assumes that internet users normally receive or download significant more information than they would send or upload. Hence, ADSL connections normally have three to four times more bandwidth for downloading. However, as copper is a distance-sensitive medium, access speeds for DSL technology decrease substantially as distance from DSL hubs increases. The maximum download speed of DSL networks has to be shared between all services: television, broadband internet and telephony. Under currently available technology, DSL-based multi-play providers can therefore not provide broadband internet and television services of comparable quality to those provided over cable networks.

Cable

Cable networks have been designed for the transmission of large amounts of analog TV and radio signals and are able to deliver consistent speeds irrespective of the distance to the customer, unlike DSL. Our network is fully bi-directional and currently being EuroDOCSIS 3.0 enabled, uses a spectrum bandwidth capacity of 862 MHz and offers up to 120 Mbps download speeds, with the potential for up to 360 Mbps with current EuroDOCSIS 3.0 modems. As a result, we can offer substantially faster broadband internet access than DSL operators.

FTTH

Fiber-to-the-Home, or FttH, is based on optical fiber cables and is the only infrastructure that offers similar speeds, with the potential for higher internet speeds (upload and download), than are currently possible over our cable network. Currently, FttH broadband internet connections play a very limited role in Serbia and Bosnia and Herzegovina. FttH had a broadband market share in Slovenia of approximately 17% in 2012, a CAGR increase of approximately 22% compared to 2008. This increase is primarily due to extensive fiber roll-out by Telekom Slovenije and T2 in 2009. However, as fiber roll-out is significantly more expensive than cable, fiber broadband internet services in our region have stabilized in 2011 and we expect FttH's broadband internet market share to remain stable in the near future. As a result of the rapid roll-out of fiber, T2 is currently facing repeated bankruptcy proceedings, which currently restricts its ability to further invest in its fiber network. The main providers of FttH in Slovenia are Telekom Slovenije and T2.

Other broadband internet

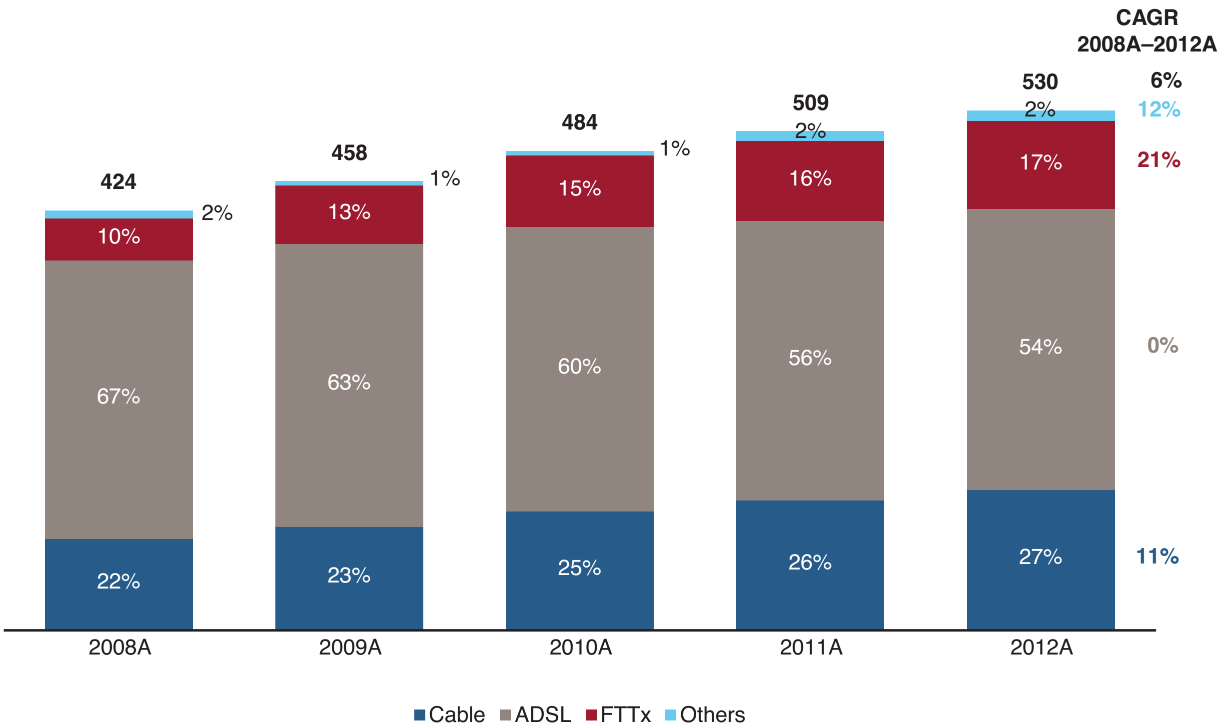
We also compete with service providers that use other alternative technologies for broadband internet access, such as satellite technologies or mobile standards such as worldwide interoperability for microwave access ("WiMax"), universal mobile telecommunications system ("UMTS") and high-speed packet access ("HSPA"). These mobile broadband internet access technologies may allow both incumbent and new broadband internet access providers the ability to provide high-speed connection services for voice, data, video and television. We estimate that only a small portion of households was using UMTS/HSPA for primary broadband internet access via laptops or PCs in 2012. We believe that the majority of mobile broadband internet users presently use mobile internet services to complement, rather than to replace, fixed-line broadband internet.

Slovenian broadband internet market

Between 2008 and 2012, overall broadband internet penetration in Slovenia increased at a CAGR of 4.9% and in 2012, approximately 62% of households in Slovenia had access to broadband internet. We believe this increase in broadband internet penetration is primarily the result of the overall increasing importance of internet as the communications medium of choice as well as a decrease in end-use equipment cost leading to increasing personal computer and smartphone penetration. At the same time, internet penetration in Slovenia still has not reached the levels of the more developed European markets, which we believe provides us with further growth opportunities in the future.

The following graph provides an overview of the broadband internet market share of the different internet technologies in Slovenia:

Slovenian broadband internet market



In 2012, ADSL was estimated to be the dominant distribution platform and accounted for approximately 54% of all internet connections, followed by cable broadband internet which accounted for approximately 27% of all internet connections and fiber which accounted for 17% of all broadband internet connections. Between 2008 and 2012, the market share of ADSL is estimated to have slightly declined due to lower-quality service and lower speed compared to cable and fiber broadband internet. Fiber broadband internet is in a position to deliver similar or higher speeds to those of cable broadband internet, which had historically led to strong growth of fiber. However, due to the significant costs associated with the roll-out of fiber as well as the fact that T2, Slovenia's leading fiber internet provider is currently experiencing financial difficulties, the fiber broadband internet market share has stabilized since 2011.

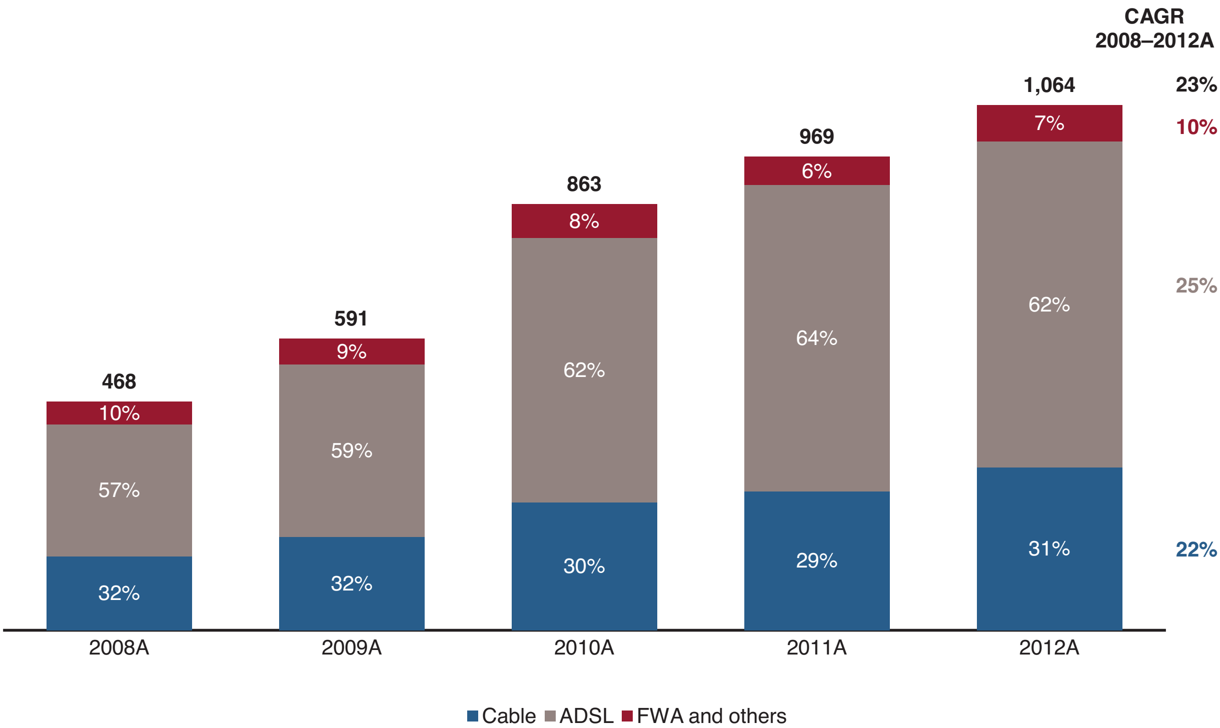
In December 2012, Telemach Slovenia's broadband speeds were on par with those of our FttH competitors within our footprint. As demand for high-speed and high-quality internet services is the key driver for broadband internet market penetration, and as the market share for fiber broadband internet in Slovenia has stabilized since 2011 due to T2's initial bankruptcy which restricts its ability to further invest in fiber, we believe that cable broadband internet providers are well-positioned to capture an increasing market share in the future. As demand for high-speed and high-quality internet services is the key driver for broadband internet market penetration, we believe that cable broadband internet providers are well-positioned to capture an increasing market share in the future.

In 2012, we estimate that Telekom Slovenije was the largest broadband internet provider with a market share of 38%, followed by Telemach Slovenia, the largest Slovenian cable broadband internet provider. Due to extensive overbuild (approximately 38% in 2012 according to management estimates) in metropolitan areas in Slovenia, we face competition from other Slovenian broadband internet providers, such as T2 and Telekom Slovenije who offer FttH and Telekom Slovenije, Amis and T2 who offer VDSL.

Serbian broadband internet market

Between 2008 and 2012, overall broadband internet penetration in Serbia increased at an estimated CAGR of 23% and in 2012, approximately 42% of households in Serbia had access to broadband internet We believe this strong increase in broadband internet penetration is primarily the result of the increasing importance of internet as the communication medium of choice as well as decreasing prices for end-user equipment such as personal computers and tablet devices which led to an overall increase in PC penetration. At the same time, internet penetration in Serbia significantly lags behind the levels of the more developed European markets, which we believe provides us with significant growth opportunities in the future. The following graph provides an overview of the broadband internet market share of the different internet technologies in Serbia:

Serbian broadband internet market



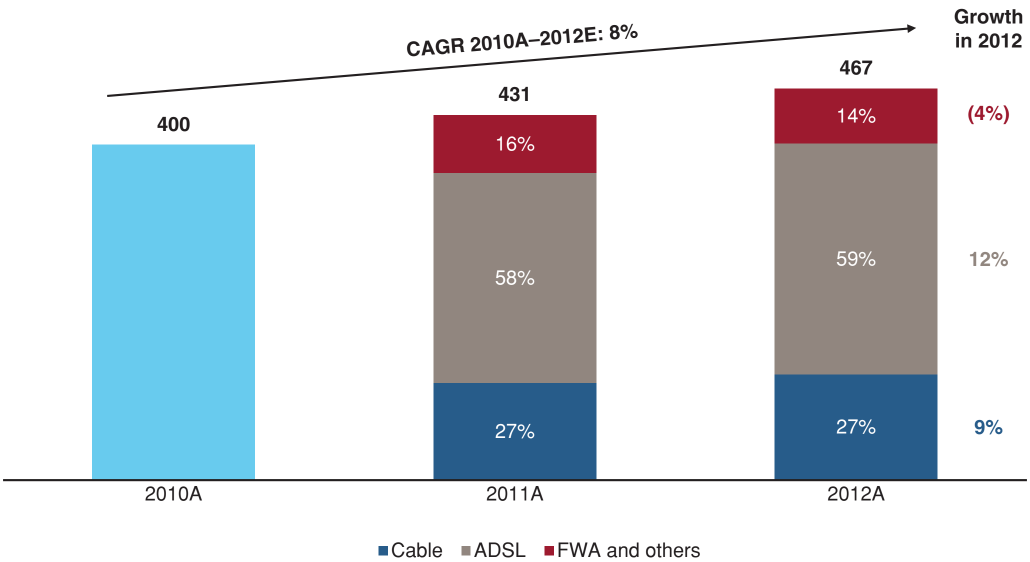
In 2012, ADSL was the dominant distribution platform due to the limit distribution of cable networks in Serbia and accounted for 62% of all internet connections, followed by cable broadband internet which accounted for 31% of all internet connections. At the same time, a majority of all internet connections in Serbia provided maximum speed of 2 Mbps while approximately 80% of SBB Serbia's customers had access to internet speed of 10 Mbps and higher. As demand for high-speed and high-quality internet services is the key driver for broadband internet market penetration, we believe that cable broadband internet providers are well-positioned to capture an increasing market share in the future. While the incumbent, Telekom Srbija, introduced VDSL in 2012 which provides customers with access speeds of up to 120 Mbps, this services is only available to a limited number of internet users.

In 2012, we estimate that Telekom Srbija was the largest broadband internet provider, followed by SBB Serbia, the largest Serbian cable broadband internet provider, with a market share of 19%. In Serbia, we believe that cable overbuild is relatively low and largely concentrated in Belgrade.

Bosnian broadband internet market

Between 2008 and 2012, overall broadband internet penetration in Bosnia and Herzegovina increased at an estimated CAGR of 23% and in 2012, approximately 40% of households in Bosnia and Herzegovina had access to broadband internet. We believe this strong increase in broadband internet penetration is primarily the result of the increasing importance of internet as the communication medium of choice as well as decreasing prices for end-user equipment such as personal computers and tablet devices which led to an overall increase in PC penetration. At the same time, internet penetration in Bosnia and Herzegovina significantly lags behind the levels of more developed European markets, which we believe provides us with significant growth opportunities in the future. The following graph provides an overview of the broadband internet market share of the different internet technologies in Bosnia and Herzegovina:

Bosnian broadband internet market



In 2012, ADSL was expected to be the dominant distribution platform due to the limit distribution of cable networks in Bosnia and Herzegovina and accounted for 59% of all internet connections, followed by cable broadband internet which accounted for 27% of all internet connections. As demand for high-speed and high-quality internet services is the key driver for broadband internet market penetration, we believe that cable broadband internet providers are well-positioned to capture an increasing market share in the future. While one of the incumbents, BH Telecom, introduced VDSL in 2012 which provides customers with access speeds of up to 50 Mbps, this services is only available to a limited number of internet users.

In 2012, we estimate that the three incumbents, BH Telecom, m:tel and Eronet, were the largest broadband internet providers with a combined market share of 60%, followed by Telemach BH, the largest Bosnian cable broadband internet provider with a market share of 11%. There is limited cable overbuild in Bosnia and Herzegovina (mainly in the Sarajevo region) and our primary competitors are the incumbents in the ethnic regions in which we operate, BH Telecom and HT Eronet, as well as Logosoft and HS, who all offer multi-play bundles at discounted prices. However, we believe that we hold a competitive advantage due to our unique content offering and unmatched broadband internet speed. The Bosnian cable market remains relatively fragmented and we believe that due to our scale in the market as well as our historical acquisition experience, we are well-positioned to continue driving the Bosnian cable market consolidation thus increasing our overall market share.

Fixed-Line Telephony Market

We provide fixed-line telephone services in Slovenia, Serbia and Bosnia and Herzegovina, using Voice-over Internet Protocol (“VoIP) telephony technology. VoIP technologies place and transmit telephone calls over the internet instead of using the traditional public switched telephone network (“PSTN”). Following the liberalization of fixed-lined telephony markets in Serbia and Bosnia and Herzegovina in 2012 and 2011, respectively, all telephony markets in our three cable market are now fully liberalized, providing us with significant growth opportunities. We expect that our telephony operations in Serbia will also benefit from the introduction of full telephone number portability in Serbia, which is currently expected to be approved by the Serbian regulator in March 2014.

Historically, the respective incumbent and state-owned monopolies, Telekom Slovenije in Slovenia, Telekom Srbija in Serbia and BH Telecom and HT Eronet in the ethnic regions of Bosnia and Herzegovina in which we operate, have been the largest provider of fixed line telephony in their respective markets. However, following the liberalization of the region’s telephony markets and the introduction of VoIP technologies, which allows customers to make traditional fixed-line telephone calls using a standard telephone handset and provides comparable quality to PSTN at lower prices, the respective Slovenian, Serbian and Bosnian incumbents have lost market share to us. We believe that consumers increasingly select fixed-line telephony providers by the quality of the accompanying pay-TV and broadband internet offerings or total bundle quality, and believe that cable operators are well positioned to take advantage of this trend.

Slovenia

Since 2009, the number of traditional PTSN telephone lines has declined at a CAGR of negative 5% and in 2012, 53% of all main lines used VoIP technology. Slovenia is one of the few European telephony markets in which VoIP technology accounts for the majority of the fixed-line telephony connections. We believe that this increase in VoIP market share is primarily driven by lower prices of VoIP connections compared to PTSN connections which are often offered as part of a competitively priced cable or FttH internet and television bundle. We offer attractive VoIP packages in Slovenia which include free calls within our entire Group network, including to Serbia and Bosnia and Herzegovina. We believe this is particularly attractive because a number of Slovenian residents have family in Serbia or Bosnia whom they can reach at no additional charge through our packages. We had a VoIP subscriber base of approximately 100 thousand in 2012, an increase of more than 100% compared to 2009. Due to our attractive pay-TV and broadband internet offerings, we believe that we are well-positioned to attract further customers away from the incumbent as well as continue to up- and cross-sell our services to existing customers, thus increasing our market share and ARPU.

Serbia

According to Ratel, the Serbian fixed-line PSTN market consisted of approximately 3 million main lines in 2012. Following the liberalization of the Serbian telephony market in late 2012, VoIP telephony has become a cross- and up-selling opportunity for our business, and we offer VoIP telephony services as part of a cable and television bundle. Our VoIP packages in Serbia include free calls within our network and are competitively priced. Since the liberalization of the Serbian telephony market in late 2012, we have become the second largest provider of fixed-line telephone services in Serbia, behind the incumbent Telekom Srbija. In addition, we expect that Serbian law will mandate full telephone number portability by 2014, most likely as of March, which we expect to further stimulate customer migration to our network. Due to presently limited competition from other VoIP telephony services providers as well as our attractive pay-TV and broadband internet offerings, we believe that we are well-positioned to attract further customers away from the incumbent as well as continue to up- and cross-sell our services to existing customers, thus increasing our market share and ARPU.

Bosnia

According to the Bosnian communications regulatory agency, the Bosnian fixed-line PSTN market consisted of approximately 1.0 million main lines in 2011. Following the liberalization of the Bosnian telephony market in 2011, VoIP telephony has become a cross- and up-selling opportunity for our business, and we offer VoIP telephony services as part of a cable and television bundle. Our VoIP packages in Bosnia and Herzegovina include flat-fee telephone calls and are competitively priced. Due to presently limited competition from other VoIP telephony services providers as well as our attractive pay-TV and broadband internet offerings, we believe that we are well-positioned to attract further customers away from the incumbent as well as continue to up- and cross-sell our services to existing customers, thus increasing our market share and ARPU.

BUSINESS

Our Business

We are the leading distributor of cable and satellite pay-TV in Slovenia, Serbia and Bosnia and Herzegovina where we also provide broadband internet and fixed-line telephony services via our cable infrastructure. Additionally, we distribute satellite pay-TV across the six countries of former Yugoslavia, Slovenia, Serbia, Bosnia and Herzegovina, Croatia, Macedonia and Montenegro and offer mobile telephony services in Slovenia. We are the only pan-regional distribution platform in a region of approximately 20 million people. Despite economic differences, these countries share a joint history and form a single media market in which small local differences are compensated by the influence of similarities in cultural preferences and language across the region. The former Yugoslav region represents the third largest Central Eastern European ("CEE") market after Poland and Romania and is characterized by rapidly growing pay-TV and broadband markets that are currently underpenetrated relative to CEE and Western European markets. We are the leading multi-play provider in our primary markets, where we combine our services into packages, or bundles, and which offer subscribers the convenience of being able to purchase television, broadband internet and telephony services from a single provider, and provides us with significant opportunities to cross-sell our products. We believe that we have been able to establish our business as the leading distribution platform in our region due to our leading content portfolio, which we have secured through long-term contracts with providers as well as ownership of key channels, our best-in-class well-invested network that provides, among other things, the highest internet download speeds in our markets, and our superior customer service, which has led to low churn rates that we believe evidence a satisfied customer base.

Our advanced fiber and cable network covers approximately 1.2 million subscribers across affluent regions in Slovenia, Serbia and Bosnia and Herzegovina and as of June 30, 2013, we provided analog and digital cable pay-TV services to approximately 1.7 million RGUs. We complement our cable pay-TV offering with our *D3 Go* and *HBO Go* mobile phone and tablet applications which allow our cable pay-TV subscribers to access our content "on the go." Through our *TotalTV* brand we also provide satellite, or DTH, pay-TV services to subscribers outside of our cable footprint thus significantly increasing our geographic reach across the entire region. We are a leading provider of high-speed cable broadband internet and offer our subscribers access to the highest download speeds within our cable footprint. We also offer subscribers fixed-line telephone services in Slovenia, Serbia and Bosnia and Herzegovina and recently launched a virtual mobile network in Slovenia.

We believe that our leading content portfolio differentiates us from our competitors and our role as the sole provider of key content in our markets has enabled strong growth in our business and provides us with stable revenue streams due to low customer churn rates. Through our in-house content business, we produce unique and attractive pay-TV content and also consolidate and control our acquired content. We are the owner of quality pay-TV channels across multiple key genres that have historically driven pay-TV subscription, such as the region's most popular family of *Sport Klub* branded pay-TV sports channels, as well as popular niche movie channel, *Cinemania*. We also own a 75% stake in the *Ultra* family of pay-TV channels, which includes *Ultra*, Serbia's most popular pay-TV channel, which addresses children of school age, *Mini Ultra,* which addresses children of pre-school age and *iQS Life*, a lifestyle channel which offers general entertainment programs targeted at families. In addition to our own content, as a result of our large scale and pan-regional presence, we are a distribution partner of choice for premium regional and international content providers, such as *Pink*, *Fox* and *Universal channels*, and content owners, such as the English Premier League, National Basketball Association, the Spanish Premier League, ATP and Formula 1, which allows us to obtain higher quality content than our competitors. We believe these providers partner with us because of our strong brands, large network and our focus on the entire former Yugoslav region, as opposed to our competitors' focus on individual countries. We have secured our unique access to our third-party provided content through long-term contracts at prices that we believe are favorable to us.

We recently launched two over the top ("OTT") content platforms, *D3i* and *NetTV.plus*. Our *D3i* OTT content platform provides customers of our broadband internet competitors within the former Yugoslav region with access to our unique digital pay-TV content via an internet stream. Our *NetTV.plus* OTT platform allows us to provide over 150 local-language channels showing unique ethnic content via any internet-enabled device or TV sets equipped with a *NetTV.plus* set-top box to Yugoslav expatriates around the world.

We provide our analog and digital pay-TV, broadband internet and telephony services through our well-recognized *Telemach* brands in Slovenia and Bosnia and Herzegovina and through our *SBB* brand in

Serbia, and we market our premium digital pay-TV offering in Serbia, Bosnia and Herzegovina and Slovenia under the brand name *D3*. We also provide DTH pay-TV through our *TotalTV* brand across all six countries in the region. We tailor our branding strategies so that we can access each of the markets in the former Yugoslav region as an ethnically neutral provider and we address the entire former Yugoslav region, which has a large population with similar languages, cultures and entertainment preferences, with an integrated product and services portfolio. Our focus on the entire former Yugoslav region allows us to enter some of the smaller markets, such as Montenegro and Macedonia, where local providers cannot provide first rate content and technology on an economically efficient basis.

The table below shows operating and financial information regarding our key markets, products and brands, and our market positions based on revenues for the six months ended June 30, 2013:

Country		Slovenia	Serbia	Bosnia & Herzegovina	Montenegro	Croatia	Macedonia	Worldwide
EU membership / Currency		Member €	Candidate RSD	N/A BAM	Candidate €	Member HRK	Candidate MKD	NR
Contribution H1 2013 revenue[(1)]		31%[(2)]	55%[(3)]	8%[(4)]	2%	1%	0.4%	NA
Entities / brands		telemach total TV	SBB total TV	telemach total TV	total TV	total TV	total TV	net tv plus
Positioning (by revenue)	Pay-TV	No.1	No.1	No.1	No.2	No.5[(5)]	No.5[(5)]	–
	Broadband (within footprint)	No.1[(6)]	No.1[(6)]	No.1[(6)]	–	–	–	–
	Telephony	No.2	No.2	No.2	–	–	–	–
RGUs[(7)] (June 2013)	Cable	382k	723k	189k	–	–	–	–
	Cable RGU/sub	2.22x	1.48x	1.56x	–	–	–	–
	DTH	33k[(8)]	178k	84k	42k	25k	12k	–
	OTT	–	–	–	–	–	–	52k

Source: Company data

(1) Excludes Adria Media Group. Revenue breakdown before intercompany eliminations.

(2) Represents revenue for Telemach Slovenia Group, which excludes DTH pay-TV services in Slovenia.

(3) Revenue for SBB Serbia Group, which includes revenue from our DTH pay-TV services for all six countries in which we operate.

(4) Represents revenue for Telemach BH Group, which excludes DTH pay-TV services in Bosnia and Herzegovina.

(5) Company estimate.

(6) We are the leading broadband internet provider within our footprint and hold the second position in the overall broadband internet market following the respective incumbent with national footprint.

(7) Cable RGUs in our markets consist of pay-TV, broadband internet and telephony RGUs.

(8) DTH RGUs in Slovenia includes RGUs for *Pink International* which is in charge of distributing *PINK* channels in Western Europe.

We believe that our distribution business is well-positioned to maintain its market leadership in the pay-TV and cable broadband internet markets in Slovenia, Serbia and Bosnia and Herzegovina and further increase its market share in the fixed-line telephony market. In addition, we believe that low overall service penetration rates in Serbia and Bosnia and Herzegovina as well as our attractive product offering provide us with the opportunity to add additional customers and cross- and up-sell our products to existing customers.

Our Strengths

We believe a number of key factors give us a competitive advantage, including:

We are the leading multi-play service provider operating a uniquely scaled pan-regional platform across the former Yugoslav region.

We provide cable and satellite pay-TV, broadband internet and fixed-line and mobile telephony services across the six countries in the former Yugoslav region, Slovenia, Serbia, Bosnia and Herzegovina, Croatia, Macedonia and Montenegro, and we are the leading provider of multi-play services including pay-TV, broadband internet and telephony within our cable footprint in Slovenia, Serbia and Bosnia and Herzegovina. We are the pan-regional leader for pay-TV services with 1.2 million subscribers and we have leveraged our complimentary cable and DTH platforms to gain a pay-TV market share of approximately 45% in Serbia and 37% in Slovenia. Additionally, we are the second largest pay-TV provider in Montenegro and among the two largest DTH pay-TV providers in Macedonia and Croatia, in each case based on the numbers of subscribers. We enjoy strong brand recognition across the entire former Yugoslav region. Our large scale and pan-regional presence has helped to make us the partner of choice for regional and international content providers that seek to partner with the top provider in the region, such as *Pink*, *Fox* and *Universal channels*, which allows us to maintain better quality content than our competitors. We are the largest cable broadband internet providers in each of Slovenia, Serbia and Bosnia and Herzegovina, and have the second largest broadband market share in each of these countries, behind the respective incumbents with national footprints. We have leveraged our pay-TV and cable broadband internet capabilities to become the second largest telephony provider in Slovenia, Serbia and Bosnia and Herzegovina, following the recent liberalization of the telephony markets in Bosnia Herzegovina (2011) and Serbia (2012). In 2012, we launched a virtual mobile network in Slovenia to capitalize on another opportunity in the telecommunications sector that we regard as complementary to our other products. We plan to introduce mobile services in Serbia in 2014. Our widespread presence and large market shares across the region and our large market penetration allow us to cross-sell our services and expand the number of multi-play packages we provide.

Our business benefits from a fully invested, advanced network with a broad reach across the region.

We strive to be the most modern media and telecommunications company in the former Yugoslav region. We operate an advanced proprietary hybrid fiber coaxial (“HFC”) network which is fully bi-directional and EuroDOCSIS 3.0 enabled, covering all of our homes passed in Serbia and Bosnia and Herzegovina and approximately 82% of our homes passed in Slovenia. We operate the largest fiber network in the region, which extends more than 4,000 km across metropolitan regions in Slovenia (approximately 700 km), in Serbia (approximately 2,800 km) and Bosnia and Herzegovina (approximately 570 km) and covers approximately 1.2 million homes passed (“HPs”). Our cable footprint covers affluent regions in Slovenia, Serbia and Bosnia and Herzegovina. Our network has an average homes passed per fiber optics node ratio in the range of 400-500 across Slovenia, Serbia and Bosnia and Herzegovina, which we believe is unrivalled in the former Yugoslav region and compares favorably to other European cable benchmarks.

We believe that our cable-TV infrastructure allows us to provide digital TV, high speed broadband and telephony with a higher quality than DSL providers or other cable operators in our markets. Our EuroDOCSIS 3.0 network allows us to compete effectively in Slovenia, where approximately 17% of the broadband market share is FTTH, and we can match FTTH speeds in overlapping markets and have an advantage in non-FTTH areas. In Serbia our broadband internet speed gives us an advantage over our broadband internet competitors in all of our service areas, such as Telekom Srbija, since they primarily use DSL and have been slow to roll out fiber lines. For example, we currently provide internet speeds of 10 Mbps and above to a majority of our broadband RGUs in Serbia which we believe compares favorably to the national average. Additionally, our maximum downstream bandwidth stream as of June 30, 2013 was 100 Mbps, compared to 20 Mbps offered by Telekom Srbija, our primary competitor in Serbia. In Bosnia we are well positioned to compete with largely DSL competition. In each of these markets our EuroDOCSIS 3.0 high speed modems have the potential to support speeds of up to 360 Mbps, giving us significant capacity for future upgrades.

Additionally, our network is fully invested and benefits from low maintenance capital expenditure requirements. We believe that this will allow us to manage our capital expenditures in the near- to medium-term, with expenditures largely being success and capacity based as our business expands, while making targeted improvements to our network.

We are a recognized content leader benefitting from content ownership and strategic partnerships with international and regional broadcasters.

We believe we are the pan-regional content leader and that our unique and desirable cross-genre content helps us attract and retain pay-TV subscribers. Our content seeks to address the entire former Yugoslav region, which has a large population with similar languages, cultures and entertainment preferences and which forms a single media market. Our focus on the entire former Yugoslav region allows us to enter some of the smaller markets where smaller providers cannot provide first rate localized content and technology on an economically efficient basis. Through our in-house content business we own attractive pay-TV channels, such as the region's most popular family of *Sport Klub* branded pay-TV sports channels, as well as popular niche movie channel, *Cinemania*. We also own a 75% stake in the *Ultra* family of pay-TV channels, which includes *Ultra*, Serbia's most popular pay-TV channel, which addresses children of school age, *Mini Ultra*, which addresses children of pre-school age and *iQS Life*, a lifestyle channel which offers general entertainment programs targeted at families, and *Cinemania*, an attractive niche movie channel, and also produce our own content. We are currently preparing the launch of our own CNN-affiliated 24-hour regional news channel with studios in Belgrade, Sarajevo and Zagreb which is scheduled for 2014.

In addition to our channels, pan-regional presence, advanced network, complementary regional cable and DTH platforms and leading market positions make us a natural partner for regional and international third party content providers who seek to provide their content to the Yugoslav region, and as a result we have been able to enter into long term contractual relationships with top regional and international content providers such as *Pink*, *Fox TV*, *Universal channels*, *A&E Television Networks channels* and *Cinestar*, and content owners such as the English Premier League, the National Basketball Association, the Spanish Premier League, ATP and Formula 1. We have been able to secure a large portion of our content on an exclusive basis, which allows us to serve as the sole platform on which certain content can be viewed in our markets, and flat rate basis, which benefits our profit margins as our number of subscribers increases. The following table provides an overview of our key pay-TV content:

ContentCo (direct ownership)

Content rights

Unique partnerships / strategic alliances

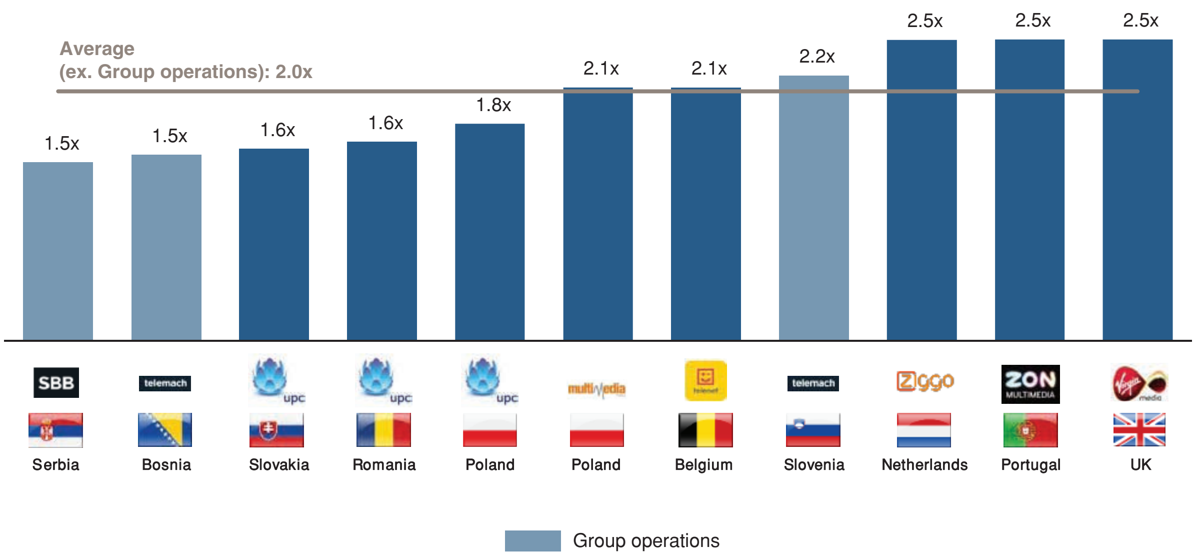
As a result of our strategic alliances and our content ownership, we were among the first pay-TV providers in the region to offer localized international content. We believe that our leading content portfolio differentiates us from our competitors and our role as the sole provider of key content in our markets has enabled strong growth in our business and provides us with stable revenue streams due to low customer churn rates.

Our business benefits from low churn rates.

We believe we have a loyal customer base due to our superior product offering, our unique content offering, our advanced network, good customer service and continuous product innovation, and as a result our business benefits from low churn rates, as opposed to our customers seeking superior service or products. Our subscriber churn rates on an annualized last two quarters ended June 30, 2013 basis were 5.2% for Telemach Slovenia, 5.2% for SBB Serbia and 7.7% for Telemach BH which we believe compares favorably to other equally-sized telecommunications and media companies in CEE and Western Europe. As a result, this provides us with recurring cash flows and visibility into our future revenue. We believe that the primary drivers of our churn rates are existing customers moving outside of our current geographical area of service as well as termination of services contracts by us due to existing customers' inability to pay, with only limited churn being driven by competition. We believe that launching telephony in our markets, further driving digitization, providing our subscribers with multi-play packages, expanding our cable footprint to broaden our geographic reach and generally increasing disposable incomes in the region which reduces the likelihood of customers' bad debt will help us to keep churn rates low.

Low service penetration rates across the markets in which we operate provide significant cross- and up-selling and growth opportunities.

We operate our business across the former Yugoslav region which has a population of approximately 20 million people and represents the third largest CEE market after Poland and Romania. The Yugoslav market is currently characterized by underpenetrated pay-TV and broadband internet markets compared to other CEE and Western European markets. As of December 31, 2012, the pay-TV penetration and broadband internet penetration rates were 72% and 62%, respectively, in Slovenia, 59% and 42%, respectively, in Serbia and 43% and 39%, respectively, in Bosnia and Herzegovina. Additionally, due to historically strong regulatory constraints on bundling pay-TV, broadband internet and telephony services, RGUs per cable subscriber in our key markets in Serbia and Bosnia and Herzegovina as of December 31, 2012, lagged behind CEE and Western European cable markets, as well as our own operations in Slovenia. The following table shows RGUs per cable subscriber in our key markets:



Source: Derived from public reports. Companies shown might report RGUs differently from us.

Our markets have had significant growth in communications spending during the last ten years compared to Western European markets, due to higher gross domestic product ("GDP") growth and increased consumer spending resulting from increased macroeconomic stability, a higher private sector participation in the economy and government reforms. At the same time, pay-TV penetration in all of our markets has been growing, driven by increasingly attractive content and bundled offers. Service penetration in our markets has increased as multi-play packages have expanded, but is still well below the levels of Western Europe (except in Slovenia). We believe the liberalization of the telephony markets in Bosnia and Herzegovina and Serbia in 2011 and 2012, respectively, offers significant upside for service penetration rates in those markets, and we launched telephony services in Bosnia and Herzegovina in the third quarter of 2011 and in Serbia in the second half of 2012. Additionally, starting in 2014, we expect that fixed-line telephony subscribers in Serbia will be permitted to transfer their existing telephone number from the incumbent service provider to alternative VoIP telephony services providers, such as us, which we believe will further increase our fixed-line telephony customer base. Leveraging on our extensive cable infrastructure, we use our superior pay-TV content as basis to cross- and up-sell our broadband internet and telephony products to our existing cable pay-TV customers and offer multi-play packages to new customers which will allow us to continue to improve penetration rates as customers increasingly focus on receiving their multimedia and communications services in a bundled offer from one provider. While penetration rates in Slovenia are more comparable to those of Western European operators, as of December 31, 2012, more than 40% of our subscribers in Slovenia were one-play subscribers only offering significant cross-selling opportunities.

Additionally, from 2008 to 2012, digitization in our core markets has increased significantly and we expect this trend to continue leading up to, and following, the switch from analog to digital television in Serbia and Bosnia and Herzegovina in 2015. Leveraging on our experience in Slovenia where we successfully increased our subscriber share following the switchover from analog to digital television in 2012, we believe we are well-positioned to further cross- and up-sell our products, such as VoD, to existing and new customers as a result of this increasing digitization.

In August 2013, we acquired *NetTV.plus*, an OTT content provider which delivers extensive and unique local and regional content, including *Pink* and *Ultra* channels, to a former Yugoslav expatriate community of approximately 4-7 million people in Western Europe, North America and Australia. *NetTV.plus* currently has 52 thousand subscribers, which we believe indicates significant future growth opportunities, supported by the global proliferation of internet which makes OTT one of the most viable platforms to access ethnic content.

Our business benefits from well-diversified revenue streams within our markets.

Due to our unique position as pan-regional services provider, our business benefits from geographically diversified revenue streams. In the six months ended June 30, 2013, we generated €35.4 million, or 31% of our total revenue, in Slovenia, €63.0 million, or 55% of our total revenue, in Serbia (including revenue from our DTH services in our six countries of operation) and €9.1 million, or 8% of our total revenue, in Bosnia and Herzegovina. Additionally, due to our leadership position across the former Yugoslav cable and DTH pay-TV, broadband internet and telephony markets, our revenues are generated by a well-diversified product portfolio. In the six months ended June 30, 2013, we generated €43.8 million, or 38% of our total revenue, in our cable pay-TV business segment, €28 million, or 24% of our total revenue, in our cable broadband internet business segment and €20.6 million, or 18% of our total revenue, in our DTH business segment. We believe our current customer structure and product offering provides us with significant cross-selling opportunities in the future which would further diversify our revenue streams, and helps us to use our scale to capitalize on new technologies and delivery platforms.

Track-record of delivering top-line growth while generating stable cash flows.

Our large customer base and relatively low churn rates provide us with greater visibility of future revenue and recurring cash flows, which have historically proven to be resilient even during periods of challenging economic conditions and during periods of high leverage. Since 2010, we have benefitted from strong organic revenue, EBITDA and cash flow margin growth which has significantly outperformed the macroeconomic development in the countries in which we operate. Furthermore, in addition to growing organically, our business has benefitted from targeted and value-accretive investments and bolt-on acquisitions of attractive cable assets, which have further contributed to our revenue, EBITDA and cash flow margin growth. We believe the increase in EBITDA and cash flow margin, coupled with an increase in RGUs from 1.2 million in 2010 to 1.6 million in 2012, are mainly driven by the expansion of pay-TV and cable broadband internet in our markets, our pan-regional position as market leader, well-diversified product offerings, advanced network and ability to provide unique access to popular content.

Our business benefits from an experienced management team with a proven track-record.

Many of our key management members have been with our business since its inception, including our Executive Chairman and Founder, Dragan Šolak, our Group Vice President—Sales and Marketing, Victoriya Boklag and our Group Vice President—Operations, Violeta Vasilijević. Our senior management team has substantial experience in the telecommunications, media and technology industry, including at Liberty Media, Telemach Slovenije and EBRD, as well as in banking, private equity and corporate finance companies, including at Deutsche Bank, Soros and Mid Europa.

Many members of our senior management team, including our founder, have each held different positions within our business and have shaped the direction of the development of our business and its organic growth within the region. As our operations became more mature, our senior management team leveraged on its significant industry experience as well as strong corporate background and successfully expanded our business through bolt-on acquisitions and integration of sub-scale cable assets and content providers. Furthermore, a significant number of our management holds an equity stake in our business, and members of our senior management team are expected to subscribe for equity in connection with the completion of the Acquisition, Additionally, drawing on the significant international experience of most members of our senior management team who either attended university or worked abroad for a prolonged period of time, we successfully grew our business from being a single-country pay-TV operator to being the telecommunications and media services leader in the former Yugoslav region.

Our Strategy

Our objective is to strengthen our leadership role as a multi-play communication service provider in the former Yugoslav region as well as to address the former Yugoslav expat community with best in class local content delivered through the internet. Ultimately our aim is to achieve profitable and cash-generative growth through the following strategies:

Continued focus on our competitive market position by leveraging our superior network, differentiated content offerings and loyal customer base.

We intend to continue to use our advanced cable network, complementary distribution platforms, including cable, DTH and OTT, and unique and differentiated ethnic content offering to further increase our competitive market position. Our strategy is to continue offering the most attractive products in the region with better content choice, speed, functionality and service quality than those of our competitors, or prices that provide a compelling value. By leveraging our network and content advantages, we will continue to focus on subscriber growth opportunities in relatively under-penetrated markets while seeking to maintain low churn rates for existing customers. Additionally, we intend to further capitalize on our pan-regional fiber network to strengthen and develop our business relationships and strategic partnerships with international carriers.

Increase service penetration across the region by cross-selling products and services and up-selling value-adding products to existing customers.

We intend to increase service penetration in our existing market by seeking to cross- and up-sell our products and services to new and existing customers. In particular, we intend to encourage our customers to subscribe for additional services by offering bundled double-play and triple-play services. For example, upon the liberalization of the Bosnian and Serbian telephony markets, we launched telephony services in Bosnia and Herzegovina in 2011 and in Serbia in late 2012 and will continue to leverage our unique pay-TV content and cable infrastructure to cross-sell telephony services to existing and new customers in those regions. While market penetration rates in Slovenia are more similar to Western Europe, as of June 30, 2013, approximately 40% of our subscribers in Slovenia were subscribed to only one of our services. We believe that measures expected to be implemented by Serbia's regulator in 2014 to allow fixed telephone numbers to be retained as subscribers switch to other providers will be beneficial for our telephony and multi-play offerings. Additionally, we plan to sell improved or more advanced products and services to our existing customers in order to improve or maintain the revenues we derive from those customers. We will seek to benefit from the digital switchovers expected to occur in our markets in the next two years by leveraging our high quality content and service offering as well as our experience gained in our Slovenian business to migrate customers from existing analog television subscriptions to our digital pay-TV bundles, and to provide attractive TV features such as *D3 Go*, VoD and CatchUp TV. In addition, increasing broadband speeds allows us to increase the prices at which we provide those services. We are continuing to invest in upgrading our network to EuroDOCSIS 3.0 to provide our customers with the highest broadband speed in our markets, which we believe has justified premium broadband prices.

Further expand the geographic reach of our attractive content.

Leveraging on our strong brands and our attractive content, we intend to continue to develop our two OTT content platforms, *D3i* and *NetTV.plus*, to further expand our geographic reach. While our DTH pay-TV platform aims at delivering our unique content to subscribers in rural areas in our markets without cable infrastructure, our *D3i* platform is designed to deliver our pay-TV services to customers in metropolitan areas outside of our cable footprint who have subscribed to broadband internet services of our competitors but wish to access our attractive portfolio of pay-TV channels. Additionally, we acquired the OTT content platform *NetTV.plus* in the third quarter of 2013. *NetTV.plus* allows us to provide over 150 local-language channels showing unique ethnic content to a Yugoslav expatriate community of approximately 4 to 7 million people around the world. By expanding our geographic reach outside of our region to customers in affluent countries in Western Europe and North America, we are in a position to charge prices that are higher than the prices we are able to charge for our pay-TV services in our core markets thus further increasing our earnings potential.

Continued focus on content and services innovation.

We seek to continue innovating our product offering to further strengthen our leading position in the former Yugoslav region by leveraging our existing network infrastructure and content. We will continue to focus on leading the introduction of next generation television and broadband internet services, by delivering to our subscribers services such as interactive TV, VoD and CatchUp TV services. Additionally, we plan to expand our four-play offerings by launching MVNO services in Serbia, using the knowledge we gained from our recent introduction of MVNO services in Slovenia. We also plan to use our strong group brands and our pan-regional structure to stimulate growth in our B2B offerings, including fiber optical connection, VPN, WiFi hot-spots internet and managed services.

Grow customer base and operations through small bolt-on, value accretive acquisitions in our highly fragmented markets across the region.

We believe we have a successful track record of acquisitions on attractive terms, and since 2010 we have acquired and integrated twelve cable TV operators, content platform, B2B service providers and ISPs in Serbia and Bosnia and Herzegovina that had EBITDA ranging between €0.5 million and €10 million. Historically, our acquisitions have resulted in substantial synergies as well as improved margins for the target. We plan to continue to make small value accretive bolt-on acquisitions within our existing markets to integrate sub-scale regional service providers and cable assets into our business. For example, during the first six months of 2013, we successfully acquired and integrated Elektro Turnsek and KabelTV, two Slovenian cable assets which we believe will significantly enhance our competitive position in Slovenia. Additionally, on August 20, 2013, we acquired the OTT content platform *NetTV.plus* which allows us to offer unique local-language ethnic content to a former Yugoslav expat community of 4 to 7 million people across Western Europe, Australia and North America. As we will be able to charge our *NetTV.plus* customers prices for our services that are higher than the prices we are able to charge for our pay-TV services in our core markets, we believe *NetTV.plus* offers significant potential to increase our revenues and profitability. Leveraging on our experience and successful acquisition history, we intend to continue taking a disciplined approach to acquisitions within our footprint with the goal to generate additional value for our operations through increasing scale and product offerings. We plan to assess individual opportunities on the basis of merit, ability to integrate assets into our existing business plans and potential for value creation.

Our History

Our Group Executive Chairman, Dragan Šolak, founded our company as a Serbian cable-TV operator in 2000. Between 2001 and 2005, we grew our business by constructing our advanced cable network throughout Serbia. We also consolidated several sub-scale family-owned cable operators and successfully integrated them into our business. We launched our DTH services, *Total TV*, in Serbia in 2006 and in Slovenia, Bosnia and Herzegovina and Montenegro in 2007 and expanded *Total TV* into Croatia and Macedonia in 2008 and 2009, respectively. Also in 2007, we entered into a strategic alliance with Sport Klub, the region's most popular sports channel, and we acquired a controlling stake in the *Ultra* family of pay-TV channels in 2009. As a result of our strategic alliances as well as the acquisition of local language television channels, we were among the first pay-TV providers in the former Yugoslav region to provide localized regional and international content.

SBB Serbia was acquired by Mid Europa in Serbia's first LBO in 2007. In 2009, Mid Europa acquired Telemach Slovenia, the triple-play market leader in Slovenia, adding 160,000 subscribers to our operations. During 2010, the consolidation of three cable pay-TV operators in Sarajevo by Mid Europa, including KT Global Net, BH Cabel Net and ELOB, led to the formation of Telemach BH. Telemach Slovenia, SBB Serbia and Telemach BH form the core operating companies of our operations. We continue to leverage our position as the sole credible consolidator in the fragmented regional markets and have successfully acquired and integrated the following businesses since 2010:

- ***Slovenia:*** following our acquisition by Mid Europa in 2009, we initially focused on growing our operations organically. During the first half of 2013, we acquired two cable assets, Kabel TV and Elektro Turnsek, adding approximately 35,000 subscribers to our customer portfolio;
- ***Serbia:*** in 2011, we acquired KDS, a leading cable pay-TV operator in Novi Sad, Serbia's second largest city. KDS was not consolidated with SBB Serbia's operations but is owned directly by the Group and consolidated in its results through our Adria Media and Other Businesses segment;

- ***Bosnia and Herzegovina:*** we entered the Bosnian market by acquiring three cable pay-TV entities, Global Net, BH Cabel Net and ELOB. The Bosnian market is highly fragmented and since 2010, we have pursued an active consolidation strategy involving the successful acquisition of the following four companies: in 2011, Monet, a cable operator in Mostar, adding approximately 17,000 subscribers to our customer base; in 2012, Telekabel, a cable operator in Zenica, adding approximately 19,000 subscribers to our customer base; in January 2013 and February 2013, Vi.Net and Art.Net, respectively, adding a total of approximately 21,000 subscribers to our customer base;
- ***OTT:*** in August 2013, we acquired *NetTV.plus*, an OTT content platform that delivers ethnic content to former Yugoslav expatriates around the world.

Following the liberalization of the fixed-line telephone markets in Bosnia and Herzegovina and Serbia in 2011 and 2012, respectively, we launched fixed telephony services in these two markets and, leveraging on our existing cable pay-TV and broadband internet subscriber base, became the second largest Serbian fixed-line telephone services provider in June 2013. We also launched our MVNO services in Slovenia in late 2012 which allows us to provide four-play bundles (cable pay-TV, broadband internet, and telephony and mobile phone services) to our subscribers in Slovenia.

Furthermore, as we believe content is the key strategic driver of the converged communications services in our markets and in order to maintain our leading position in the region, we acquired IKO Balkan towards the end of 2012, the owner of the region's popular *Sport Klub* channels as well as niche sports channels specializing in golf, hunting and fishing. We believe that this acquisition complements our existing portfolio of attractive and unique content assets, which includes a controlling stake in the *Ultra* family of pay-TV channels, which includes *Ultra*, Serbia's most popular pay-TV channel, *Ultra Mini,* a popular children's TV channel and *iQS Life*, a lifestyle channel, as well as the popular niche movie channel *Cinemania*, which we acquired in 2012.

Our Product Offerings

We offer our subscribers a broad range of cable and satellite pay-TV, broadband internet and telephony services in the following categories:

		Focus on bundled packages				
		Slovenia	Serbia	Bosnia	Montenegro / Croatia / Macedonia	Worldwide
Residential	Analog CATV	telemach ✓	SBB ✓	telemach ✓	–	–
Residential	Digital CATV	D3 ✓	D3 ✓	D3 ✓	–	–
Residential	DTH	total TV ✓	total TV ✓	total TV ✓	✓	✓
Residential	OTT	D3i	D3i	–	–	net tv plus
Residential	net.	telemach ✓	SBB ✓	telemach ✓	–	–
Residential	tel.	telemach ✓	SBB ✓	telemach ✓	–	–
Residential	mob.	telemach ✓	Planned launch in 2014	telemach –	–	–
B2B		telemachsolutions	SBB SOLUTIONS	telemachsolutions		

- ***Multi-Play Services:*** Our primary focus is to provide bundled triple-play services, which is a package of pay television with broadband internet services and fixed-line telephony. This enables our customers to conveniently subscribe to these services in a convenient one-stop shop manner at attractive prices that are lower than the sum of the stand-alone services of similar value. We also offer various double-play packages comprising of a combination Pay-TV with broadband internet or fixed-line telephony. We believe that the several bundled options we have introduced allow our customers to customize their packages according to their requirements and offer them greater value for money compared to similar services offered by our competitors. As of June 30, 2013, approximately 33% of our cable customers subscribed to our multi-play packages. Our multi-play packages have allowed us to increase our total RGUs for cable-based services from 1.1 million RGUs as of December 31, 2011 to 1.3 million RGUs as of June 30, 2013.

- ***Cable pay-TV.*** Our cable analog and digital pay-TV services provide our subscribes access to over 150 standard definition ("SD") and high definition ("HD") pay-TV channels offering popular local and regional content, including *Pink* and *Ultra*, as well international content provided by our strategic partners such as *FOX* and *Universal channels*. We own some of the region's most popular sports, children and entertainment channels, *Sport Klub*, *Cinemania* and *Ultra*, which provide us with programming rights to English Premier League, Euroleague Basketball, National Basketball Association and Formula 1 events.
- ***DTH pay-TV.*** Our DTH pay-TV service, known as *TotalTV*, is targeted to households outside our cable footprint. TotalTV provides subscribers with access to more than 130 channels.
- ***Broadband internet.*** Using our advanced fiber and cable network, we believe we operate the largest broadband internet network in the region and deliver among the highest broadband speed in the market with speeds of up to 120 Mbps. Our network has largely been upgraded to EuroDOCSIS 3.0, which supports speeds of up to 360 Mbps.
- ***Telephony.*** We offer telephony services in Slovenia, Serbia and Bosnia and Herzegovina using voice-over internet protocol technology ("VoIP"), which allows our subscribers to make traditional fixed-line telephone calls using a standard telephone handset.
- ***D3i.*** *D3i* is an OTT platform which offers customers of our broadband internet competitors access to our full digital pay-TV channel offer. As a result, they can access all of our digital pay-TV channels on their TV screens, computers, tablets, mobiles or other internet enabled devices. *D3i* enables us to serve anyone in the former Yugoslavian region who is currently outside of our cable footprint but has access to a broadband internet connection with our attractive pay-TV products.
- ***NetTV.plus.*** In August 2013, we acquired *NetTV.plus*, an OTT content provider which delivers extensive and unique local and regional content, including *Pink, Prva, OBN,* the *Ultra* family of pay-TV channels and other regional channels, to a former Yugoslav expatriate community of approximately 4 to 7 million people, or 1.3 to 2.3 million households worldwide. *NetTV.plus* currently has 52 thousand subscribers, indicating significant future growth opportunity, supported by the global proliferation of internet which makes OTT one of the most viable platforms to access ethnic content.
- ***TV Everywhere.*** Through our *D3 Go* and *HBO Go* OTT content applications for computer, tablet and mobile devices, we offer our pay-TV subscribers access to our proprietary pay-TV content as well as selected original HBO programming "on the go" within our cable service area as well as outside of our cable footprint via broadband internet and WiFi connections provided by our competitors.

Analog and Digital Cable Pay-TV

We currently provide analog and digital cable pay-TV throughout our network in Slovenia, Serbia and Bosnia and Herzegovina. As of June 30, 2013, we provided our cable TV services to approximately 166 thousand subscribers in Slovenia through Telemach Slovenia (approximately 65% HPs), approximately 489 thousand subscribers in Serbia through SBB Serbia and KDS (approximately 63% HPs) and approximately 117 thousand subscribers in Bosnia and Herzegovina through Telemach BH (approximately 63% HPs). In line with our business strategy, we leverage our extensive cable network and unique cable pay-TV content to encourage our subscribers to purchase one of our bundles which offer the convenience of being able to receive television, broadband internet and telephony services from a single provider. As of June 30, 2013, approximately 33% of our cable pay-TV subscribers had purchased one of our bundles. For the six months ended June 30, 2013, our analog and digital cable pay-TV business segment generated revenues of €43.8 million and an ARPU of €9.6.

Telemach Slovenia

We offer high-quality analog and digital cable pay-TV, including HD channels as well as VoD and DVR services, to our cable pay-TV subscribers in Slovenia. Migrating analog subscribers to digital services is one of our main objectives in the Slovenia region. As of June 30, 2013, approximately 97% of HPs were digitally enabled and as of June 30, 2013, approximately 85% of our cable pay-TV customers had subscribed to digital TV.

Our flexible three-tiered digital pay-TV proposition in Slovenia consists of our "Starter Pack," our "Basic Package," and our "Extended Package." We believe each of our digital pay-TV bundles is competitively priced and provides our subscribers with unrivaled access to high quality content. In addition to our three bundles, we also offer our subscribers digital add-on TV packages, each containing premium SD and HD television channels, such as HBO, and Pink TV, as well as bundled VoD options.

We believe that our TV bundles offer a unique and popular channel line-up across a variety of popular genres, such as sports, children's entertainment and movies, with a number of sport channels included in the Starter Package. Popular sports channels (*Sports Klub*) are also available in HD as part of our Extended Package at no additional cost. Many of our competitors, on the other hand, only include sports channel in their higher value packages and provide less overall premium content at equal or higher prices. We believe our high quality and broad channel and content offering in Slovenia allows us to take a unique position in the market vis-à-vis our competitors.

We also offer subscribers interactive TV receivers the option to use several interactive services, including DVR, VoD and CatchUp TV. Telemach Slovenia offers transactional VoD, which allows subscribers to order recent movies and television shows on a pay-as-you-go basis. The cost per movie ranges from €1.50 to €3.00 depending on the attractiveness of the movie. We also offer subscribers the option to purchase subscription VoD packages for a monthly fee, which provides users access to a wide selection of movies, popular series, documentaries, cartoons and music.

For the six months ended June 30, 2013, Telemach Slovenia's cable pay-TV services generated revenues of €15.9 million and an ARPU of €16.5.

SBB Serbia

We offer analog pay-TV throughout our network and our analog cable package has been standardized across our network and the respective regions that we service. Our basic analog cable pay-TV service ("Basic TV") offers our subscribers access to approximately 65 analog TV channels. We generally provide our Basic TV services under individual contracts with our subscribers. We need to obtain prior regulatory approval to increase our prices only for this Basic TV package. The regulatory framework in Serbia has been stable since 2007 and we have successfully obtained permission to increase prices over the last five years. We last increased prices for our Basic TV package in the second half of 2012 and prices for our Basic TV package in local currency in the first half of 2013 were approximately 60% higher than in the fourth quarter of 2008. This price increase is significantly higher than the increase of the Serbian consumer price index and the depreciation of the Serbian dinar against the euro over the same period. At the same time, these price increases did not negatively affect our churn rates.

In addition to Basic TV, we provide our customers with the option to subscribe to our digital cable pay-TV services, called *D3*, which include HD, VoD and CatchUp TV services. Our subscribers who are equipped with one of our digital receivers can access more than 160 digital channels, including up to approximately 30 HD format channels and 40 radio stations.

Through *D3*, we provide our subscribers the opportunity to subscribe to a customized digital cable pay-TV proposition which offers them the option to build a multi-channel TV bundle to suit their preferences. Our subscribers can choose from a three-tiered digital pay-TV offering and we believe each of our digital pay-TV bundles is competitively priced and provides our subscribers with unrivaled access to high quality content. In addition to our three bundles, we also offer our subscribers digital add-on TV packages, each containing premium SD and HD television channels, such as HBO, and Pink TV, as well as bundled VoD options.

Our D3 service also includes CatchUp TV, DVR, and VoD services for subscribers that have purchased or leased one of our state-of-the-art digital receivers. CatchUp TV provides subscribers with the ability to view a wide variety of television programs from a group of popular channels at any time within three days after the programs originally aired. Our DVR service enables subscribers that have installed an external hard drive to record programming on up to two channels at once. VoD provides subscribers with access to a library of over 3,000 movies and other programming titles.

For the six months ended June 30, 2013, SBB Serbia's cable pay-TV services generated revenues of €20.7 million and an ARPU of €7.6.

Telemach BH

We offer analog pay-TV throughout our network in Bosnia and Herzegovina and our analog cable package has been standardized across our network and the respective ethnic regions that we service. Our basic analog cable pay-TV service ("Basic TV") offers our subscribers access to 66 analog TV channels. In addition to Basic TV, we provide our customers with the option to subscribe to our *D3* digital cable pay-TV services, which offers them the option to build a multi-channel TV bundle to suit their preferences. As in Slovenia and Serbia, our subscribers can choose from a three-tiered digital pay-TV offering, and complement their subscriptions with digital add-on TV packages, each containing premium SD and HD television channels, such as HBO, and Pink TV.

For the six months ended June 30, 2013, Telemach BH's cable pay-TV services generated revenues of €4.8 million and an ARPU of €7.6.

Direct-to-home Pay-TV

Our DTH, or satellite, pay-TV service, known as *TotalTV*, is targeted to households outside our cable footprint across the region of former Yugoslavia. *TotalTV* provides subscribers with access to more than 130 channels, 7 of which are also available in HD format. In order to access our *TotalTV* content, users must be equipped with a digital receiver, a satellite card for the receiver and a satellite dish. As we only actively market our DTH offering in those areas that are outside our footprint, there is limited to no overlap with our analog and digital cable pay-TV offering. Additionally, to further decrease the risk of cable pay-TV cannibalization, we offer our basic DTH pay-TV services at a price that is approximately 15% higher than our basic cable pay-TV services.

As with our analog and digital cable pay-TV offering, customers can choose between different DTH packages and price points. Additionally, we have entered into partnership agreements with Telekom Slovenije in Slovenia and Telekom Srbija in Serbia pursuant to which we offer our unique DTH pay-TV content and re-sell their respective ADSL internet services to customers outside of our cable footprint.

As of June 30, 2013, we provided our *TotalTV* services to approximately 375 thousand subscribers throughout Slovenia, Serbia, Bosnia and Herzegovina, Croatia, Macedonia and Montenegro. For the six months ended June 30, 2013, our DTH pay-TV business segment generated revenues of €20.6 million and an ARPU of €9.2. We report our DTH operations within the SBB Serbia group.

Digital Receivers

In order to access our digital cable and DTH pay-TV and HD contents as well as our interactive TV services, our subscribers must be equipped with a digital receiver. To upgrade to our digital pay-TV content, we offer our subscribers the necessary equipment for free as part of our long-term services contract and recoup a portion of our cost of providing the equipment over the duration of the contract. All customers who receive our digital content equipment receive our equipment free of charge but customers in Slovenia who receive equipment from us are required to pay us an activation fee. The digital receiver remains the permanent property of the Group and the subscriber undertakes to return the receiver upon the termination of their contract. Additionally, customers can use our DVR service, which requires an external hard-drive and which can be rented from us for an additional charge. These hard-drives come with capacities of 500 GB or 1 TB. Alternatively, customers can use their own external hard-drives.

Content Business

Through our content business we directly own and control the distribution of many of our popular pay-TV channels available on our network, including *Ultra*, which is the number one pay-TV channel in Serbia. Additionally, in 2012, we acquired IKO Balkan allowing us to add *Sport Klub*, the most popular sports channels in the region. In 2012, we also added *Cinemania*, a popular niche movie channel to our content portfolio.

Key drivers of our content business's revenue are carriage fees, charged to our own distribution platforms (Telemach Slovenia, SBB Serbia, Telemach BH and *TotalTV*) and to third-party distribution platforms, such as Telekom Slovenije and Hrvatski Telekom, advertising revenues and revenues generated from sublicensing some of the sports rights we acquire to regional FTA broadcasters or to TV operators in

Kosovo where Sport Klub is not present. Our *Sport Klub* sports TV channels are by far the largest contributor to our content businesses's revenue, followed by the *Ultra* family of pay-TV channels. The following table sets forth the main broadcasting rights we held through our *Sport Klub* sports TV channels as of June 30, 2013:

Sport	Period	Slovenia	Serbia	BH	Croatia	Montenegro	Macedonia
Premier League	2010-2016	✓	✓	✓	✓	✓	✓
Spanish League	2012-2015	✓	✓	✓	✓	✓	✓
Formula 1	2011-2014		✓	✓		✓	✓
NBA	2007-2015	✓	✓	✓	✓	✓	✓
Euroleague Basketball	2006-2015	✓	✓	✓	✓	✓	✓
ATP	2007-2017	✓	✓	✓	✓	✓	✓
WTA	2007-2016		✓	✓		✓	✓
Copa del Rey finals	2009-2014	✓	✓	✓	✓	✓	✓
Portuguese League	2009-2013	✓	✓	✓	✓	✓	✓
Russian League	2006-2017	✓	✓	✓	✓	✓	✓
Motor GP	2010-2014		✓	✓	✓	✓	
US PGA Gold	2011-2014	✓	✓	✓	✓	✓	✓
European PGA Tour	2011-2016	✓	✓	✓	✓	✓	✓

We plan to continue to review our content offering and will continue to develop our own unique content and acquire additional broadcasting rights in the future to further enhance our content offering.

Our Programming Content

Our pay-TV distribution platforms typically license the rights for the distribution of our own as well as third-party owned channels for a period of three to five years. The following table provides an overview of our key content that differentiates our platform from other platforms:

* Indicates channel owned by the Group.

Because we are the only pan-regional operator, we have been able to negotiate contracts with content providers that we believe are beneficial to us. For example, we have been able to lock in fixed-rate contracts for content that provide for several year terms, and only a small portion of our programming fees in 2012 were paid on a per-subscriber basis. This allows us to retain the benefits of increases in our subscriber base, and correspondingly increase our margins. We also pay royalties based on our subscribers' usage of our VoD content. We generally pay such license fees on a per subscriber basis. For on-demand content that is purchased by our subscribers (transactional VoD), we generally pay a revenue share of the retail price. For packaged on-demand content we pay on a per-subscriber basis (subscription VoD), often subject to fixed minimum guarantees. If necessary, we also license third party copyrights through various collective rights associations. We generally seek to negotiate fixed-fee contracts and attempt to move away from per-subscriber agreements. We expect that our content costs (above the minimum amounts) will generally increase in line with increased revenues from digital pay TV and on-demand content and continued investment in high-quality content to differentiate our platform from our competitors. We negotiate our contracts for content and other third party rights on a group-wide basis, so that we are able to maximize the benefits of our scale and best practices across our group.

Broadband Internet

Since 2009, we have been upgrading our network to EuroDOCSIS 3.0 technology, and we offer our customers internet speeds of up to 120 Mbps. Our network supports speeds of up to 360 Mbps and we believe the EuroDOCSIS 3.0 is superior to DSL and at par with FTTH offered by our competitors. As our broadband internet operations provide us with very attractive margins due to little additional cost, we leverage our attractive pay-TV offering to sell our broadband internet services to existing pay-TV customers. As a result, we do not sell our broadband internet services on a stand-alone basis and customers wishing to receive our broadband internet services must at a minimum subscribe to our analog Basic TV package (except for approximately 10,000 internet-only legacy customers in Slovenia). As of June 30, 2013, we provided our broadband internet service to approximately 368,300 subscribers across Telemach Slovenia, SBB Serbia and Telemach BH (31% HPs). For the six months ended June 30, 2013, our broadband internet business segment generated revenues of €27.6 million and an ARPU of €12.5.

Telemach Slovenia

Within Slovenia, in approximately 62% of our cable footprint, we compete with DSL offered by competitors and not fiber, enabling us to provide the fastest broadband speed available within those areas. Our EuroDOCSIS 3.0 enabled network allows us to compete effectively in the remaining 38% of our cable footprint which is covered by FTTH (where our network is fully EuroDOCSIS 3.0 enabled) as we can match speeds offered by FTTH operators in these overbuilt areas. We only offer broadband in Slovenia as part of a double- or triple-play play package with our cable pay-TV (except for approximately 6,000 internet-only legacy customers) and subscribers need to commit to a twelve- or twenty-four month contract. See "*—Multi-Play Bundles*." We provide our subscribers the option to choose between differently-priced tiers of broadband internet services varying in download size and delivery speed, such as our "Net S," "Net L," and "Net XXL" packages, which allow users to download data at a maximum speed of up to 120 Mbps. As of June 30, 2013, we provided broadband internet to approximately 105 thousand subscribers.

For the six months ended June 30, 2013, Telemach Slovenia's broadband internet business generated revenues of €9.4 million and an ARPU of €15.7.

SBB Serbia

We are the leading cable broadband internet provider in Serbia with our network passing approximately 730,000 households across the country. Within Serbia, our subscribers benefit from our extensive fully two-way enabled and EuroDOCSIS 3.0 upgraded network which allows us to offer maximum speed levels of up to 360 Mbps with current maximum commercial offering of 100 Mbps. As of June 30, 2013, more than 80% of our broadband subscribers had broadband internet delivery speeds of at least 10 Mbps. We believe this compares favorably to the average Serbian broadband internet delivery speed of 2 Mbps.

We only offer broadband in Serbia to our existing TV customers and increasingly as part of a double- or triple-play play package where our cable pay-TV and subscribers need to commit to a twelve- or twenty-four month contract. See "*—Multi-Play Bundles*." We offer customers five differently-priced tiers of broadband internet services varying in download size and delivery speed, such as our "On" and "Turbo XL" packages, which allow users to download data at a maximum speed of up to 120 Mbps. As of June 30, 2013, we provided broadband internet to approximately 208 thousand subscribers.

For the six months ended June 30, 2013, SBB Serbia's broadband internet business generated revenues of €14.1 million and an ARPU of €11.5.

Telemach BH

Within Bosnia and Herzegovina, our subscribers benefit from our fully two-way enabled and EuroDOCSIS 3.0 upgraded network which extends approximately 550 km across the country and allows us to provide broadband internet delivery speeds of up to 100 Mbps. We are the leading provider of high-speed broadband internet in Bosnia and Herzegovina, and as of June 30, 2013, more than 75% of our broadband internet RGUs in Bosnia and Herzegovina had access to broadband speeds of up to 8 Mbps or above.

We offer broadband in Bosnia and Herzegovina to our existing TV customers and mainly as part of a double- or triple-play play package with our digital cable pay-TV, and subscribers need to commit to a twelve- or twenty-four month contract to subscribe to our basic "15/1,2 Mbps" bundle, which is upgradable to our "100/4 Mbps" bundle. See "*—Multi-Play Bundles*." Alternatively, we offer customers six different tiers of broadband internet services on top of our analog TV service. These internet services differ in available download size and delivery speed and range from our "S 10/1 Mbps" package to our "Turbo XXL 90/3 Mbps" package, carrying a varying monthly subscription fee. Our available broadband internet speeds are higher when our internet services are purchased as part of a bundle with our digital pay-TV rather than as a bundle with our analog pay-TV. As of June 30, 2013, we provided broadband internet to approximately 55 thousand subscribers.

For the six months ended June 30, 2013, Telemach BH's broadband internet business generated revenues of €3.2 million and an ARPU of €12.9.

Telephony

We offer telephony services in Slovenia, Serbia and Bosnia and Herzegovina using voice over internet protocol technology ("VoIP") which allows our subscribers to make traditional fixed-line telephone calls using a standard telephone handset.

Due to our leading position in the cable and DTH pay-TV and broadband internet markets, we believe that we are well-positioned to benefit from the recent liberalization of the Serbian and Bosnian telephony markets. In line with our strategy, we intend to leverage on our existing customer base and our extensive network and high-quality pay-TV content cross-sell telephony products to new and existing customers in those regions. As a result, our fixed-line telephony services are only available to our existing cable pay-TV customers.

Our "Basic Package" in Slovenia offers free calls within network and to our larger group network in Serbia and Bosnia and Herzegovina and subscribers only need an analog touchtone phone to use our service. In addition to our Basic Package, we offer our subscribers in Slovenia the opportunity to purchase our "SLO 200" and "SLO 300" packages which include free calls to customers of other Slovenian fixed-line telephony providers as well as an additional telephone number or our "Pink Pack 100," which includes 100 free minutes of calls to landlines in Serbia, Bosnia and Herzegovina, Macedonia and Montenegro. Following the liberalization of the telephony markets in Bosnia and Herzegovina and Serbia in 2011 and 2012, respectively, we also offer flat-rate telephony services in these two countries. Despite the relatively recent launch of our fixed-line telephony operations in Serbia, we believe we are the second largest provider of fixed-line telephony services in Serbia behind the incumbent Telekom Srbija.

As of June 30, 2013, we provided our telephony services to 130 thousand subscribers, or approximately 17% of our total subscriber base. For the six months ended June 30, 2013, our telephony services generated revenues of €4.5 million and an ARPU of €6.2.

Multi-Play Bundles

To increase the number of RGUs for the services we provide, we offer our subscribers the option to double- or triple-play bundles in Slovenia, Serbia and Bosnia and Herzegovina. Such multi-play bundles combine our pay-TV, broadband internet and telephony services and offer our customers the opportunity to subscribe to all three services with one service provider at a reduced price. In Slovenia, we offer full four-play bundles which include mobile telephony. Due to our competitive pricing structure and high-quality content and service, we believe that we offer the best value bundles in our markets.

As of June 30, 2013, approximately 33% of our subscribers had subscribed to more than one of our services.

Telemach Slovenia

We offer our subscribers in Slovenia the possibility to subscribe to a wide variety of multi-play digital pay-TV, broadband internet and telephony services bundles at various price points. Our MIX bundles are available in "The Mix," "Mix M," "Mix L" "Mix XL" or "Mix XXL" configurations, and provide access to over 160 TV channels, of which 21 are available in HD, broadband internet delivery speeds of up to 100 Mbps and free VoIP calls within our network. Additionally, we offer customers outside of our cable footprint the opportunity to subscribe to our multi-play DTH bundle which combines our *TotalTV* services and Telekom Slovenije's ASDL broadband internet and telephony services.

With the introduction of our MVNO offering in Slovenia, we also offer our subscribers the opportunity to subscribe to a four-play bundle. See "*—Mobile and WiFi*."

In order to attract an increased number of subscribers, we regularly introduce promotions for our multi-play bundles in Slovenia such as significantly reduced subscription fees for the first three or six months of any new contract or additional channels for no extra fees.

SBB Serbia and Telemach BH

In Serbia and Bosnia and Herzegovina subscribers can choose between our MIX double-play and triple-play bundles. Our MIX bundles are available in "Duo TV + Tel" (pay-TV and telephony services), "Duo TV + NET" (pay-TV and broadband internet services) and "Trio TV + Net + Tel" (pay-TV, broadband internet and telephony services) configurations. Additionally, our customers can opt for a modular upgrade of their current single services to our MIX Duo or Trio bundles. We also offer subscribers "SUPERMIX" bundles, which include pre-defined bundles of fixed-line telephony, internet and digital pay-TV at the same time for a continuous period of at least 24 months. Subscribers can only upgrade their current single subscription to the total SUPERMIX bundle. We plan to offer four-play bundles in Serbia upon launching our Serbian MVNO services in 2014.

Additional Services

D3 Go and *HBO Go*. We launched our *D3 Go* and *HBO Go* applications for computer, tablet and mobile devices in 2012. Through these applications, we provide our existing cable pay-TV subscribers with access to our digital pay-TV content "on the go." Subscribers can register up to three devices per household and the applications support access to all channels simultaneously. The applications are fully HD-compatible and stream content at a bandwidth of 800 kbps to 1.5 Mbps for tablets and 200 kbps to 800 kbps for mobile devices. Subscribers need an active broadband internet connection in order to access our *D3 Go* and *HBO Go* content and can download the applications from the internet for free.

D3i. Our *D3i* OTT content platform provides customers of our broadband internet competitors within the region but outside of our cable footprint with access to our unique digital content via an internet stream.

NetTV Plus. We recently acquired *NetTV.plus*, an OTT service provider which allows us to provide local and regional content to a Yugoslav expatriate community of an estimated 4-7 million people around the world charging prices that are in line with their respective local service providers and that are significantly higher than the prices we are able to charge for our content in our core markets. Subscribers can access our *NetTV.plus* content through their television sets using the Set-top-Box which is connected through internet, Smart TVs that have inbuilt functionality or by streaming content via internet-enabled tablets, mobile devices and personal computers.

Mobile and WiFi

In 2011, we launched a WiFi hotspot service, called *SBB WiFi Zone*, in Belgrade for our SBB Serbia broadband internet subscribers. *SBB WiFi Zone* extends to over 200 locations across 28 cities in Serbia. Our WiFi services are available free of charge to our Serbian broadband internet subscribers. Users who have not subscribed to our broadband internet services can purchase *SBB WiFi Zone* access on the spot. Telemach Slovenia recently launched a similar WiFi hotspot offering in Slovenia.

In 2012, we launched a MVNO-based mobile offering through a third-party radio access network which is available to customers who have also subscribed to our pay-TV services in Slovenia. The price for our mobile offering depends on the mobile services plan and the type of pay-TV subscription. Customers can purchase various mobile phones with our plans provided they enter into a two-year fixed-price contract with us. Our mobile telephony offer includes on-net calls to mobile and fixed numbers at no extra cost. In addition, existing subscribers can get up to four mobile lines for friends and family members at no extra cost.

Business Product Offerings

We offer a range of business products including virtual private networks and network capacity leases, to telecommunications operators, financial institutions, public service customers and multinational companies. We are the first CISCO certified partner for business to business services in the region.

One of our key customers in the region is Telekom Austria. We provide network connection services for Telekom Austria's mobile phone towers as well as 'last mile' connection services for Telekom Austria's B2B clients.

Subscribers

We sell our TV, broadband internet and telephony services, either on an individual service subscription basis or on a bundled basis, to residential customers and business customers. Our basic pay-TV subscription serves as a basis for cross-selling and up-selling and every subscriber needs at least a subscription for our basic pay-TV package to have access to our other services (except for approximately 6,000 legacy customers in Slovenia who have internet-only contracts). Consumer subscriptions account for most of our revenues. Within the consumer market, we market our services directly to subscribers in single dwelling units and multi-dwelling units, such as apartment buildings. We provide our services pursuant to standard form fixed contracts lasting for twelve or twenty four months.

Our business subscribers typically purchase our broadband internet and voice and other data services and we generally target small- to mid-size businesses in metropolitan regions. Business subscriber contracts usually extend over a period of twenty four months and cannot be prematurely cancelled free of charge.

We believe we have a loyal and high quality customer base which is the result of low churn rates due to our superior content, extensive network coverage and quality customer service.

Additionally, as our network covers the most affluent regions in Slovenia, Serbia and Bosnia and Herzegovina, our business benefits from low services termination rates due to customers' inability to pay.

Subscription Fees

We generate the majority of our revenue through subscription fees. We regularly review our pricing policy and in the past have increased our subscription fees as necessary in line with inflation and in response to market conditions and content costs. The pricing of all of our services, including our three-play bundles, depends on market conditions and pricing by competitors with similar offerings.

Customer Services

We believe we offer our subscribers high-quality customer service that is in line with Western European standards. Our customer service operations are responsible for all customer care activities, including handling queries and complaints from our customers. We operate dedicated customer contact centers in Ljubljana, Belgrade and Sarajevo, and as of June 30, 2013, we employed approximately 408 customer service full-time equivalent employees ("FTEs").

All of our customer service agents are regularly trained in soft skills as well as on our new product offerings and advertising campaigns. As is common in Western Europe, we constantly measure our team's answering speed and offer our subscribers the option to provide feedback on our service immediately following the call. Additionally, we have a customer service team focusing on business retention which reaches out to existing subscribers prior to the expiration of such subscribers' service contracts to extend the service contract and advertise our products. We also have a specialized team for sales and customer care in relation to our business services.

We believe our customer service representatives are trained in accordance with Western European customer service standards and we receive consistently high scores in our subscriber satisfaction surveys.

Billing

We manage our entire billing operations internally. We bill all of our customers directly, except for some that are included in a bulk contract (for example, institutions like senior homes). Residential customers that are subscribed to single-play cable pay-TV services in Serbia or to DTH services are invoiced every two months and all of our other subscribers are invoiced once a month for their usage. We bill our business customers on a monthly basis.

Marketing and Sales

Our marketing and sales department is responsible for designing and promoting new products and services to customers. We market and sell our products to customers using a broad range of sales channels, including through our leased retail stores which are located in attractive parts of town in our key regions and markets, including in Ljubljana, Belgrade and Sarajevo, third-party stores, telesales and our and our partners' websites. In the six months ended June 30, 2013, we made approximately 60% of our sales through our own and third-party retail outlets. As of June 30, 2013, our marketing and sales teams comprised 441 FTEs.

While we currently only make a small number of sales through our website, we believe that our website currently provides our customers a clear explanation of our products prices and features and provides us with further sales and marketing options in the future.

To strengthen our brand recognition, we have entered into a number of sponsorship agreements with local, regional and national sports associations. For example, we acted as sponsor for Slovenia's national basketball team during the recent European basketball championship. Additionally, we give donations to social institutions, such as youth organizations, across the region.

Network

We provide our pay television, broadband internet infrastructure access and fixed-line telephony services through our extensive cable network which we believe is one of most technologically advanced networks in the EMEA region. Our cable network covers the most affluent areas in our key markets, and following the recent acquisition of ElektroTurnsek passes almost 290,000 homes, or 40% of all households, in Slovenia, 782,000 homes, or 32% of all households, in Serbia (including KDS NS and excluding minor overlap between SBB Serbia's and KDS NS's network in the Serbian City of Novi Sad) and 185,000 homes, or 15% of all households, in Bosnia and Herzegovina. The fiber rich characteristic of our network generally gives it inherent capacity, speed and quality advantages as compared to copper-based DSL networks. In particular, a fiber and coaxial cable offers a larger bandwidth than copper cable and, unlike the latter, it is not significantly affected by attenuation (i.e., a reduction in the strength of the signal) or distortion (i.e., a reduction in quality of the signal) when the signal is carried over a long distance.

Our network has a spectrum bandwidth capacity of 862 MHz and is fully bi-directional in Serbia and Bosnia and Herzegovina and approximately 82% of homes passed in Slovenia are bi-directional. Our bi-directional network enables us to deliver broadband internet fixed-line telephony and other interactive services such as VOD, to our customers throughout our cable network in addition to regular digital and analog television services. Our cable network is EuroDOCSIS 3.0 enabled covering our entire cable broadband internet RGUs in Serbia and Bosnia and Herzegovina and approximately 82% of our homes passed in Slovenia, which allows us to offer theoretical maximum speed levels of up to 360 Mbps. We believe we offer the highest available speeds in our cable footprint ranging around 100-120 Mbps.

Our HFC network has homes passed per fiber optics node ratios of 514 in Slovenia, 392 in Serbia and 422 in Bosnia Herzegovina, which we believe is unrivalled in the former Yugoslav region and compares favorably to Central Eastern European cable benchmarks. This means our fiber optic nodes typically only extend a very short distance from our subscribers' homes and offices, with only the last few hundred meters connected through coaxial cables. This allows us to provide high broadband internet access speeds and advanced services to our subscribers

We operate one of the most extensive backbone networks across the region with a 10 gigabit Ethernet national backbone consisting of more than 7,000 km owned and leased dense wavelength division multiplexing fiber links that extend across the former Yugoslav region with international optical interconnections to Vienna, Frankfurt, Amsterdam and London. Such extensive fiber rich backbone not only supports our HFC cable network but also makes us a partner of choice for regional telecoms and other business customers. We rent ducts and poles from third parties as a part of our network.

We complement our cable network with our DTH offering. We contract for satellite services with Eutelsat, who transmits our programming over their satellite networks to our customers. Data streams from our digital play facilities are sent to satellites that transmit the signal to local satellite receivers.

Licenses and Permits

We believe we hold all necessary authorization and licenses to provide our services.

Telemach Slovenia. To be authorized to operate as media and telecommunications service provider in Slovenia, Telemach Slovenia notified the Slovenian Agency for Telecommunications (APEK) by providing a short description of its public communication network and its services. Telemach Slovenia was subsequently entered into the official register as service provider. In addition, Telemach Slovenia holds several radio and mobile frequency licenses which will expire in 2015.

SBB Serbia. Pursuant to the law of electronic communication (2010), an operator of media and telecommunications services is not required to obtain a license for its general services. In order to be permitted to provide its services, an operator must submit a request for registration to RATEL which SBB Serbia did in 2011. In addition, SBB Serbia currently holds seven radio frequency licenses which will expire in 2022.

Telemach BH. Telemach BH holds licenses for the distribution of audiovisual media services and radio media services which are valid for one year and will expire on December 31, 2013. These licenses can be extended by submitting a statement of intent to the Bosnian regulator by November 30 of each year stating tan intent to renew the license which results in the extension of such license for an additional year. We also hold a license to operate a public electronic communications network which is valid for an unlimited duration. Additionally, we hold a license for the provision of fixed telephone services which is valid for an unlimited duration. We also hold a license for the use of telephone numbers and pre-code numbers the validity of which is tied to the validity of the license for the provision of fixed telephone services.

See also "—*Regulatory Framework*."

Information Technology

We operate a modern information technology ("IT") infrastructure in order to support our business. Our IT systems are generally managed in-house by a team of more than 20 employees, who also receive external support from manufacturers and suppliers.

Our IT system consists of the following key segments: our operations support system ("OSS"), which supports our back-office activities, including the operation of our network and provision and maintenance of our customer service; our business support system ("BSS"), which supports our customer-facing activities such as billing, order management and our call center; and our mediation and provisioning system which monitors and facilitates subscribers' network access rights and privileges to ensure the security of our resources and user privacy.

Telemach Slovenia's BSS application relies on Navision software while SBB Serbia and Telemach BH have implemented SAP platforms. Our OSS applications in Slovenia are currently managed in-house while we are in the process of implementing a third-party platform in Serbia and Bosnia and Herzegovina. Our mediation and provisioning systems are currently managed in-house with Telemach Slovenia using a different system from the other Group companies.

We will continue to focus on integrating and streamlining the different IT systems within our Group to standardize and further improve our IT solutions.

Competition

We face competition from established market participants as well as new market entrants. The nature and level of the competition we face varies for each of the products and services we offer and for each country in which we operate. Despite regional differences in the intensity of competition, we compete in each case on the basis of network quality, content advantage, product and service portfolio specifications, value-for-money proposition, marketing, and superior installation speeds and customer care.

Our competitors include, but are not limited to, providers of television, broadband internet and telephony services using DSL or fiber connections, including Telekom Slovenije and T2 in Slovenia, Telekom Srbija in Serbia and bh telekom and HT Eronet in Bosnia and Herzegovina. We also compete against DTH providers, including Digi and Polaris, DTT providers in Slovenia and mobile network operators. Furthermore, we face competition from providers of television services using alternative and emerging digital technologies such as IPTV and OTT-television. We also compete with other sources of news, information and entertainment such as social media platforms, newspapers, movie theatres, live sporting and music events, computer games and home video products. Please also see "*Risk Factors—Risks Related to Our Business and Industry—The broadband internet, cable television, DTH and telephony markets in the regions in which we operate are highly competitive.*"

Property and Equipment

Our principal asset is our network, which consists of numerous cables, telecommunications installations, including exchanges of various sizes and transmission equipment.

We do not own material pieces of land or offices. We lease our headquarter at 8a Bulevar Zorana Djindjiča in Belgrade, Serbia. We also lease minor offices and sales facilities throughout the markets in which we operate. Additionally, we own most of the equipment needed for our core operations, including the sites housing network hubs.

We believe that our properties and equipment are in good condition and are suitable and adequate for our business operations. None of our significant properties are subject to material easements or other third-party proprietary interests that prevent or restrict the current business activities or that are believed to require major investments or costs going forward.

Employees

As of August 31, 2013, we employed 1,416 FTEs across Slovenia, Serbia and Bosnia and Herzegovina. The following table shows the average number of FTEs as of August 31, 2013 by category:

	August 31, 2013
Management	78
Support	151
Marketing	33
Engineering	110
Sales & Customer Care	408
Network Operations	422
Administrative Support	214
Total	**1,416**

Currently, none of our employees are members of labor unions. We believe that our relationship with our employees is satisfactory. During the last three years, we have not experienced any strikes or work outages.

Insurance

Our fixed assets such as technical and office equipment in our network operating centers, network hubs, head-ends and office locations are protected by insurance policies covering damage from fire and other catastrophes We also have separate insurance covering losses from machinery breakdown and insurance for interruption operating costs. While we have no insurance against the risk of failure by subscribers to pay, we have alternative controls to mitigate this risk, including collection processes and arrangements with collections agencies. We provide directors' and officers' liability insurance for all members of our Board, as well as certain other persons within our Group.

We believe that our existing insurance coverage, including the amounts of coverage and the conditions thereto, provides reasonable protection, taking into account the costs for the insurance coverage and the potential risks to business operations. However, we cannot guarantee that no losses will be incurred or that claims that go beyond the type and scope of the existing insurance coverage will not be filed against us.

Legal Proceedings

We are involved in a number of legal proceedings that have arisen in the ordinary course of our business. Other than as discussed below, we do not expect the legal proceedings in which we are involved or with which we have been threatened to have a significant effect on our financial position or profitability. The outcome of legal proceedings, however, can be extremely difficult to predict with certainty, and we can offer no assurances in this regard.

Dispute with SAZAS relating to infringement of copyrights

In 2012, the Slovenian Association of Composers and Authors ("SAZAS") commenced legal proceedings against us claiming infringement of copyrights. SAZAS is claiming that we failed to pay the agreed remuneration for music copyrights from April 2010 to October 2010 and from July 2012 to

November 2012 in accordance with newly published tariffs. SAZAS is claiming that we owe them approximately €1.5 million in unpaid fees. We maintain that the fees payable to SAZAS were established by an agreement between SAZAS and us. In 2013, the Serbian Intellectual Property Office issued an opinion which states that its published tariffs are not binding until final approval is given by the regulator. However, this opinion is not determinative and the date of the first hearing has not been set. We have made reserves amounting to approximately 50% of the disputed amount and will vigorously defend this matter.

Dispute with Intercom Ventures relating to content distribution in the United States

Intercom Ventures LLC ("Intercom") has filed a claim against *NetTV.plus* in Illinois claiming that Intercom held the exclusive right to transmit programming from certain Bosnian language television stations in the United States and that *NetTV.plus* violated U.S. copyright laws as well as the U.S. Communications Act by intercepting the signal of such Bosnian stations and transmitting the content to customers in the United States. Following an initial hearing on August 6, 2013, the judge denied Intercom's claim for statutory damages and attorney fees in connection with the alleged violation of U.S. copyright laws but allowed the case to otherwise proceed. We are currently awaiting the date for a second hearing. Should the court grant a decision in favor of Intercom, we could be liable to pay a fine, which might be substantial, and might lose the right to distribute certain Bosnian language content in the United States.

Dispute with Telekom Srbija relating to duct leases

Telekom Srbija has sued us for a total of €377.0 thousand in three separate proceedings concerning the lease of ducts. Two of these proceedings were resolved in favor of Telekom Srbija by the court of first instance, and the third case is still pending. We have appealed both of these decisions.

Settlement with Bikam and CIG relating to claims to enforce bills of exchange related to their claims against Adria Cable S. à r.l.

In July 2012, Bikam, a media service provider incorporated in Bulgaria, and Central Investment Group S.A. ("CIG"), an investment company incorporated in Luxembourg, commenced legal proceedings against us before the Commercial Court of Belgrade for enforcing bills of exchange in relation to a dispute in London between these Companies and Adria Cable S.à.r.l. On May 9, 2013, judgment was entered against Adria Cable S.à.r.l. who decided not to appeal the decision. As a result of the adverse determination of the proceeding against Adria Cable S.à.r.l., we entered into a settlement agreement with Bikam and CIG on August 27, 2013, with relation to the Serbian dispute relating to the bills of exchange and settled the Serbian claim for an amount of €4.2 million. We are currently awaiting formal court approval of the settlement.

Regulatory Framework

Slovenia

Telecommunications operations in Slovenia are subject to the EU framework on telecommunications regulation. The act governing telecommunications in Slovenia is the new Electronic Communications Act (*Zakon o elektronskih komunikacijah*—ZEKom-1), which came into force on January 15, 2013. The principal objectives of ZEKom-1 include the promotion of the development of electronic communications networks and services (and together with it the economic and social development), the establishment of effective competition on the electronic communications market, and the protection of consumers. The act aims to achieve these objectives principally by governing the conditions for the provision of electronic communication networks and services, ensuring competition, regulating the operation of networks and services in emergency situations, the protection of secrecy and confidentiality of electronic communications and setting forth the responsibilities and tasks of the Post and Electronic Communications Agency of the Republic of Slovenia ("APEK").

Compliance with ZEKom-1 is supervised by APEK. APEK is an independent body that, among other things, regulates and supervises the electronic communications market. It does so by establishing an environment for effective competition, managing the numbering plan, operating the registry of all operators, monitoring the implementation of acts and regulations issued on the basis of ZEKom-1, conducting administrative procedures and issuing decisions and other documents.

Becoming an operator

A legal entity that wishes to become an operator is required to notify APEK about its intent to operate public communication networks or to provide public communication services prior to the beginning of the performance of its activities. The notification must include the required general information about the legal entity (such as the name and address, legal representatives etc.), a short description of the public communication networks and the manner of the provision of services, as well as a rough plan of the network, network elements, links and the planned date of the beginning of the operation of public communication networks or the provision of public communication services.

Within seven days from receipt of the complete notification, APEK registers the operator in its official register and submits a confirmation notice to the operator.

Foreign operators that wish to acquire the status of an operator have two options: they can either establish a subsidiary in Slovenia or acquire a Slovenian tax number.

Required notifications

An operator must notify APEK about:

- changes to the company's name, address or headquarters, legal representatives, network or services; APEK must be notified about these changes within 30 days from their occurrence;
- changes to the starting date of the operation of public communication networks or the provision of public communication services or changes to the geographic area in which the network is operated or the services are provided; APEK must be notified about these changes prior to their occurrence;
- the termination of the operation of public communication networks or the termination of the provision of public communication services; APEK must be informed in writing and at least 90 days prior to the planned termination.

Annual fee

All operators must pay an annual fee to APEK. The amount of the annual fee is based on the operator's revenue that results from the provision of public communication networks or public communication services and is calculated by APEK. All operators must inform APEK about all revenues generated from the provision of public communication networks or public communication services in a given calendar year by March 31 of the following year.

Numbering plan

APEK adopts the numbering plan with a general act that determines the type, length, and structure of the numbering elements, their intended use, and manner of use, including numbers for emergency calls and numbers the use of which is harmonized based on EU regulations. This general act must also support number portability and the introduction of new electronic communication services.

The operator's application for the allocation of numbering elements must include:

- the company's name and address, its VAT identification number, its company registration number and the name of its legal representatives;
- evidence that the company has the right to be allocated numbering elements;
- data on the type and quantity of the numbering elements it wishes to acquire and their intended use;
- a project plan and an assessment of needs for the following three years, if the company requires a larger block of numbering elements;
- justifications on the basis of which the applicant proves that it will use the allocated quantity of numbering elements in three years.

APEK must reach a decision on the allocation of numbering elements within 21 days from the beginning of the proceedings, provided that a public tender was not carried out. The Agency uses a public invitation to tender procedure only when it is established that efficient use of specific numbering elements (e.g., short numbers) can only be ensured by restricting the number of decisions issued allocating numbering elements. Operators that may allocate the numbering elements they acquire for use to their users under equal, cost-oriented and transparent conditions may take part in a public invitation to tender procedure. Other natural person or legal entities may only take part if they can prove that they require numbering resources in order to perform an activity for the public benefit under area legislation or EU regulations. APEK shall decide on tenders by issuing one or more decisions allocating numbering elements, which it must in this case issue and deliver within 42 days of the expiry of the deadline for the submission of tenders.

Operators with significant market power

To prevent operators with significant market power ("OSMP") from potentially abusing their market power on a relevant market (in particular, the market for public communication networks and the market for public communication services), APEK may issue decisions designating operators as OSMPs and impose on them suitable measures or regulatory obligations (*ex ante regulation*). The purpose of these measures is to regulate the relevant OSMP's actions vis-à-vis other operators. The measures or obligations that may be imposed on an OSMP are set forth in ZEKom-1 and include the obligation to ensure transparency and equal treatment, the obligation to ensure operator access to and the use of specific network facilities, price control and cost accounting obligations, the obligation to separate accounting records, the obligation to regulate retail services, etc. The most severe measure envisaged by ZEKom-1 is a functional separation, which means that the OSMP must perform a portion of its activities in a separate and independent business unit.

Under ZEKom-1, an operator is deemed to have significant market power if it itself or together with other undertakings on a relevant market holds a dominant position, i.e., such economic influence as to enable it to exercise a considerable degree of independence in respect of its competitors, users and consumers. In assessing whether an operator has significant market power APEK, among other things, considers the following criteria:

- the market share of the operator on the relevant market and the variation of its market share on the relevant market over a longer period of time,
- the existence of barriers to entry and their effect on the potential competition on that market,
- the impact of large users on the power of the operator (countervailing purchasing power),
- the elasticity of demand,
- the stage of development of the relevant market,
- technological advantages,
- the development of sales and distribution networks,
- the achievement of scale or economies of integration,
- the level of vertical integration,
- the level of product differentiation,
- the possibility of access to financial resources,
- the control of infrastructure that may not easily be duplicated, and
- the interconnection of services.

If an OSMP disagrees with APEK's decision it may challenge the decision in court.

The telecommunications sector consists of eight relevant regulated markets:

(1) Access to the public telephone network at a fixed location for residential and non-residential customers (retail level)

(2) Call origination in the public telephone network provided at a fixed location (wholesale level)

(3) Call termination on individual public telephone networks provided at a fixed location (wholesale level)

(4) Wholesale (physical) network infrastructure access (including shared or fully unbundled access) at a fixed location

(5) Broadband access (wholesale level)

(6) Wholesale terminating segments of leased lines, irrespective of the technology used to provide the leased or dedicated capacity

(7) Voice call termination on individual mobile networks (wholesale level)

(8) Broadcasting transmission services to deliver broadcast content to end users (wholesale level).

Serbia

General

Under the Serbian Law on Electronic Communication ("ECA"), a company's general authorization to conduct its business is in most cases sufficient to provide electronic communication services; a sector specific license is required only if the business involves the exploitation of scarce resources, such as numbering plans or radio frequencies. Therefore, when a company takes up an activity under the general authorization regime, all it needs to do (subject to fulfillment of the imposed general technical conditions and payment of the prescribed fees) is to notify Ratel within 15 days of doing so. In addition, the company is required to notify Ratel of any important changes in its activities as well as of their termination.

As regards programming content, according to the Serbian Broadcasting Act, an operator that distributes such content of broadcasters in Serbia via cable or satellite systems is required to obtain a license for such distribution from the Broadcasting Agency of the Republic of Serbia ("RBA"). This license is formally issued in the name of the relevant broadcaster upon request of the operator, which must obtain the license for its distribution to be considered validly performed.

Significant Market Power under the ECA

Under the ECA, an operator is considered to have significant market power ("SMP"), if it has, alone or together with other operators, a dominant position, i.e., a position that enables it to a significant degree to act independently from its competitors, subscribers and customers. Pursuant to the ECA, if Ratel finds the absence of effective competition in a relevant market (and a closely related market), it will designate the operator who, individually or jointly with other operators, has SMP on that market.

In reaching a decision on whether an individual operator has SMP, Ratel considers the following criteria:

- the size of the respective operator and its competitors, in particular the number of their respective users and revenues,
- the degree to which the respective operator possesses control over infrastructure that cannot be easily replicated,
- technological advantages enjoyed by the respective operator,
- the lack or low sophistication on the part of the operator's customers;
- easy or privileged access to capital market and financial resources;
- the diversity of the products and services available on the relevant market (e.g., bundled products or services, and the like),
- the degree to which economies of scale exist in the relevant market,
- the degree to which economies of scope exist on the relevant market,
- the degree to which market participants are vertically integrated,
- the degree of development of the available distribution and sale network;
- actual and potential competition; and
- the existence of barriers to expand.

In deciding whether SMP is shared by several operators, Ratel considers the following criteria:

- the degree to which the market is saturated,
- whether there is stagnation or a modest increase of demand;
- the homogeneity of the available products;

- the elasticity of demand,
- the degree to which the respective operators have similar cost structures and/or hold similar market shares,
- the degree to which the respective operators have similar market shares;
- the lack of technical innovations and developed technologies;
- the lack of industry capacity;
- lack of potential competition;
- the lack or low sophistication on the part of the operator's customers;
- the existence of barriers to entry,
- the possibility of application of counter measures,
- the existence of formal or informal links between the respective operators, and
- the degree of price competition in the market.

It is important to note that if Ratel reaches a decision designating one or more operators as having SMP, Ratel must impose at least one of the following obligations on the respective entities:

- an obligation to publish any confidential data that gave rise to the finding of SMP,
- an obligation to only engage in non-discriminatory conduct,
- an obligation to unbundle products and services,
- an obligation to keep separate accounts for transmission system operators and distribution system operators,
- an obligation to provide access and use of parts of the network infrastructure and associated facilities to third parties,
- price controls and cost-based accounting,
- an obligation to make available a minimum set of leased lines
- an obligation to offer operator selection and operator pre-selection services, and
- regulation of the respective operators' retail services.

Tariffs

As a general matter, each operator is free to set its own tariffs. However, if RATEL finds an operator to have SMP in a relevant market, the operator may become subject to various restrictions, including price controls, as noted above. If an operator becomes subject to price controls, it must adopt a cost-based accounting system for the provision of specific types of interconnection and/or access services. These controls are imposed if, in particular, RATEL determines that the absence of effective competition enables the operator to charge exceedingly high prices or resort to price squeezes to the detriment of end users.

While Ratel has some flexibility in imposing these restrictions, it must take into consideration the previous investments made by the operator while imposing the aforesaid measures, it must encourage further investments and it must allow for a reasonable rate of return on investment in view of the risks involved.

The burden of proof that an operator's prices comply with the above-mentioned restrictions is on the relevant operator. Upon Ratel's request, the operator in question is required to provide a detailed account of its pricing policy.

A description of the operator's price calculations must be made publicly available and reviewed annually by an independent auditor.

Bosnia and Herzegovina

Telecommunications services

The Bosnian Law on Communications regulates telecommunications, radio, broadcasting (including cable television) and associated services and facilities in Bosnia and Herzegovina as well as the establishment and the activities of the Bosnian Communications Regulatory Agency ("CRA").

The CRA was established on March 2, 2001 and assumed the competences of the Independent Media Commission and the Telecommunications Regulatory Agency. The CRA is responsible for developing rules in the telecommunications and broadcasting sectors, the licensing of operators in these sectors, the planning, management and allocation of the frequency spectrum, the implementation of technical and quality standards and the determination and maintenance of license fees.

Telecommunications services through mobile and fixed networks or internet services may only be offered if the relevant operator holds a license. A telecommunications operator is required to

- enter into written subscription contracts with its subscribers;
- provide (free of charge) a brief and plain summary of the tariffs applicable to its subscribers;
- deliver, at the request of the CRA, within a reasonable period of time, business data, network data and traffic data including confidential data;
- ensure the proper functioning and good working condition of its system and the timely removal of interferences and failures and notify the CRA without any undue delay of any significant interruption in the telecommunications connections;
- set up conditions of operation, a description of services and specify the relevant tariffs, all of which must be presented to the CRA and published in a suitable form; the operator must also publish any changes to the conditions of operations and tariffs at least one month prior to their effective date in a suitable form; any change to the content of a contract entitles the contracting party to terminate its contract with the telecommunications operator within a period of four weeks from the publication of the change;
- offer interconnection services to other operators upon their request; if the relevant parties cannot reach an agreement within a period of six weeks from receipt of the request, each of them may petition the CRA to mediate the dispute.

The CRA decides upon the grant of a telecommunications license within two months of receiving an appropriate application. In the event of competitive or comparative selection procedures the CRA may extend the evaluation period for up to four months to ensure that such procedures are fair, reasonable, open, non-discriminatory and transparent to all interested parties. The CRA will grant a license if the applicant possesses the necessary technical competence and if there is no reason to assume that the applicant will not provide the relevant services in accordance with the license, in particular as regards quality and supply. In reaching its decision, the CRA takes into consideration the applicant's financial strength, its experience in the telecommunications sector and related sectors as well as its relevant expertise. A licensee may transfer its license in whole or in part only with the consent of the CRA, which defines the conditions for the transfer of the license.

Operators with significant market power

A telecommunications operator with significant market power must enable third parties to access its public telecommunications network or unbundled parts of such network. This obligation does not apply if the telecommunications operator provides suitable evidence to the effect that it would be inappropriate to require it to open its network in a particular case. A telecommunications operator with significant market power requires the CRA's approval to provide (i) voice telephony services via a fixed or mobile network; and (ii) leased lines. In addition, telecommunications operators with significant market power on the telecommunications market are required to establish a cost accounting system that assigns costs to all of its services and permits subsequent audits of this system in compliance with the CRA rules and the provisions set out in the licenses.

In addition, a provider of public fixed telephony services that has been designated as an operator of telecommunications with significant market power on the market of fixed public telephony services must enable unbundled access to the local loop and related facilities on the basis of the following principles: objectivity, transparency, non-discrimination and cost orientation.

Audiovisual Media Services

The provision of audiovisual media services is subject to a license by the CRA. Such services must be provided on a non-discriminatory basis and in accordance with the law and the terms of the license. A licensee may not restrict access to subscribers based on their nationality, religious beliefs, financial strength or any other grounds nor is it entitled to make a selection of programs in a manner that favors the interests of only one national or religious community in Bosnia and Herzegovina. The licensee is required to offer the services to all citizens in the technical coverage zone and each person that accepts the single and non-discriminatory conditions is entitled to enter into a subscription contract. Prior to the inclusion of any audiovisual media service or a radio media service into a service package, the licensee is required to obtain written consents from the owners of the program content or their authorized representatives. The distribution of such services cannot be launched before the relevant consents have been obtained.

A license for the provision of audiovisual media services is valid for a period of one calendar year and may be extended. In order to extend the term of the license the licensee must submit a statement of intent by November 30 of each year at the latest, stating that it intends to renew its rights granted by the license which will result in the extension of its license for the next year.

MANAGEMENT

The Issuer

The Issuer is a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) established under the laws of the Netherlands. The Issuer is an entity indirectly owned by investment funds advised by affiliates of KKR.

The Issuer currently has a board of directors composed of four directors. The directors are Jean-Pierre Saad, Henrik Kraft, Pieter Albert Cornelis Hallebeek and Edwin Denekamp. The board is responsible for managing the Issuer in accordance with applicable laws, constitutional documents and resolutions of the shareholders' meeting. The principal functions of the board are to carry out the day-to-day business of the Issuer and to legally represent the Issuer in its dealings with third parties.

Set forth below are the names and ages of the Issuer's managing directors as of October 31, 2013.

Name	Age	Position
Henrik Kraft	39	Director
Jean-Pierre Saad	33	Director
Pieter Albert Cornelis Hallebeek	37	Director
Edwin Denekamp	43	Director

Henrik Kraft—Director. Mr. Kraft joined KKR in 2006 and leads KKR's Technology and Communications industry team in Europe and is also responsible for the development of KKR's activities in the Nordic countries. He has been actively involved with investments in Ambea, Alliance Boots, TDC, Versatel and Visma. Prior to joining KKR, Mr. Kraft was with Apax Partners in London focusing on technology and telecoms investments including TDC and Intelsat. Mr. Kraft holds a M.Eng. with first class honors from the University of Oxford.

Jean-Pierre Saad—Director. Mr. Saad joined KKR in 2008 and is a member of the Technology and Communications team. He is currently a member of the board of NXP Semiconductors NV and has been involved in KKR's investments in Acteon, Legrand and Van Gansewinkel Groep and is also responsible for Middle East and North Africa investment efforts. Prior to joining KKR, he was an Associate at Lehman Brothers in London. Mr. Saad holds a M.Sc. from HEC Paris as well as an Engineering degree with high distinction in Computer and Communications from the American University of Beirut, Lebanon.

Pieter Albert Cornelis Hallebeek—Director. Mr. Hallebeek joined ATC Management B.V., an Amsterdam-based corporate services provider that provides certain services to the Issuer, in 2010 and currently acts as a Commercial Director. As a Commercial Director at ATC Management B.V. Mr. Hallebeek acts as director in various holding and finance companies. Prior to joining ATC Management B.V., Mr Hallebeek was a Senior Company Lawyer at ATC Corporate Service (Netherlands) B.V. from 2005 to 2010. Mr. Hallebeek graduated from the University of Amsterdam (Vrije Universiteit).

Edwin Denekamp—Director. Mr. Denekamp joined ATC Management B.V. an Amsterdam-based corporate services provider that provides certain services to the Issuer in 2009 and currently acts as a Business Unit Manager Finance. As a Business Unit Manager Finance at ATC Management B.V. Mr. Denekamp acts as director in various holding and finance companies. Prior to joining ATC Management B.V., Mr. Denekamp was a Business Unit Manager Finance at ATC Corporate Service (Netherlands) B.V. from 2005 - 2009. Mr. Denekamp has a Bachelor Degree in Business Administration from the Institute for Business Administration and Economics (HEAO) in Alkmaar, the Netherlands.

Senior Management of Slovenia Broadband

Slovenia Broadband's current senior management team is composed of nine individuals. Most of the current members of management are significantly invested in the Company, and we currently expect that management will remain significantly invested in the Company following the Acquisition. The following table sets forth information regarding Slovenia Broadband's senior management members and their responsibilities as of October 31, 2013.

Name	Age	Position
Dragan Šolak	49	Group Executive—Chairman & Founder
Victoriya Boklag	35	Group Vice President—Sales & Marketing
Violeta Vasiljević	41	Group Vice President—Operations
Nenad Branković	47	Group Vice President—Finance
Vladislav Ratajac	32	Group Vice President—Corporate Development
Dragica Pilipović Chaffey	67	Chief Executive Officer—SBB
Marko Šter	41	Chief Executive Officer—Telemach Slovenia
Željko Batistić	41	Chief Executive Officer—Telemach BH
Srdan Radić	39	Satellite Platform Director
Urska Kos	47	Chief Financial Officer—Telemach Slovenia

Dragan Šolak—founder and executive chairman of the Group. Mr. Šolak founded SBB in 2000 and has been a member of our management since the Company's inception. In 2009, Mr. Šolak assumed the role of Group Executive Chairman. In his current role, he continues to be involved in all aspects of the business and is responsible for the overall strategic leadership of the Group.

Victoriya Boklag—Group Vice President—Sales & Marketing. Ms. Boklag has been with the management team since the Company's inception in 2000, and prior to assuming her current role she held various functions including Director of Finance. Ms. Boklag holds a BA degree from the ICU Kiev.

Violeta Vasiljević—Group Vice President—Operations. Ms. Vasiljević has been with the management team since the Company's inception in 2000. She is currently responsible for the technical and operating support for all of the Group's administrative functions and products. Ms. Vasiljević holds a degree in Mechanical Engineering from the University of Kragujevac.

Nenad Branković—Group Vice President—Finance. Mr. Branković first joined the management team in 2008. Prior to joining, Mr. Branković served as the CFO of Carlsberg Serbia from 2007 to 2008. He holds a degree in economics from the University of Belgrade.

Vladislav Ratajac—Group Vice President—Corporate Development. Mr. Ratajac joined the management team in 2011. Mr. Ratajac held positions at Mid Europa Partners from 2008 to 2011 and Deutsche Bank before joining the Group and he holds a degree in Economics from Rutgers University in New Jersey, USA.

Dragica Pilipović Chaffey—Chief Executive Officer—SBB. Ms. Pilipović Chaffey joined the management team in 2009. Prior to her current role, Ms. Pilipović Chaffey held a number of senior posts within the European Bank for Reconstruction and Development (EBRD) from 2007 to 2009, and the IMF in Washington, D.C. Ms. Pilipović Chaffey holds an MBA, from George Washington University, Washington, D.C. and a BA in Economics, from the University of Belgrade.

Marko Šter—Chief Executive Officer—Telemach Slovenia. Mr. Šter has been with the management team since the Telemach Slovenia's inception in 2005. Prior to his current role, he was the Company's chief technology officer, holding responsibility for the Company's technical operations and IT. Mr. Šter has a mechanical engineering background and an MBA from IEDC Bled.

Željko Batistić—Chief Executive Officer—Telemach BH. Mr. Batistić first joined the management team in May 2012. Prior to joining, Mr. Batistić was an experienced CATV manager and served at a Croatian cable operator at B.net Croatia from 2007 to 2012. Mr. Batistić holds a Master's degree in Electrical Engineering from the Faculty of Electrical Engineering and Computing, University of Zagreb and an Executive MBA from Cotrugli Business School, Zagreb.

Srdan Radić—Satellite Platform Director. Mr. Radić joined the management team in 2010. Before joining the Group, he was the Chief Commercial Officer of MTEL Montenegro and was the head of corporate sales at Telekom Srbija before that. He holds an MA in Technical Sciences from the Faculty of Organizational Sciences, Belgrade University.

Urska Kos—Chief Financial Officer—Telemach Slovenia. Ms. Kos has been with the management team since the Telemach Slovenia's inception in 2005. Prior to joining, Ms. Kos spent five years in Nova Ljubljanska Banka in the position of accounting manager. Ms. Kos graduated with a degree in Economics from the University of Ljubljana.

The aggregate net compensation paid and accrued in fiscal year ended December 31, 2012 for the senior management members of the Company named in this section amount to €942,339, consisting of fixed salary and performance-related components.

We plan to implement a management participation program pursuant to which shares in the issuer will be held by certain members of our current or future management. The terms of the program will be included in a shareholder's agreement. Certain of the key provisions are expected to include:

- Customary tag along and drag along rights, participation and cooperation obligations of the managers;
- "Good" and "bad" leaver scheme provisions;
- Capital increases: subscription entitlements, anti-dilution rights; and
- Transfers of shares restricted except to affiliates and family members (or family-run businesses).

PRINCIPAL SHAREHOLDERS

Following the Acquisition, investment funds advised by affiliates of KKR as well as certain co-investors will own approximately 72.7% of Slovenia Broadband, while the remaining 27.3% will be held by management.

KKR is a leading global investment firm with a long history of investing in Europe. Founded in 1976 and led by Henry Kravis and George Roberts, KKR had $90.2 billion in assets under management as of September 30, 2013. With offices around the world, KKR manages assets through a variety of investment funds and accounts covering multiple asset classes. KKR seeks to create value by bringing operational expertise to its portfolio companies and through active oversight and monitoring of its investments. KKR complements its investment expertise and strengthens interactions with investors through its client relationships and capital markets platforms. KKR has in-depth experience in telecommunications and media sector, through its current and former investments including TDC, Versatel, Nielsen, and ProSiebenSat 1.

RELATED PARTY TRANSACTIONS

In addition to the management arrangements described in "*Management*," we are party to the following transactions with related parties.

Indemnification of Corporate Service Directors

Two corporate service directors of the Issuer, Pieter Hallebeek and Edwin Denekamp, benefit from an indemnification agreement dated October 10, 2013 whereby Adria Luxco S.à r.l., the indirect parent of the Issuer, agreed to indemnify them against any liabilities incurred in connection with their acts and omissions as directors of the Issuer.

Transactions involving our Chairman

One of our Slovenian operating companies is acting as a guarantor for a personal bank loan of our Chairman, Dragan Šolak, in the amount of approximately €5 million. The guarantee is secured by Mr. Šolak's salary for his position within the Group. Additionally, in August 2013, we acquired the OTT content platform NetTV.plus from Mr. Šolak for a total consideration of approximately €30 million. We believe this transaction was conducted at arm's length and the purchase price reflects the fair value of the acquired asset.

The Offering

Certain members of management are expected to purchase a limited amount of Notes in connection with the Offering.

The Acquisition

Certain members of management and certain of their affiliates will receive a portion of the proceeds to be paid under the Acquisition Agreement, and will indirectly invest a portion of such proceeds in the capital of the Issuer.

Sponsor Agreements

It is currently anticipated that, on or after the closing of the Acquisition, the Group will enter into customary monitoring fee arrangements or other fee arrangements with affiliates of KKR and pursuant to these arrangements such affiliates will receive a fee in connection with the Transaction. See "*Use of Proceeds*."

Other Relationships

In addition, KKR Capital Markets Limited, one of the initial purchasers, is an affiliate of KKR and therefore an affiliate of the Issuer. KKR Capital Markets Limited is also a party to certain of the arrangements with respect to the senior secured bridge facility that was entered into in connection with the Acquisition.

DESCRIPTION OF CERTAIN INDEBTEDNESS

The following is a summary of certain provisions of our indebtedness and certain financial arrangements to which we and certain of our subsidiaries are or will be a party. It does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

Senior Facilities Agreement

Overview and Structure

In connection with the Offering, Adria Midco B.V. and certain of its subsidiaries entered into a new €60 million super senior revolving credit facility agreement on or before the Issue Date (the "Signing Date"). In this summary, (the "Revolving Credit Facility Agreement") with, among others, UniCredit Bank AG, London Branch as facility agent, UniCredit Bank AG, London Branch as English security agent, UniCredit Bank Serbia JSC Belgrade as Serbian security agent, UniCredit Bank Serbia JSC Belgrade as Payment Agent and Banca IMI S.P.A., London Branch, BNP Paribas Fortis S.A./N.V., Citigroup Global Markets Limited, Credit Suisse AG, London Branch, Findomestic Banka AD Beograd, ING Bank NV, Raiffeisen Bank International AG, UniCredit Bank Austria AG and UniCredit Bank Serbia JSC Belgrade as arrangers.

The facility made available under the Revolving Credit Facility Agreement (the "Revolving Credit Facility") may be utilized by any current or future borrower thereunder in euros, U.S. dollars and (other than in respect of loans by a Serbian Lender (as defined below)), Sterling or any other currency which is readily available and freely convertible into euro, by the drawing of cash advances, the issuance of letters of credit and/or the establishment of ancillary facilities. The Revolving Credit Facility may be used for (directly or indirectly) financing or refinancing the general corporate purposes and/or working capital requirements of the Group.

In addition, Adria Midco B.V. may elect to request additional facilities, either as new facilities or additional tranches of the Revolving Credit Facility (each an "Additional Facility"), provided that the aggregate principal amount of all such Additional Facilities incurred during the life of the Revolving Credit Facility shall be no greater than €75 million. Adria Midco B.V. and the lenders providing an Additional Facility may agree to certain terms applicable to such Additional Facility, including the margin, the termination date and the availability period (where relevant, subject to parameters as set out in the Revolving Credit Facility Agreement). As referred to under "—Ancillary Facilities," the Group currently has certain facilities in place to meet working capital needs. To the extent that such facilities are rolled over into the Revolving Credit Facility following the Completion Date, they will reduce the available committed amount under the Revolving Credit Facility.

Due to Serbian foreign exchange regulations and the National Bank of Serbia registration requirements, the Revolving Credit Facility Agreement provides for (i) loans to borrowers incorporated in Serbia (or its affiliates) ("Serbian Borrowers") to be made only by a bank duly incorporated under the Serbian banking and company laws and lending out of an office in Serbia ("Serbian Lender") and (ii) loans to borrowers which are not Serbian Borrowers to be made only by banks or entities which are not Serbian Lenders.

The Revolving Credit Facility may be utilized from the Closing Date until the date falling one month prior to the termination date of the Revolving Credit Facility. The original borrowers under the Revolving Credit Facility are Adria Serbia Holdco B.V., Adria Bidco d.o.o. Beograd and the Issuer.

Interest and Fees

Loans under the Revolving Credit Facility Agreement will initially bear interest at rates per annum equal to LIBOR or, for loans denominated in euro, EURIBOR, plus a margin of 4.25% per annum (which shall be subject to reduction after the first anniversary of the consummation of the Acquisition (the "Closing Date") in accordance with a ratchet linked to the leverage ratio). Loans made by a Serbian Lender to a Serbian Borrower will bear an additional margin of 1.10% per annum. The margin applicable to an Additional Facility will be agreed between Adria Midco B.V. and the lenders of that Additional Facility (subject to certain parameters set out in the Revolving Credit Facility Agreement).

A commitment fee is payable on the aggregate undrawn and uncancelled amount of the Revolving Credit Facility from the Closing Date to the end of the availability period for the Revolving Credit Facility at a rate of 40% of the margin applicable to the Revolving Credit Facility from time to time. The commitment fee is payable quarterly in arrears, on the last date of availability of the Revolving Credit Facility and on the date the Revolving Credit Facility is cancelled in full or on the date on which a lender cancels its commitment thereunder. Default interest is calculated as an additional 1% on the overdue amount. Adria Midco B.V. is also required to pay customary agency fees to the facility agent, the English security agent and the Serbian security agent in connection with the Revolving Credit Facility.

Repayments

Each advance will be repaid on the last day of the interest period relating thereto, subject to a netting mechanism applicable to amounts being drawn on the same date. All outstanding amounts under the Revolving Credit Facility will be repaid on the date falling 72 months after the Closing Date. The termination date for a facility under an additional facility commitment is the date agreed between Adria Midco B.V. and the relevant lenders. Amounts repaid by the borrowers in respect of loans made under the Revolving Credit Facility may be re-borrowed during the availability period for that facility, subject to certain conditions.

Mandatory Prepayment

The Revolving Credit Facility Agreement allows for voluntary prepayments (subject to minimum amounts). The Revolving Credit Facility Agreement also permits each lender to require the mandatory prepayment of all amounts due to that lender under the Revolving Credit Facility Agreement upon a Change of Control. The Revolving Credit Facility Agreement also requires Adria Midco B.V. to make an offer to prepay the Revolving Credit Facility with the net cash proceeds received by the Group from certain disposals of assets, to the extent that such net cash proceeds exceed certain agreed thresholds and have not been applied for other permitted purposes.

Guarantees

Adria Midco B.V., Adria Serbia Holdco B.V., Adria Bidco d.o.o. Beograd and the Issuer have provided senior guarantees of all amounts payable to the finance parties under the Revolving Credit Facility Agreement, in each case subject to the limitations on such guarantees as set out in the Revolving Credit Facility Agreement.

The Revolving Credit Facility Agreement requires that (subject to agreed security principles and upon request in certain cases) each subsidiary of Adria Midco B.V. incorporated in the Netherlands, Serbia, Luxembourg, Bosnia and Herzegovina or Slovenia that is or becomes a Material Subsidiary (which definition includes, among other things, any member of the Group that has earnings before interest, tax, depreciation and amortization representing 5% or more of consolidated EBITDA or total assets representing 5% or more of the total assets of the Group) following the Closing Date, and any holding company of that company, will be required to become a guarantor under the Revolving Credit Facility Agreement within the time period specified therein.

Furthermore, if on the last day of a financial year of Adria Midco B.V., the guarantors represent less than 80% of the consolidated EBITDA and/or the total assets of Adria Midco B.V. and its subsidiaries (subject to certain exceptions), within 60 days of delivery of the annual financial statements for that financial year, subject to agreed security principles additional restricted subsidiaries of Adria Midco B.V. are required to become additional guarantors of the Revolving Credit Facility Agreement until the 80% coverage requirement is met (calculated as if such additional guarantors had been guarantors on such last day of the relevant financial year).

Security

The Revolving Credit Facility is initially secured by the same Collateral as the Notes other than in respect of guarantees and security granted by any member of the Group incorporated in Serbia, Slovenia or Bosnia which, due to local law restrictions, are granted in favor of the Revolving Credit Facility only. In addition, any Material Company or other member of the Group which becomes a guarantor of the Revolving Credit Facility is required (subject to agreed security principles) to grant security over its material assets in favor of the relevant security agent under the Revolving Credit Facility.

Representations and Warranties

The Revolving Credit Facility Agreement contains certain customary representations and warranties (subject to certain exceptions and qualifications and with certain representations and warranties being repeated), including status and incorporation, power and authority, binding obligations, non-conflict with laws, constitutional documents or other binding obligations, authorizations, consents and filings and no default.

Covenants

The Revolving Credit Facility Agreement contains certain of the incurrence covenants and related definitions (with certain adjustments) that are set forth in the Indenture. In addition, the Revolving Credit Facility Agreement contains a financial covenant (see "—*Financial Covenant*").

The Revolving Credit Facility Agreement also contains a "notes purchase condition" covenant. Subject to certain exceptions set out in the Revolving Credit Facility Agreement, Adria Midco B.V. may not, and shall procure that no other member of the Group will, repay, prepay, purchase, defease, redeem or otherwise acquire or retire the principal amount of the Notes (or, in each case, any replacement or refinancing thereof as permitted under the Revolving Credit Facility Agreement from time to time) prior to its scheduled repayment date in any manner which involves the payment of cash consideration by a member of the Group to a person which is not a member of the Group. The exceptions to such covenant include (among other things) payments that do not exceed 50% of the aggregate original principal amount of the Notes (or, in each case, any replacement or refinancing thereof as permitted under the Revolving Credit Facility Agreement from time to time) in existence as of the Closing Date or incurred at any time after the Closing Date.

The Revolving Credit Facility Agreement also requires certain members of the Group to observe certain affirmative covenants relating to maintenance of guarantor and security coverage and further assurances.

Certain of the covenants under the Revolving Credit Facility Agreement will be suspended upon (i) at any time after the first anniversary of the Signing Date, an achievement of a leverage ratio equal to or less than 2.00:1 or (ii) an achievement by Adria Midco B.V. (or any of its affiliates) of a long-term corporate credit rating of Baa3/BBB− or better by at least two of Moody's Investor Services, Inc., Standard & Poor's Investors Ratings Services and Fitch Ratings Limited.

The Revolving Credit Facility contains an information covenant under which, among other things, Adria Midco B.V. is required to deliver to the facility agent annual financial statements, quarterly financial statements, compliance certificates and an annual budget, provided that delivery of accounts and/or financial statements for any period which comply with the terms of the Indenture (or documentation governing any replacement, equivalent or similar financing from time to time) shall satisfy such requirements.

Financial Covenant

The Revolving Credit Facility Agreement requires Adria Midco B.V. to comply with a Leverage Ratio (defined as the aggregate outstanding Indebtedness of Adria Midco B.V. and its Restricted Subsidiaries (excluding certain hedging obligations and certain other obligations) at such date to Consolidated EBITDA for the period of the most recent four consecutive financial quarters ending prior to the date of determination of such ratio, each such term as defined in the Revolving Credit Facility Agreement). Subject to the satisfaction of certain pre-conditions, the covenant will be tested quarterly.

The Leverage Ratio for any relevant period shall not exceed the ratio set out in Column 2 opposite such date.

Column 1	Column 2
Relevant Period expiring on or about:	**Ratio**
31 December 2014	8.10:1
31 March 2015	7.90:1
30 June 2015	7.90:1
30 September 2015	7.90:1
31 December 2015	8.10:1
31 March 2016	8.10:1
30 June 2016	8.10:1
30 September 2016	8.10:1
31 December 2016	8.00:1
31 March 2017	8.00:1
30 June 2017	7.90:1
30 September 2017	7.90:1
Each Accounting Date thereafter	8.00:1

Adria Midco B.V. is permitted to prevent or cure breaches of the Leverage Ratio by applying all or any part of amounts received by Adria Midco B.V. in cash pursuant to any new equity or permitted subordinated debt (such amount being a cure amount) as if Consolidated Net Indebtedness had been reduced by such amount. There is no requirement to apply any cure amount in prepayment of the Revolving Credit Facility. No more than two cure amounts may be taken into account during each financial year of Adria Midco B.V. and no more than four cure amounts may be taken into account during the term of the Revolving Credit Facility. In certain circumstances, breaching the specified financial covenant levels will result only in a drawstop event, and not an event of default.

Events of Default

The Revolving Credit Facility contains events of default which are, with certain adjustments, the same as those applicable to the Notes and set forth in the section entitled "*Description of the Notes—Events of Default*." In addition, the Revolving Credit Facility contains the following events of default (which are subject to certain materiality exceptions and cure periods):

- inaccuracy of a representation or statement when made;
- unlawfulness, repudiation, rescission, invalidity or unenforceability of the Revolving Credit Facility Agreement or any other finance documents entered into in connection with it; and
- non-compliance by a member of the Group with a material obligation under the Intercreditor Deed.

Intercreditor Agreement

General

To establish the relative rights of certain of our creditors under our financing arrangements, Adria Midco B.V. (the "Parent"), Adria Serbia Holdco B.V., Adria Bidco d.o.o. Beograd and the Issuer (together with any other entity which accedes or otherwise becomes a party to the Intercreditor Agreement as a debtor, the "Debtors") are parties to the Intercreditor Agreement dated on or before the Issue Date, with, among others, UniCredit Bank AG, London Branch as English security agent, UniCredit Bank Serbia JSC Belgrade as Serbian security agent and UniCredit Bank Serbia JSC Belgrade as Payment Agent.

The Intercreditor Agreement is governed by English law and sets out, among other things, the relative ranking of certain indebtedness of the Debtors, the relative ranking of certain security granted by the collateral providers, when payments can be made in respect of certain debt of the Debtors, when enforcement action can be taken in respect of that indebtedness, the terms pursuant to which certain of that indebtedness will be subordinated upon the occurrence of certain insolvency events and turnover provisions.

Due to restrictions under Serbian law, the Intercreditor Agreement provides for the appointment of (x) a security agent in relation to the Security Documents governed by the laws of Serbia (the "Serbian

Security Agent") and (y) a security agent in relation to the Security Documents not governed by the laws of Serbia (the "English Security Agent").

The Intercreditor Agreement additionally provides for Hedge Counterparties and Operating Facility Lenders (each as defined below) to receive guarantees and indemnities from the Debtors on substantially the same terms (including the relevant limitations) as such guarantees and indemnities are provided by the obligors to the finance parties under the Senior Facilities Agreement.

Capitalized terms set forth and used in this section entitled "—*Intercreditor Agreement*" have the same meanings as set forth in the Intercreditor Agreement, which may have different meanings from the meanings given to such terms and used elsewhere in this offering memorandum.

Definitions

The following capitalized terms used in this summary of the Intercreditor Agreement have the meaning given to them below:

"Creditors" means the Senior Secured Creditors, the Senior Parent Creditors, the Hedge Counterparties, the intra-Group lenders and the investors in the Group.

"Group" means the Parent and its Restricted Subsidiaries (as such term is defined in the Revolving Credit Facility Agreement) for the time being.

"Hedge Counterparty" means any person that executes or accedes to the Intercreditor Agreement as a Hedge Counterparty.

"Hedging Liabilities" means the liabilities owed by any Debtor to hedge counterparties in respect of certain hedging agreements.

"Majority Permitted Parent Financing Creditors" means, in relation to any Permitted Parent Financing Debt, the requisite number or percentage of Permitted Parent Financing Creditors under the Permitted Parent Financing Agreement on whose instructions the Senior Parent Creditor Representative is required to act in relation to the relevant matter.

"Majority Permitted Senior Financing Creditors" means, in relation to any Permitted Senior Financing Debt, the requisite number or percentage of Permitted Senior Financing Creditors under the Permitted Senior Financing Agreement on whose instructions the Senior Creditor Representative is required to act in relation to the relevant matter.

"Majority Senior Lenders" means, at any time, subject to certain provisions of the Revolving Credit Facility Agreement, a Senior Lender or Senior Lenders commitments under the Revolving Credit Facility Agreement that aggregate at least 66.66 per cent. of the total commitments under the Revolving Credit Facility (or, if the total commitments have been reduced to zero, aggregate at least 66.66 per cent. of the total commitments immediately prior to that reduction).

"Operating Facility" means any facility or financial accommodation (including, without limitation, any overdraft or other current account facility, any foreign exchange facility, any guarantee, bonding, documentary or standby letter of credit facility, any credit card or automated payments facility, any short term loan facility and any derivatives facility) provided to a member of the Group by an Operating Facility Lender which is notified to the Security Agent by the Parent in writing as a facility or financial accommodation to be treated as an "Operating Facility" for the purposes of the Intercreditor Agreement.

"Operating Facility Document" means, at the election of the Parent, any document relating to or evidencing an Operating Facility.

"Operating Facility Lender" means any person that executes or accedes to the Intercreditor Agreement as an Operating Facility Lender.

"Operating Facility Liabilities" means the liabilities owed by any Debtor to the Operating Facility Lenders under or in connection with the Operating Facility Documents.

"Permitted Parent Financing Agreement" means, in relation to any Permitted Parent Financing Debt, the facility agreement, indenture or other equivalent document by which that Permitted Parent Financing Debt is made available or, as the case may be, issued.

"Permitted Parent Financing Creditors" means, in relation to any Permitted Parent Financing Debt, each of the lenders, holders or other creditors in respect of that Permitted Parent Financing Debt from time to time (including the applicable Senior Parent Creditor Representative).

"Permitted Parent Financing Debt" means any indebtedness incurred by any member of the Group which is notified to the Security Agent by the Parent in writing as indebtedness to be treated as "Permitted Parent Financing Debt" for the purposes of the Intercreditor Agreement, provided that (a) the incurrence of such indebtedness is not prohibited by the terms of the Secured Debt Documents (as defined below) and (b) the providers of such indebtedness or the agent, trustee or other relevant representative in respect of that Permitted Parent Financing Debt have agreed to become a party to the Intercreditor Agreement in such capacity, in each case unless already a party in that capacity.

"Permitted Parent Financing Documents" means, in relation to any Permitted Parent Financing Debt, the Permitted Parent Financing Agreement, any fee letter entered into under or in connection with the Permitted Parent Financing Agreement and any other document or instrument relating to that Permitted Parent Financing Debt and designated as such by the Parent and the Senior Parent Creditor Representative in respect of that Permitted Parent Financing Debt.

"Permitted Parent Financing Liabilities" means all liabilities of any Debtor to any Permitted Parent Financing Creditors under or in connection with the Permitted Parent Financing Documents.

"Permitted Senior Financing Agreement" means, in relation to any Permitted Senior Financing Debt, the facility agreement, indenture or other equivalent document by which that Permitted Senior Financing Debt is made available or, as the case may be, issued.

"Permitted Senior Financing Creditors" means, in relation to any Permitted Senior Financing Debt, each of the lenders, holders or other creditors in respect of that Permitted Senior Financing Debt from time to time (including the applicable Senior Creditor Representative).

"Permitted Senior Financing Debt" means any indebtedness incurred by any member of the Group which is notified to the Security Agent by the Parent in writing as indebtedness to be treated as "Permitted Senior Financing Debt" for the purposes of the Intercreditor Agreement provided that (a) the incurrence of such indebtedness is not prohibited by the terms of the Secured Debt Documents (as defined below) and (b) the providers of such indebtedness or the agent, trustee or other relevant representative in respect of that Permitted Senior Financing Debt have agreed to become a party to the Intercreditor Agreement in each case to the extent not already a party in that capacity.

"Permitted Senior Financing Documents" means, in relation to any Permitted Senior Financing Debt, the Permitted Senior Financing Agreement, any fee letter entered into under or in connection with the Permitted Senior Financing Agreement and any other document or instrument relating to that Permitted Senior Financing Debt and designated as such by the Parent and the Senior Creditor Representative under that Permitted Senior Financing Debt.

"Permitted Senior Financing Liabilities" means all liabilities of any Debtor to any Permitted Senior Financing Creditors under or in connection with the Permitted Senior Financing Documents.

"Primary Creditors" means the creditors in relation to the Senior Facilities, certain hedging obligations, the Senior Notes, the Senior Parent Notes, the Permitted Senior Financing Debt and the Permitted Parent Financing Debt, and each a "Primary Creditor".

"Secured Debt Documents" means the Senior Facilities finance documents, the Senior Notes finance documents, the Permitted Senior Financing Documents, the hedging agreements regulated by the Intercreditor Agreement, the Operating Facility finance documents, the Senior Parent Notes finance documents and/or the Permitted Parent Financing Documents.

"Secured Party" means, to the extent legally possible and subject to the Agreed Security Principles, each of the Security Agent, any receiver or delegate and each of the creditor representatives of the relevant secured creditors, the arrangers under the Revolving Credit Facility Agreement, the Operating Facility Lenders, the Senior Secured Creditors and the Senior Parent Creditors from time to time but, to the extent required by the Intercreditor Agreement, only if it is a party to the Intercreditor Agreement or has acceded to it, in the appropriate capacity, pursuant to its terms.

"Security Agent" means the English Security Agent and/or the Serbian Security Agent, as the context requires.

"Senior Creditors" means the Senior Lenders and the Hedge Counterparties.

"Senior Creditor Representative" means in relation to any Permitted Senior Financing Debt, the agent, trustee or other relevant representative in respect of that Permitted Senior Financing Debt.

"Senior Facilities Agreement" means the Revolving Credit Facility Agreement as defined above.

"Senior Lender" means each of the lenders, issuing banks and ancillary lenders under the Senior Facilities Agreement.

"Senior Lender Liabilities" means the liabilities owed by the Debtors to the Senior Lenders under the Senior Facilities finance documents.

"Senior Liabilities" means the Senior Lender Liabilities, the Hedging Liabilities, the Senior Notes liabilities and the Permitted Senior Financing Liabilities (as applicable).

"Senior Notes Creditors" means the Senior Note holders, each trustee under any such issue of Senior Notes and any Permitted Senior Financing Creditors.

"Senior Notes Trustee" means any entity acting as trustee under any issue of Senior Notes (to the extent it has acceded in such capacity to the Intercreditor Agreement in accordance with its terms) in each case as the context requires.

"Senior Parent Creditors" means the Senior Parent Note holders, each trustee under any such issue of Senior Parent Notes and any Permitted Parent Financing Creditors.

"Senior Parent Creditor Representative" means in relation to any Permitted Parent Financing Debt, the agent, trustee or other relevant representative in respect of that Permitted Parent Financing Debt.

"Senior Parent Debt Issuer" means, in relation to any Senior Parent Notes or Permitted Parent Financing Debt, the member of the Group which is the issuer, or, as the case may be, the borrower of those Senior Parent Notes or that Permitted Parent Financing Debt, provided that no member of the Group which is:

(a) for so long as any amount remains outstanding under the senior secured bridge facility agreement made between the Parent and UniCredit Bank AG, London Branch as facility agent and as security agent (the "Senior Bridge Facility"), the borrower of the Senior Bridge Facility;

(b) an issuer or, as the case may be, a borrower of any outstanding Senior Notes or outstanding Permitted Senior Financing Debt; or

(c) a subsidiary of a member of the Group falling within (a) or (b) above (other than a subsidiary which is a financing vehicle), may be a Senior Parent Debt Issuer.

"Senior Parent Finance Parties" means any Senior Parent Notes Trustee (on behalf of itself and the Senior Parent Noteholders that it represents), any Senior Parent Noteholder, the Security Agent and the Permitted Parent Financing Creditors.

"Senior Parent Liabilities" means the Senior Parent Notes Liabilities and any Permitted Parent Financing Liabilities.

"Senior Parent Noteholders" means the holders of the Senior Parent Notes.

"Senior Parent Notes Finance Documents" means, generally, the Senior Parent Notes, each indenture for Senior Parent Notes, guarantees of the Senior Parent Notes, the Intercreditor Agreement, the relevant security documents securing the liabilities in respect of the Senior Parent Notes and any other document designated as such by the Parent and the applicable Senior Parent Notes Trustee.

"Senior Parent Notes Liabilities" means, generally, the liabilities owed by any Debtor to the Senior Parent Notes Creditors and the Security Agent under the finance documents for the Senior Parent Notes (excluding, generally, certain amounts owed to the relevant Senior Parent Notes Trustee in respect of each issuance of Senior Parent Notes).

"Senior Parent Notes Trustee" means any entity acting as trustee under any issue of Senior Parent Notes (to the extent it has acceded in such capacity to the Intercreditor Agreement in accordance with its terms) in each case as the context requires.

"Senior Secured Creditors" means the Senior Creditors, the Senior Notes Creditors and any Permitted Senior Financing Creditors.

Debt Refinancing

The Intercreditor Agreement permits any of the liabilities under the debt documents to be refinanced, replaced, increased or otherwise restructured in whole or in part including by way of Permitted Senior Financing Debt and/or Permitted Parent Financing Debt or the issue of additional Senior Notes and the introduction of a "super senior" revolving credit facility (the "Priority Revolving Facility") or the establishment of new or additional Operating Facilities (each a "Debt Refinancing").

Each party to the Intercreditor Agreement shall be required to enter into any amendment to or replacement of the then current Secured Debt Documents and/or take such other action as is required by the Parent in order to facilitate such a Debt Refinancing including changes to, the taking of, or release and retake of any guarantee or security, subject to certain conditions. At the option of the Parent, a Debt Refinancing may be made available on a basis which is senior to, *pari passu* with or junior to any of the other liabilities, shall be entitled to benefit from all or any of the security, may be made available on a secured or unsecured basis (subject to certain restrictions) and may be effected in whole or in part by way of a debt exchange, non-cash rollover or other similar or equivalent transaction, in each case unless otherwise prohibited by the Debt Financing Agreements.

Under the terms of the Intercreditor Agreement each agent, each Secured Party and each Primary Creditor agrees that it shall co-operate with the Parent, each other member of the Group and each agent in order to facilitate any Debt Refinancing (including by way of, at the request and cost of the Parent, executing any document or agreement and/or giving instructions to any person).

In the event of any refinancing or replacement of all or any part of the Senior Lender Liabilities (or any such refinancing or replacement indebtedness from time to time), the Parent shall be entitled to require that the definition of Instructing Group is amended such that the relevant refinancing or replacement indebtedness is treated in the same manner as the Senior Facilities (meaning that for the purpose of calculating the voting entitlement of any person, at the option of the Parent all or any part of the relevant refinancing or replacement indebtedness may be treated as Senior Secured Credit Participations of the Senior Creditors and not Senior Bridge/Notes/Permitted Financing Credit Participations).

In the event that any Priority Revolving Facility becomes subject to the provisions of the Intercreditor Agreement, the Parent shall be entitled to require that all or any part of the liabilities in relation to Hedging Liabilities and/or the Operating Facility Liabilities shall rank in right and priority of payment *pari passu* with that Priority Revolving Facility (which, for the avoidance of doubt, may result in such Hedging Liabilities and/or, as the case may be, Operating Facility Liabilities ranking ahead of the Senior Notes liabilities, the Permitted Senior Financing liabilities, the Permitted Parent Notes Liabilities and/or the Permitted Parent Financing Liabilities) in each case unless otherwise prohibited by the Debt Financing Agreements.

Any Priority Revolving Facility implemented pursuant to a Debt Refinancing shall comply with, among others, the following limitations:

Ranking of a Priority Revolving Facility

No liabilities or obligations in respect of any Priority Revolving Facility may rank in right and priority of payment ahead of the amounts set out in paragraph (i) under the caption "*—Application of Proceeds*."

Subject to the paragraph above and to the extent not otherwise prohibited by the Debt Financing Agreements, any Priority Revolving Facility shall rank in right and priority of payment as determined by the Parent.

Enforcement: Priority Revolving Facility

The right of the lenders or other creditors in respect of a Priority Revolving Facility to:

(a) instruct the Security Agent to enforce the security;

(b) give or refrain from giving instructions to the Security Agent to enforce or refrain from enforcing the security as they see fit; and/or

(c) otherwise provide instructions as, or as part of, an Instructing Group, shall be generally consistent with, or otherwise not materially less favorable to the other Secured Parties than, those customary for facilities of a similar nature to that Priority Revolving Facility (if any), in each case as at the date such Priority Revolving Facility is contractually committed by the relevant member(s) of the Group and as determined by the Parent (with any such determination to be conclusive).

Option to Purchase

(a) The Senior Notes Creditors and the Permitted Senior Financing Creditors shall be provided with an 'option to purchase' right in relation to any liabilities in respect of a Priority Revolving Facility consistent in all material respects with the 'option to purchase' right provided in relation to the Senior Lender Liabilities as set out under the caption "*—Restrictions Relating to Senior Secured Liabilities—Option to Purchase: Senior Secured Creditors*."

(b) The Senior Parent Notes Trustee and any Senior Parent Creditor Representative(s) shall be provided with an 'option to purchase' right in relation to any liabilities in respect of a Priority Revolving Facility consistent in all material respects with the 'option to purchase' right as set out under the paragraph captioned "*—Restrictions Relating to Senior Parent Creditors and Senior Parent Liabilities—Option to Purchase: Senior Parent Creditors*."

Ranking and Priority

Priority of Debts

Subject to the provisions set out in the caption "*—Senior Parent Liabilities and Security*" below, the Intercreditor Agreement provides that the liabilities owed by the Debtors (other than any Senior Parent Debt Issuer to the extent relating to liabilities in respect of Senior Parent Notes and/or Permitted Parent Financing Debt where that Senior Parent Debt Issuer is the issuer or the borrower) to the Primary Creditors and the Operating Facility Lenders shall rank in right and priority of payment in the following order and are postponed and subordinated to any prior ranking liabilities as follows:

- first, the Senior Lender Liabilities, the Senior Notes liabilities, the Permitted Senior Financing Liabilities, the Hedging Liabilities, the Operating Facility Liabilities, amounts due to the Senior Notes Trustee and amounts due to the Senior Parent Notes Trustee *pari passu* and without any preference amongst them; and
- second, the Senior Parent Notes liabilities and the Permitted Parent Financing Liabilities *pari passu* and without any preference amongst them.

The liabilities owed by any Senior Parent Debt Issuer (to the extent relating to Liabilities in respect of Senior Parent Notes and/or Permitted Parent Financing Debt where that Senior Parent Debt Issuer is the issuer or the borrower) to the Primary Creditors and the Operating Facility Lenders shall rank pari passu in right and priority of payment without any preference amongst them.

Priority of Security

The Intercreditor Agreement provides that the security shall secure the liabilities (but only to the extent that such security is expressed to secure those liabilities) in the following order:

- first, the Senior Lender Liabilities, the Senior Notes Liabilities, the Permitted Senior Financing Liabilities, the Hedging Liabilities, the Operating Facility Liabilities, amounts due to the Senior Notes Trustee and amounts due to the Senior Parent Notes Trustee *pari passu* and without any preference amongst them; and
- second, the Senior Parent Notes liabilities and the Permitted Parent Financing Liabilities *pari passu* and without any preference amongst them.

Senior Parent Liabilities and Security

The Senior Parent Notes liabilities and the Permitted Parent Financing Liabilities owed by a Senior Parent Debt Issuer (to the extent relating to Liabilities in respect of Senior Parent Notes and/or Permitted Parent Financing Debt where that Senior Parent Debt Issuer is the issuer or, as the case may be, the borrower) are senior obligations of that Senior Parent Debt Issuer. Notwithstanding the preceding sentence, until the date the Senior Lender Liabilities, the Hedging Liabilities, the Senior Notes liabilities and the Permitted Senior Financing Liabilities have been discharged (the "Senior Discharge Date"), the

Senior Parent Notes Creditors and the Permitted Parent Financing Creditors may not take any steps subject to the Security Documents in connection with any Enforcement Action (as defined below), other than as expressly permitted by the Intercreditor Agreement.

For the avoidance of doubt, this paragraph shall not impair the right of the Senior Parent Creditors and/or the Permitted Parent Financing Creditors to institute suit for the recovery of any payment due by a Senior Parent Debt Issuer in respect of the Senior Parent Liabilities and/or the Permitted Parent Financing Liabilities (in each case to the extent relating to liabilities in respect of Senior Parent Notes and/or Permitted Parent Financing Debt where that Senior Parent Debt Issuer is the issuer or, as the case may be, the borrower).

Intra-Group Liabilities and Investor Liabilities

The Intercreditor Agreement provides that the intra-Group liabilities and the liabilities of the Group to an investor are postponed and subordinated to the liabilities owed by the Debtors to the Primary Creditors and the Operating Facility Lenders, but does not purport to rank any of those liabilities as between themselves.

Additional and/or Refinancing Debt

The Creditors and the Operating Facility Lenders acknowledge in the Intercreditor Agreement that the Debtors (or any of them) may wish to incur incremental borrowing liabilities (including guarantees of such liabilities) or refinance or replace borrowing liabilities (including incurring guarantee liabilities in respect of such refinancing or replacement). Such liabilities are intended to rank *pari passu* with any other liabilities and/or share *pari passu* in any security and/or to rank behind any other liabilities and/or to share in any security behind any such other liabilities.

The Creditors and the Operating Facility Lenders undertake in the Intercreditor Agreement (at the cost of the Debtors) to co-operate with the Parent and the Debtors with a view to enabling and facilitating such financing, refinancing or replacement and such sharing in the security (provided it is not prohibited by the terms of the Debt Financing Agreements at such time) to take place in a timely manner. In particular, but without limitation, each of the secured parties authorizes and directs each of its respective agents and the Security Agent to execute any amendment to or replacement of the Intercreditor Agreement and such other debt documents and/or (subject to certain pre-conditions) release and retake of security required by the Parent to reflect, enable and/or facilitate any such arrangements (including, as regards the ranking of any such arrangements).

If a Debtor incurs any new, additional or increased liabilities under any Secured Debt Document and/or in connection with any Debt Refinancing, at the option of the Parent, the relevant Debtor may (but subject to the relevant Debt Financing being elected to be secured in accordance with the applicable terms of the Intercreditor Agreement and subject to the agreed security principles) grant to the relevant Secured Parties in respect of all or any part of such Debt Financing additional security by executing additional security documents which will benefit from the order of priority and ranking set out in the Intercreditor Agreement.

Restrictions Relating to Senior Secured Liabilities

The Parent and the Debtors may make payments of the senior secured liabilities at any time.

The Intercreditor Agreement provides that the Senior Secured Creditors, the Operating Facility Lenders, the Parent and the Debtors may at any time amend or waive the terms of the finance documents in relation to the Senior Facilities (the "Senior Facilities Finance Documents"), the Senior Notes, the Permitted Senior Financing Debt and/or any Operating Facility in accordance with their respective terms from time to time (and subject only to any consent required under them).

Security and Guarantees: Senior Secured Creditors

The Senior Secured Creditors and the Operating Facility Lenders may take, accept or receive the benefit of:

- any security from any member of the Group in respect of any of the Senior Liabilities in addition to the shared security provided that, to the extent legally possible and subject to certain agreed security principles;
- the security provider becomes party to the Intercreditor Agreement as a Debtor (if not already a party in that capacity);
- all amounts actually received or recovered by any Senior Secured Creditor or Operating Facility Lender with respect to any such security shall immediately be paid to the Security Agent and applied in accordance with the provisions set out under the caption "*—Application of Proceeds*;" and
- any such security may only be enforced in accordance with the provisions set out under the caption "*—Manner of Enforcement—Security Held by Other Creditors*."
- any guarantee, indemnity or other assurance against loss from any member of the Group regarding any of the Senior Liabilities in addition to those in:
- the Senior Facilities Agreement, any Senior Notes Indenture, any Permitted Senior Financing Document or any Operating Facility Document;
- the Intercreditor Agreement; or
- any guarantee, indemnity or other assurance against loss in respect of any of the liabilities, the benefit of which (however conferred) is, to the extent legally possible and subject to certain agreed security principles, given to, or expressed to be given to, all the senior secured parties in respect of their senior secured liabilities,
- provided that (except for any guarantee, indemnity or other assurance against loss permitted to be given to any ancillary lender or issuing bank), to the extent legally possible, and subject to certain agreed security principles,
- the guarantee provider becomes party to the Intercreditor Agreement as a Debtor (if not already a party in that capacity); and
- such guarantee, indemnity or assurance against loss is expressed to be subject to the Intercreditor Agreement.
- any security, guarantee, indemnity or other assurance against loss from any member of the Group in connection with:
- any escrow or similar or equivalent arrangements entered into in respect of amounts which are being held (or will be held) by a person which is not a member of the Group prior to release of those amounts to a member of the Group; or
- any actual or proposed defeasance, redemption, prepayment, repayment, purchase or other discharge of any Senior Lender Liabilities, Operating Facility Liabilities, Senior Notes liabilities and/or Permitted Senior Financing Liabilities (in each case provided that such defeasance, redemption, prepayment, repayment, purchase or other discharge is not prohibited by the terms of this Agreement).
- all amounts actually received or recovered by any Senior Secured Creditor or Operating Facility Lender with respect to any such security shall immediately be paid to the Security Agent and applied in accordance with the provisions set out under the caption "*—Application of Proceeds*";
- any such Security may only be enforced in accordance with the terms of the Intercreditor Agreement which relate to security held by someone other than the Security Agent; and
- any such guarantee, indemnity or assurance against loss is expressed to be subject to the terms of the Intercreditor Agreement.

This provision does not require any security or guarantee to be granted in respect of the Senior Parent Notes.

Restriction on Enforcement: Senior Lenders and Senior Notes Creditors

The Intercreditor Agreement provides that no Senior Lender, Senior Notes Creditor or Permitted Senior Financing Creditor may take certain Enforcement Action without the prior written consent of an Instructing Group (as defined below).

Notwithstanding the above restriction or anything to the contrary in the Intercreditor Agreement, after the occurrence of certain specified insolvency events (an "Insolvency Event") in relation to the Parent or a Debtor, each Senior Lender, Senior Notes Creditor and/or Permitted Senior Financing Creditor may, to the extent it is permitted to do so under the relevant Debt Documents, take certain Enforcement Action and/or claim in the winding up, dissolution, administration, reorganization or similar insolvency event or process in relation to that Debtor for liabilities owing to it (but no Senior Secured Creditor or Operating Facility Lender may direct the Security Agent to enforce the common security in any manner).

Option to Purchase: Senior Secured Creditors

Senior Notes Creditors holding at least a simple majority of the Senior Notes liabilities or Permitted Senior Financing Creditors holding at least a simple majority of the Permitted Senior Financing Liabilities (the "Senior Secured Acquiring Creditors") may, after the occurrence of an acceleration event which is continuing, by giving not less than ten (10) days' notice to the Security Agent (with the first notice to prevail in the event that more than one set of Creditors serves such a notice), require the transfer to them (or to a nominee or nominees), in accordance with the applicable transfer provisions of the Intercreditor Agreement, of all, but not part, of the rights, benefits and obligations in respect of the Senior Lender Liabilities and the Operating Facility Liabilities (a "Senior Liabilities Transfer") if:

(i) that transfer is lawful and, subject to paragraph (ii) below, otherwise permitted by the terms of the Senior Facilities Agreement and the Operating Facility Documents;

(ii) any conditions relating to such a transfer contained in the Senior Facilities Agreement and the Operating Facility Documents are complied with, other than:

   (A) any requirement to obtain the consent of, or consult with, a member of the Group in relation to such transfer, which consent or consultation shall not be required; and

   (B) to the extent to which all the Senior Secured Acquiring Creditors provide cash cover for any letter of credit, the consent of the relevant letter of credit issuing bank relating to such transfer;

(iii) the Senior Facility Agent, on behalf of the Senior Lenders, is paid an amount equal to the aggregate of:

   (A) any amounts provided as cash cover by the Senior Secured Acquiring Creditors for any letter of credit (as envisaged in paragraph (ii)(B) above);

   (B) all of the Senior Lender Liabilities at that time (whether or not due), including all amounts that would have been payable under the Senior Facilities Agreement if the Senior Facilities were being prepaid by the relevant Debtors on the date of that payment; and

   (C) all costs and expenses (including legal fees) incurred by the Senior Facility Agent and/or the Senior Lenders and/or the Security Agent as a consequence of giving effect to that transfer;

(iv) the Operating Facility Lenders are paid an amount equal to the aggregate of:

   (A) all of the Operating Facility Liabilities at that time (whether or not due), including all amounts that would have been payable under the Operating Facility Documents if the Operating Facilities were being prepaid by the relevant Debtors on the date of that payment; and

   (B) all costs and expenses (including legal fees) incurred by the Operating Facility Lenders and/or the Security Agent as a consequence of giving effect to that transfer.

(v) as a result of that transfer:

   (A) the Senior Lenders have no further actual or contingent liability to a Debtor under the Senior Facilities Finance Documents; and

(B) the Operating Facility Lenders have no further actual or contingent liability to a Debtor under the Operating Facility Documents.

(vi) an indemnity is provided from each of the Senior Secured Acquiring Creditors (other than any Senior Agent) or from another third party acceptable to all the Senior Lenders and the Operating Facility Lenders in a form reasonably satisfactory to each Senior Lender and Operating Facility Lender in respect of all costs, expenses, losses and liabilities which may be sustained or incurred by any Senior Lender or Operating Facility Lender in consequence of any sum received or recovered by any Senior Lender or Operating Facility Lender from any person being required (or it being alleged that it is required) to be paid back by or clawed back from any Senior Lender or Operating Facility Lender for any reason;

(vii) the transfer is made without recourse to, or representation or warranty from, the Senior Lenders or the Operating Facility Lenders, except that each Senior Lender and Operating Facility Lender shall be deemed to have represented and warranted on the date of that transfer that it has the corporate power to effect that transfer and it has taken all necessary action to authorize the making by it of that transfer; and

(viii)the Senior Parent Creditors have not exercised their rights to purchase as described under the provisions set out in the paragraph captioned "*—Option to Purchase: Senior Parent Creditors*" or having exercised such rights, have not failed to complete the acquisition of the relevant Senior Secured Liabilities in accordance with such provisions.

Subject to the Intercreditor Agreement, the Senior Secured Acquiring Creditors may only require a Senior Liabilities Transfer if, at the same time, they require a transfer of the Hedging Liabilities in accordance with the Intercreditor Agreement and if, for any reason, such transfer cannot be made in accordance with the Intercreditor Agreement, no Senior Liabilities Transfer may be required to be made.

At the request of a Senior Agent (on behalf of the Senior Secured Acquiring Creditors), the Senior Facility Agent and the Operating Facility Lenders shall notify that Senior Agent of the foregoing payable sums in connection with such transfer.

Instructing Group

The term "Instructing Group" means at any time:

(a) prior to the Senior Discharge Date:

(i) in relation to any instructions to the Security Agent to enforce the security or refrain or cease from enforcing the security or to take any other Enforcement Action:

(A) those Senior Instructing Group Creditors whose Senior Secured Credit Participations at that time aggregate to more than 66⅔% of the Total Senior Instructing Group Credit Participations at that time; and/or

(B) prior to the Senior Lender Discharge Date, the Majority Senior Creditors,

in each case as applicable in accordance with the provisions set out under the caption "*—Consultation Period*"; or

(ii) in relation to any other matter:

(A) those Senior Instructing Group Creditors whose Senior Secured Credit Participations at that time aggregate to more than 66⅔% of the Total Senior Instructing Group Credit Participations at that time; and

(B) prior to the Senior Lender Discharge Date, the Majority Senior Creditors; and

(b) on or after the Senior Discharge Date but before the Senior Parent Discharge Date, and subject—always to the provisions set out under the caption "*—Restrictions on Enforcement by Senior Parent Creditors*," the Majority Senior Parent Creditors.

In the foregoing definition of "Instructing Group":

"Majority Senior Parent Creditors" means, at any time, those Senior Parent Creditors whose Senior Parent Credit Participations at that time aggregate to more than 66⅔% of the total aggregate amount of all Senior Parent Credit Participations at that time.

"Senior Instructing Group Creditors" means:

(a) prior to the Senior Lender Discharge Date, the Senior Secured Creditors (other than the Senior Creditors); and

(b) on and after the Senior Lender Discharge Date, the Senior Secured Creditors (other than the Senior Lenders).

"Senior Lender Discharge Date" means the first date on which all Senior Lender Liabilities have been fully and finally discharged, whether or not as the result of an enforcement, and the Senior Lenders are under no further obligation to provide financial accommodation to any of the Debtors under any of the Senior Facilities Finance Documents.

"Senior Parent Credit Participation" means:

(a) in relation to a Senior Parent Noteholder, the principal amount of outstanding Senior Parent Notes Liabilities held by that Senior Parent Note holder; and

(b) in relation to a Permitted Parent Financing Creditor, the aggregate amount of its commitments under each Permitted Parent Financing Agreement (drawn or undrawn and calculated in a manner consistent with the senior commitments) and/or the principal amount of outstanding Permitted Parent Financing Debt held by that Permitted Parent Financing Creditor (as applicable and without double counting).

"Senior Secured Credit Participation" means:

(a) in relation to a Senior Creditor, its Senior Credit Participation in relation to the Senior Facilities Agreement and the hedging agreements only;

(b) in relation to a Senior Noteholder, the principal amount of outstanding Senior Notes liabilities held by that Senior Noteholder; and

(c) in relation to a Permitted Senior Financing Creditor, the aggregate amount of its commitments under each Permitted Senior Financing Agreement (drawn or undrawn and calculated in a manner consistent with the senior commitments) and/or the principal amount of outstanding Permitted Senior Financing Debt held by that Permitted Senior Financing Creditor (as applicable and without double counting).

"Total Senior Instructing Group Credit Participations" means:

(a) prior to the Senior Lender Discharge Date, the aggregate of all the Senior Secured Credit Participations at any time (excluding the Senior Secured Credit Participations of the Senior Creditors); and

(b) on and after the Senior Lender Discharge Date, the aggregate of all the Senior Secured Credit Participations at any time (excluding the Senior Secured Credit Participations of the Senior Lenders).

"Total Senior Secured Credit Participations" means the aggregate of all the Senior Secured Credit Participations at any time.

Restrictions Relating to Senior Parent Creditors and Senior Parent Liabilities

Restriction on Payment and Dealings

The Intercreditor Agreement provides that, until the Senior Discharge Date, no Senior Parent Debt Issuer shall (and the Parent shall ensure that no member of the Group will):

(i) pay, repay, prepay, redeem, acquire or defease any principal, interest or other amount on or in respect of, or make any distribution in respect of, any Senior Parent Notes liabilities and any Permitted Parent Financing Liabilities in cash or in kind or apply any such money or property in or towards discharge of any Senior Parent Notes Liabilities and any Permitted Parent Financing Liabilities except as permitted by the provisions set out below under the captions "*—Permitted Senior Parent Payments,*" "*—Permitted Senior Parent Enforcement*," and the fourth paragraph under the caption "*—Effect of Insolvency Event; Filing of Claims*" or by a refinancing of the Senior Parent Notes or the Permitted Parent Financing Debt as permitted by the Intercreditor Agreement;

(ii) exercise any set-off against any Senior Parent Notes liabilities and any Permitted Parent Financing Liabilities, except as permitted by the provisions set out in the caption "*—Permitted Senior Parent Payments*" below, the provisions set out in the caption "*—Payment Obligations and Capitalization of Interest Continue—Restrictions on Enforcement by Senior Parent Creditors*" below or the fourth paragraph under the caption "*—Effect of Insolvency Event; Filing of Claims*" below or by a refinancing of the Senior Parent Notes or the Permitted Parent Financing Debt as permitted by the Intercreditor Agreement; or

(iii) create or permit to subsist any security over any assets of any member of the Group or give any guarantee (and the Senior Parent Notes Trustee or Senior Parent Creditor Representative, as the case may be, may not, and no Senior Parent Creditor may, accept the benefit of any such security or guarantee from any member of the Group) for, or in respect of, any Senior Parent Notes liabilities or any Permitted Parent Financing Liabilities other than:

(a) guarantees by a member of the Group of any obligations of the Group under the Senior Parent Notes finance documents and/or the Permitted Parent Financing Documents;

(b) at the option of the Parent, all or any of the security (provided that, for the avoidance of doubt, each of the parties agrees that the security shall rank and secure any Senior Parent Notes and any Permitted Parent Financing Debt as set out in "*—Ranking and Priority—Priority of Security*);" and

(c) any security over any assets of any Senior Parent Debt Issuer (other than, any such assets over which a Senior Parent Debt Issuer has granted security);

(d) any other security or guarantee provided by a member of the Group (the "Credit Support Provider") provided that, to the extent legally possible:

(i) the Credit Support Provider becomes party to the Intercreditor Agreement as a Debtor (if not already a party in that capacity);

(ii) all amounts actually received or recovered by the Senior Parent Notes Trustee, the Senior Parent Creditor Representative or the Senior Parent Creditors, as the case may be, with respect to any such security shall immediately be paid to the Security Agent and applied in accordance with the provisions set out under the caption "*—Application of Proceeds*;"

(iii) any such security may only be enforced in accordance with the provisions set out under the caption "*—Manner of Enforcement—Security Held by Other Creditors*;" and

(iv) such guarantee is expressed to be subject to the Intercreditor Agreement; and

(e) any security, guarantee, indemnity or other assurance against loss from any member of the Group in connection with:

(i) any escrow or similar or equivalent arrangements entered into in respect of amounts which are being held (or will be held) by a person which is not a member of the Group prior to release of those amounts to a member of the Group; or

(ii) any actual or proposed defeasance, redemption, prepayment, repayment, purchase or other discharge of any Senior Lender Liabilities, Operating Facility Liabilities, Senior Notes liabilities and/or any Permitted Senior Financing Liabilities (in each case provided that such defeasance, redemption, prepayment, repayment, purchase or other discharge is not prohibited by the terms of the Intercreditor Agreement).

Permitted Senior Parent Payments

Prior to the Senior Discharge Date, any member of the Group may, directly or indirectly, make payments with respect to the Senior Parent Notes liabilities and any Permitted Parent Financing Liabilities then due in accordance with the finance documents in relation to the Senior Parent Notes and the Permitted Parent Financing Debt (such payments, collectively, "Permitted Senior Parent Payments"):

(i) if:

(a) the payment is of:

(I) any of the principal amount of the Senior Parent Notes liabilities and the Permitted Parent Financing Liabilities which is either (1) not prohibited from being paid by the Senior Facilities Agreement, the Senior Notes Indenture or any Permitted Senior Financing Agreement; or (2) paid on or after the final maturity date of the relevant Senior Parent Notes liabilities and Permitted Parent Financing Liabilities (subject to certain conditions); or

(II) any other amount which is not an amount of principal or capitalized interest;

(b) no Senior Parent Payment Stop Notice (as defined below) is outstanding; and

(c) no payment default under the Senior Facilities Agreement, the Senior Notes or the Permitted Senior Financing Documents ("Senior Payment Default") has occurred and is continuing; or

(ii) if the Majority Senior Lenders, the Senior Notes Trustee and the Permitted Majority Senior Financing Creditors or the Senior Creditor Representative in respect of that Permitted Senior Financing Debt (as applicable) (the "Required Senior Consent") give prior consent to that payment being made; or

(iii) if the payment is of certain amounts due to the Senior Parent Notes Trustee for its own account;

(iv) if the payment is made by the relevant Senior Parent Debt Issuer and funded directly or indirectly with amounts which have not been received by that Senior Parent Debt Issuer from another member of the Group;

(v) of any costs and expenses of any holder of security in relation to protection, preservation or enforcement of such security;

(vi) of costs, commissions, taxes, fees and expenses incurred in respect of or in relation to (or reasonably incidental to) any of the Senior Parent Notes Indenture and any Permitted Parent Financing Documents (including in relation to any reporting or listing requirements under such documents);

(vii) if the payment is funded directly or indirectly with Permitted Parent Financing Debt;

(viii) if the payment is funded directly or indirectly with the proceeds of an Equity Contribution or Available Shareholder Amounts; or

(ix) of any other amount not exceeding €5,000,000 (or its equivalent) in aggregate in any financial year of the Parent.

On or after the Senior Discharge Date, the Debtors may make payments to the Senior Parent Creditors in respect of the Senior Parent Notes liabilities and any Permitted Parent Financing Liabilities, in accordance with the Senior Parent Notes Indenture and the Permitted Parent Financing Documents, as applicable.

Payment Blockage Provisions

Until the Senior Discharge Date, except with the Required Senior Consent, no Senior Parent Debt Issuer shall make (and the Parent shall procure that no other member of the Group shall make), and neither the Senior Parent Notes Trustee, any holder of Senior Parent Notes or the Permitted Parent Financing Creditors may receive from any other members of the Group, any Permitted Senior Parent Payment (other than certain amounts due to the Senior Parent Notes Trustee for its own account, payments funded by amounts not received from another member of the Group or payments funded by Permitted Parent Financing Debt) if:

- a Senior Payment Default is continuing; or
- an event of default under the Senior Facilities Agreement, the Senior Notes Indenture and/or any Permitted Senior Financing Agreement (a "Senior Event of Default") (other than a Senior Payment

Default) is continuing, from the date which is one business day after the date on which any of the Senior Facility Agent, the Senior Notes Trustee and any Senior Creditor Representative (together, the "Senior Agents") delivers a payment stop notice (a "Senior Parent Payment Stop Notice") specifying the event or circumstance in relation to that Senior Event of Default to the Parent, the Security Agent, the Senior Parent Notes Trustee and any Senior Parent Creditor Representative until the earliest of:

- the date falling 179 days after delivery of that Senior Parent Payment Stop Notice;
- in relation to payments of the Senior Parent Notes liabilities and any Permitted Parent Financing Liabilities, if a Parent standstill period is in effect at any time after delivery of that payment stop notice, the date on which that standstill period expires;
- the date on which the relevant Senior Event of Default has been remedied or waived in accordance with the Senior Facilities Agreement, the Senior Notes Indenture or any Permitted Senior Financing Agreement (as applicable);
- the date on which the Senior Agent which delivered the relevant Senior Parent Payment Stop Notice delivers a notice to the Parent, the Security Agent, the Senior Parent Notes Trustee and the Senior Parent Creditor Representative cancelling the Senior Parent Payment Stop Notice;
- the Senior Discharge Date; and
- the date on which the Security Agent, the Senior Parent Notes Trustee and any Senior Parent Creditor Representative takes Enforcement Action permitted under the Intercreditor Agreement against a Debtor.

Unless the Senior Parent Notes Trustee and any Senior Parent Creditor Representative waive this requirement, (i) a new Senior Parent Payment Stop Notice may not be delivered unless and until 360 days have elapsed since the delivery of the immediately prior Senior Parent Payment Stop Notice; and (ii) no Senior Parent Payment Stop Notice may be delivered by a Senior Agent in reliance on a Senior Event of Default more than 45 days after the date that Senior Agent received notice of that Senior Event of Default.

The Senior Agents may only serve one Senior Parent Payment Stop Notice with respect to the same event or set of circumstances. Subject to the immediately preceding paragraph, this shall not affect the right of the Senior Agents to issue a Senior Parent Payment Stop Notice in respect of any other event or set of circumstances. No Senior Parent Payment Stop Notice may be served by a Senior Agent in respect of a Senior Event of Default which had been notified to the Senior Agents at the time at which an earlier Senior Parent Payment Stop Notice was issued.

Any failure to make a payment due under any Senior Parent Notes Indenture and any Permitted Parent Financing Documents as a result of the issue of a Senior Parent Payment Stop Notice or the occurrence of a Senior Payment Default shall not prevent (i) the occurrence of an Event of Default (as defined in any Senior Parent Notes Indenture or any Permitted Parent Financing Documents, as applicable) as a consequence of that failure to make a payment in relation to the relevant Senior Parent Notes Indenture and any Permitted Parent Financing Documents; or (ii) the issue of a Senior Parent Enforcement Notice (as defined below) on behalf of the Senior Parent Creditors.

Payment Obligations and Capitalization of Interest Continue

Neither the relevant Senior Parent Debt Issuer nor any other Debtor shall be released from the liability to make any payment (including of default interest, which shall continue to accrue) under any Senior Parent Notes Indenture and any Permitted Parent Financing Document by the operation of the provisions set out under each section above under the caption "*—Restrictions Relating to Senior Parent Creditors and Senior Parent Liabilities*" even if its obligation to make such payment is restricted at any time by the terms of any of those provisions.

The accrual and capitalization of interest (if any) in accordance with any Senior Parent Notes Indenture and any Permitted Parent Financing Document shall continue notwithstanding the issue of a Senior Parent Payment Stop Notice.

Cure of Payment Stop

If:

(i) at any time following the issue of a Senior Parent Payment Stop Notice or the occurrence of a Senior Payment Default, that Senior Parent Payment Stop Notice ceases to be outstanding and/or, as the case may be, the Senior Payment Default ceases to be continuing; and

(ii) the relevant Senior Parent Debt Issuer or the relevant Debtor then promptly pays to the Senior Parent Creditors an amount equal to any payments which had accrued under any Senior Parent Notes Indenture and any Permitted Parent Financing Document and which would have been Permitted Senior Parent Payments but for that Senior Parent Payment Stop Notice or Senior Payment Default,

then any Event of Default (including any cross default or similar provision under any other debt document) which may have occurred as a result of that suspension of payments shall be waived and any Senior Parent Enforcement Notice which may have been issued as a result of that Event of Default shall be waived, in each case without any further action being required on the part of the Senior Parent Creditors or any other Creditor or Operating Facility Lender.

Restrictions on Amendments and Waivers

The Intercreditor Agreement provides that the Senior Parent Creditors, the Senior Parent Debt Issuers and other Debtors may amend or waive the terms of the Senior Parent Notes finance documents and/or the Permitted Parent Financing Documents in accordance with their respective terms from time to time (and subject only to any consent required under them).

Restrictions on Enforcement by Senior Parent Creditors

Until the Senior Discharge Date, except with the prior consent of or as required by an Instructing Group:

(i) no Senior Parent Creditor shall direct the Security Agent to enforce, or otherwise require the enforcement of, any security; and/or

(ii) no Senior Parent Creditor shall take or require the taking of any Enforcement Action in relation to the guarantees by a member of the Group of any of the obligations of any member of the Group under the Senior Parent Notes finance documents and/or Permitted Parent Financing Documents,

except as permitted under the provisions set out below under the caption "*—Permitted Senior Parent Enforcement*" below, *provided, however*, that no such action required by the Security Agent need be taken except to the extent the Security Agent otherwise is entitled under the Intercreditor Agreement to direct such action.

Enforcement Action

The term "Enforcement Action" comprises:

- in relation to any liabilities:
  - the acceleration of any liabilities or the making of any declaration that any liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a Senior Secured Creditor or a Senior Parent Creditor to perform its obligations under, or of any voluntary or mandatory prepayment arising under, any of the debt documents);
  - the making of any declaration that any liabilities are payable on demand;
  - the making of a demand in relation to a liability that is payable on demand;
  - the making of any demand against any member of the Group in relation to any guarantee liabilities of that member of the Group;
  - the exercise of any right to require any member of the Group to acquire any liability (including exercising any put or call option against any member of the Group for the redemption or purchase of any liability but excluding any such right which arises as a result of the permitted debt purchase transactions provisions of the Senior Facilities Agreement (or any other similar

or equivalent provision of any of the Secured Debt Documents) and/or any other acquisition of liabilities, acquisition or transaction which any member of the Group is not prohibited from entering into by the terms of the Secured Debt Documents and excluding any mandatory offer arising as a result of a change of control or asset sale (howsoever described) as set out in the Senior Notes finance documents or the Senior Parent Notes finance documents (or any other similar or equivalent provision of any of the Secured Debt Documents);

- the exercise of any right of set-off, account combination or payment netting against any member of the Group in respect of any liabilities other than the exercise of any such right:
- as close-out netting by a Hedge Counterparty or by a hedging ancillary lender;
- as payment netting by a Hedge Counterparty or by a hedging ancillary lender;
- as inter-hedging agreement netting by a Hedge Counterparty;
- as inter-hedging ancillary document netting by a hedging ancillary lender; and/or
- which is otherwise permitted by the terms of any of the Secured Debt Documents, in each case to the extent that the exercise of that right gives effect to a permitted payment; and
- the suing for, commencing or joining of any legal or arbitration proceedings against any member of the Group to recover any liabilities;
- the premature termination or close-out of any hedging transaction under any hedging agreement, save to the extent permitted by the Intercreditor Agreement;
- the taking of any steps to enforce or require the enforcement of any security (including the crystallization of any floating charge forming part of the security);
- the entry into any composition, compromise, assignment or similar arrangement with any member of the Group which owes any liabilities, or has given any security, guarantee or indemnity or other assurance against loss in respect of the liabilities (other than any action permitted under the Intercreditor Agreement or any debt buy-back, tender offer, exchange offer or similar or equivalent arrangement not otherwise prohibited by the debt documents); or
- the petitioning, applying or voting for, or the taking of any steps (including the appointment of any liquidator, receiver, examiner, administrator or similar officer) in relation to the winding up, dissolution, examinership, administration or reorganization of any member of the Group which owes any liabilities, or has given any security, guarantee, indemnity or other assurance against loss in respect of any of the liabilities, or any of such member of the Group's assets or any suspension of payments or moratorium of any indebtedness of any such member of the Group, or any analogous procedure or step in any jurisdiction,

except that the following shall not constitute Enforcement Action:

- the taking of any action falling above which is necessary (but only to the extent necessary) to preserve the validity, existence or priority of claims in respect of liabilities, including the registration of such claims before any court or governmental authority and the bringing, supporting or joining of proceedings to prevent any loss of the right to bring, support or join proceedings by reason of applicable limitation periods; or
- a Senior Secured Creditor or Senior Parent Creditor bringing legal proceedings against any person solely for the purpose of: (a) obtaining injunctive relief (or any analogous remedy outside England and Wales) to restrain any actual or putative breach of any debt document to which it is party, (b) obtaining specific performance (other than specific performance of an obligation to make a payment) with no claim for damages or (c) requesting judicial interpretation of any provision of any debt document to which it is party with no claim for damages; or
- bringing legal proceedings against any person in connection with any securities violation, securities or listing regulations or common law fraud; or
- to the extent entitled by law, the taking of any action against any creditor (or any agent, trustee or receiver acting on behalf of that creditor) to challenge the basis on which any sale or disposal is to take place pursuant to the powers granted to those persons under any relevant documentation; or

- any person consenting to, or the taking of any other action pursuant to or in connection with, any merger, consolidation, reorganization or any other similar or equivalent step or transaction initiated or undertaken by a member of the Group (or any analogous procedure or step in any jurisdiction) that is not prohibited by the terms of the Secured Debt Documents to which it is a party.

Permitted Senior Parent Enforcement

The restrictions set out in the caption "*—Restrictions on Enforcement by Senior Parent Creditors*" above will not apply if:

(i) an Event of Default (as defined in any Senior Parent Notes Finance Document and any Permitted Parent Financing Agreement, as applicable, each a "Senior Parent Event of Default") (the "Relevant Senior Parent Default") is continuing;

(ii) each Senior Agent has received a notice of the Relevant Senior Parent Default specifying the event or circumstance in relation to the Relevant Senior Parent Default from the Senior Parent Notes Trustee or any Senior Parent Creditor Representative (as the case may be);

(iii) a Senior Parent Standstill Period (as defined below) has elapsed; and

(iv) the Relevant Senior Parent Default is continuing at the end of the relevant Senior Parent Standstill Period.

Promptly upon becoming aware of a Senior Parent Event of Default, the Senior Parent Notes Trustee or any Senior Parent Creditor Representative, as the case may be, may by notice (a "Senior Parent Enforcement Notice") in writing notify the Senior Agents of the existence of such Senior Parent Event of Default.

Senior Parent Standstill Period

In relation to a Relevant Senior Parent Default, a Senior Parent Standstill Period shall mean the period beginning on the date (the "Senior Parent Standstill Start Date") the relevant Senior Agent serves a Senior Parent Enforcement Notice on each of the Senior Agents in respect of such Senior Parent Event of Default and ending on the earlier to occur of:

(i) the date falling 179 days after the Senior Parent Standstill Start Date (the "Senior Parent Standstill Period");

(ii) the date the Senior Secured Parties take any Enforcement Action in relation to a particular guarantor of the Senior Parent Notes and/or any Permitted Parent Financing Debt (a "Senior Parent Guarantor"), provided, however, that if a Senior Parent Standstill Period ends pursuant to this paragraph, the Senior Parent Creditors may only take the same Enforcement Action in relation to the Senior Parent Guarantor as the Enforcement Action taken by the Senior Secured Parties against such Senior Parent Guarantor and not against any other member of the Group;

(iii) the date of an Insolvency Event in relation to the relevant Senior Parent Debt Issuer or a particular Senior Parent Guarantor against whom Enforcement Action is to be taken;

(iv) the expiry of any other Senior Parent Standstill Period outstanding at the date such first-mentioned Senior Parent Standstill Period commenced (unless that expiry occurs as a result of a cure, waiver or other permitted remedy);

(v) the date on which the consent of each of the Senior Facility Agent (acting on the instructions of the Majority Senior Lenders), any Senior Notes Trustee (acting on behalf of the Senior Note holders) and any Senior Creditor Representative (acting on the instructions the Majority Permitted Senior Financing Creditors) has been obtained; and

(vi) a failure to pay the principal amount outstanding on any Senior Parent Notes or on any Permitted Parent Financing Debt, as the case may be, at the final stated maturity of the amounts outstanding on the Senior Parent Notes or on the Permitted Parent Financing Debt, as the case may be (provided that, unless the Senior Lender Discharge Date has occurred or as otherwise agreed by the Majority Senior Lenders and the Parent, such final stated maturity does not fall on a date prior to the date falling 85 months after the Closing Date (as defined in the Senior Facilities Agreement).

Subsequent Senior Parent Event of Default

The Senior Parent Finance Parties may take Enforcement Action under the provisions set out in caption "*—Permitted Senior Parent Enforcement*" above in relation to a Relevant Senior Parent Default even if, at the end of any relevant Senior Parent Standstill Period or at any later time, a further Senior Parent Standstill Period has begun as a result of any other Senior Parent Event of Default.

Enforcement on Behalf of Senior Parent Creditors

If the Security Agent has notified the Senior Parent Agents that it is enforcing security created pursuant to any security document over shares of a Senior Parent Guarantor, no Senior Parent Creditor may take any action referred to under the provisions set out under the caption "*—Permitted Senior Parent Enforcement*" above against that Senior Parent Guarantor while the Security Agent is taking steps to enforce that security in accordance with the instructions of an Instructing Group where such action might be reasonably likely to adversely affect such enforcement or the amount of proceeds to be derived therefrom.

Option to Purchase: Senior Parent Creditors

Subject to the following paragraphs, any of the Senior Parent Notes Trustee and any Senior Parent Creditor Representative (on behalf of the Senior Parent Creditors) may, after an acceleration event under any of the Senior Facilities Agreement, the Senior Notes or in relation to any Permitted Senior Financing Debt which is continuing, by giving not less than 10 days' notice to the Security Agent, require the transfer to the Senior Parent Creditors (or to a nominee or nominees) of all, but not part, of the rights, benefits and obligations in respect of the Senior Secured Liabilities and the Operating Facility Liabilities if:

(i) that transfer is lawful and, subject to paragraph (ii) below, otherwise permitted by the terms of the Senior Facilities Agreement (in the case of the Senior Lender Liabilities) and/or any Senior Notes Indenture(s) pursuant to which any Senior Notes remain outstanding, as applicable (in the case of the Senior Notes liabilities), any Permitted Senior Financing Agreement pursuant to which any relevant Permitted Senior Financing Liabilities remain outstanding (in the case of the Permitted Senior Financing Liabilities) and any Operating Facility Documents pursuant to which any relevant Operating Facility Liabilities remain outstanding (in the case of Operating Facility Liabilities) (as applicable);

(ii) any conditions relating to such a transfer contained in the Senior Facilities Agreement (in the case of the Senior Lender Liabilities) and/or any Senior Notes Indenture(s) pursuant to which any Senior Notes remain outstanding, as applicable (in the case of the Senior Notes liabilities), any Permitted Senior Financing Agreement pursuant to which any relevant Permitted Senior Financing Liabilities remain outstanding (in the case of the Permitted Senior Financing Liabilities) and any Operating Facility Documents pursuant to which any relevant Operating Facility Liabilities remain outstanding (in the case of Operating Facility Liabilities) are complied with, in each case, other than as specified in the Intercreditor Agreement;

(iii) each of the Senior Facility Agent (on behalf of the Senior Lenders), the Senior Notes Trustee (on behalf of the relevant Senior Note holders), the applicable Senior Creditor Representative (on behalf of the relevant Permitted Senior Financing Creditors) and the Operating Facility Lenders is paid the amounts required under the Intercreditor Agreement;

(iv) as a result of that transfer the Senior Lenders, the Senior Note holders, the Permitted Senior Financing Creditors and the Operating Facility Lenders have no further actual or contingent liability to the Parent or any other Debtor under the relevant Secured Debt Documents;

(v) an indemnity is provided from each Senior Parent Creditor (other than the Senior Parent Notes Trustee and any Senior Parent Creditor Representative) (or from another third party acceptable to all the Senior Lenders, the Senior Note holders, the Permitted Senior Financing Creditors and the Operating Facility Lenders) in a form reasonably satisfactory to each Senior Lender, Senior Notes Creditor, Permitted Senior Financing Creditor and Operating Facility Lender in respect of all costs, expenses, losses and liabilities which may be sustained or incurred by any Senior Lender, Senior Note holder, Permitted Senior Financing Creditor or Operating Facility Lender in consequence of any sum received or recovered by any such party from any person being required (or it being alleged that it is required) to be paid back by or clawed back from any Senior Lender, Senior Note holder, Permitted Senior Financing Creditor or Operating Facility Lender for any reason; and

(vi) the transfer is made without recourse to, or representation or warranty from, the Senior Lenders, the Senior Note holders, the Permitted Senior Financing Creditors or the Operating Facility Lenders, except that each of them shall be deemed to have represented and warranted on the date of that transfer that it has the corporate power to effect that transfer and it has taken all necessary action to authorize the making by it of that transfer.

Subject to the Intercreditor Agreement, the Senior Parent Notes Trustee or any Senior Parent Creditor Representative (on behalf of all the Senior Parent Creditors) may only require a transfer of Senior Secured Liabilities if, at the same time, they require a transfer of hedging liabilities regulated by the Intercreditor Agreement and if, for any reason, such transfer cannot be made in accordance with the Intercreditor Agreement, no transfer of Senior Secured Liabilities may be required to be made.

At the request of the Senior Parent Notes Trustee or any Senior Parent Creditor Representative (on behalf of all the Senior Parent Creditors), the Senior Facility Agent, the Senior Notes Trustee, any relevant Senior Creditor Representative and the Operating Facility Lenders shall notify the Senior Parent Notes Trustee and any Senior Parent Creditor Representative of the foregoing payable sums in connection with such transfer.

Effect of Insolvency Event; Filing of Claims

The Intercreditor Agreement provides that, among other things, after the occurrence of an Insolvency Event in relation to any Debtor, or, following an acceleration event which is continuing, any member of the Group, any party entitled to receive a distribution out of the assets of that member of the Group in respect of liabilities owed to that party shall, (if prior to a distress event, only if required by the Security Agent acting on the instructions of an Instructing Group), subject to receiving payment instructions and any other relevant information from the Security Agent and to the extent it is able to do so, direct the person responsible for the distribution of the assets of that member of the Group to pay that distribution to the Security Agent until the liabilities owing to the Secured Parties have been paid in full. In this respect, the Security Agent shall apply distributions paid to it in accordance with the provisions set out under the caption "*—Application of Proceeds*" below.

Subject to certain exceptions, to the extent that any member of the Group's liabilities are discharged by way of set-off (mandatory or otherwise) after the occurrence of an Insolvency Event in relation to that member of the Group, any Creditor and any Operating Facility Lender which benefited from that set-off shall (if prior to a distress event, only if required by the Security Agent acting on the instructions of an Instructing Group), subject to receiving payment instructions and any other relevant information from the Security Agent, pay an amount equal to the amount of the liabilities owed to it which are discharged by that set-off to the Security Agent for application in accordance with the provisions set out under the caption "*—Application of Proceeds*" below and subject to certain exceptions.

Subject to the provisions set out under the caption "*—Application of Proceeds*" below, if the Security Agent or any other Secured Party receives a distribution in a form other than in cash in respect of any of the liabilities, the liabilities will not be reduced by that distribution until and except to the extent that the realization proceeds are actually applied towards the liabilities.

After the occurrence of an Insolvency Event in relation to any Debtor (or, following an acceleration event which is continuing, any member of the Group), each Creditor and each Operating Facility Lender irrevocably authorizes the Security Agent, on its behalf, to:

(i) take any Enforcement Action (in accordance with the terms of the Intercreditor Agreement) against that member of the Group;

(ii) demand, sue, prove and give receipt for any or all of that member of the Group's liabilities;

(iii) collect and receive all distributions on, or on account of, any or all of that member of the Group's liabilities; and

(iv) file claims, take proceedings and do all other things the Security Agent considers reasonably necessary to recover that member of the Group's liabilities.

Each Creditor and Operating Facility Lender will (i) do all things that the Security Agent (acting in accordance with the terms of the Intercreditor Agreement) reasonably requests in order to give effect to the matters referred to in this "*—Effect of Insolvency Event; Filing of Claims*" section and (ii) if the Security Agent is not entitled to take any of the actions contemplated by this "*—Effect of Insolvency Event; Filing of Claims*" section or if the Security Agent (acting in accordance with the terms of the Intercreditor Agreement) requests that a Creditor or Operating Facility Lender take that action, undertake that action itself in accordance with the instructions of the Security Agent or grant a power of attorney to the Security Agent (on such terms as the Security Agent (acting in accordance with the terms of the Intercreditor Agreement) may reasonably require, although neither the Senior Notes Trustee nor the Senior Parent Notes Trustee shall be under any obligation to grant such powers of attorney) to enable the Security Agent to take such action.

Turnover

Subject to certain exceptions, the Intercreditor Agreement provides that if any Creditor or Operating Facility Lender receives or recovers from any member of the Group:

(i) any payment or distribution of, or on account of or in relation to, any of the liabilities which is prohibited under the Intercreditor Agreement or, following the occurrence of a Senior Distress Event which is continuing, any Senior Lender Liabilities, Hedging Liabilities, Senior Notes liabilities, Permitted Senior Financing liabilities or Operating Facility liabilities;

(ii) other than as referred to in the second paragraph of the caption "*—Effect of Insolvency Event; Filing of Claims*" any amount by way of set-off in respect of any of the liabilities owed to it which does not give effect to a payment permitted under the Intercreditor Agreement;

(iii) notwithstanding paragraphs (i) and (ii) above, other than as referred to in the second paragraph of the caption "*—Effect of Insolvency Event; Filing of Claims*" any amount:

(A) on account of, or in relation to, any of the liabilities after the occurrence of a distress event (including as a result of any litigation or proceedings against a member of the Group other than after the occurrence of an Insolvency Event in respect of that member of the Group); or

(B) by way of set-off in respect of any of the liabilities owed to it after the occurrence of a distress event,

other than, in each case, any amount received or recovered in accordance with the provisions set out below the caption "*—Application of Proceeds*;"

(iv) the proceeds of any enforcement of any security except in accordance with the provisions set out below under the caption "*—Application of Proceeds*;" or

(v) subject to certain exceptions, any distribution in cash or in kind or payment of, or on account of or in relation to, any of the liabilities owed by any member of Group which is not in accordance with the provisions set out in the caption "*—Application of Proceeds*" and which is made as a result of, or after, the occurrence of an Insolvency Event in respect of that member of Group,

that Creditor or Operating Facility Lender will, subject to certain exceptions: (i) in relation to receipts and recoveries not received or recovered by way of set-off (x) hold an amount of that receipt or recovery equal to the relevant liabilities (or if less, the amount received or recovered) on trust for the Security Agent and subject to receiving payment instructions and any other relevant information from the Security Agent, promptly pay that amount to the Security Agent for application in accordance with the terms of the Intercreditor Agreement and (y) subject to receiving payment instructions and any other relevant information the Security Agent, promptly pay an amount equal to the amount (if any) by which the receipt or recovery exceeds the relevant liabilities to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and (ii) in relation to receipts and recoveries received or recovered by way of set-off, subject to receiving payment instructions and any other relevant information from the Security Agent, promptly pay an amount equal to that recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

Enforcement of Security

Enforcement Instructions

The Security Agent may refrain from enforcing the security unless instructed otherwise by (i) an Instructing Group; or (ii) if required as set out under the third paragraph of this section, the Majority Senior Parent Creditors.

Subject to the security having become enforceable in accordance with its terms (i) an Instructing Group; or (ii) to the extent permitted to enforce or to require the enforcement of the security prior to the Senior Discharge Date as described under the provisions under the caption "*—Restrictions Relating to Senior Parent Creditors and Senior Parent Liabilities*" above, the Majority Senior Parent Creditors, may give or refrain from giving, instructions to the Security Agent to enforce, or refrain from enforcing, the security as they see fit.

Prior to the Senior Discharge Date, (i) if an Instructing Group has instructed the Security Agent not to enforce or to cease enforcing the security or (ii) in the absence of instructions from an Instructing Group, and, in each case, an Instructing Group has not required any Debtor to make a distressed disposal, the Security Agent shall give effect to any instructions to enforce the security which the Majority Senior Parent Creditors are then entitled to give to the Security Agent as described under the provisions under the caption "*—Restrictions Relating to Senior Parent Creditors and Senior Parent Liabilities*" above.

Subject to certain provisions of the Intercreditor Agreement, no secured party shall have any independent power to enforce, or to have recourse to enforce, any security or to exercise any rights or powers arising under the security documents except through the Security Agent.

Manner of Enforcement

If the security is being enforced as set forth above under the caption "*—Enforcement of Security—Enforcement Instructions*," the Security Agent shall enforce the security in such manner (including, without limitation, the selection of any administrator, examiner or equivalent officer of any Debtor to be appointed by the Security Agent) as:

- an Instructing Group; or
- prior to the Senior Discharge Date, if (i) the Security Agent has, pursuant to the third paragraph under the caption "*—Enforcement of Security*" above, given effect to instructions given by the Majority Senior Parent Creditors to enforce the security; and (ii) an Instructing Group has not given instructions as to the manner of enforcement of the security, the Majority Senior Parent Creditors,

shall instruct or, in the absence of any such instructions, as the Security Agent sees fit.

Exercise of Voting Rights

To the fullest extent permitted under applicable law, each Creditor (other than the Senior Notes Trustee and the Senior Parent Notes Trustee) and each Operating Facility Lender shall agree with the Security Agent that it will cast its vote in any proposal put to the vote by, or under the supervision of, any judicial or supervisory authority in respect of any insolvency, pre-insolvency or rehabilitation or similar proceedings relating to any member of the Group as instructed by the Security Agent. The Security Agent shall give instructions for the purposes of this paragraph as directed by an Instructing Group. Notwithstanding the foregoing, no party can exercise or require any other Creditor or Operating Facility Lender under the Intercreditor Agreement to exercise its power of voting or representation to waive, reduce, discharge, extend the due date for payment or otherwise reschedule any of the liabilities owed to that Creditor or Operating Facility Lender.

Waiver of Rights

To the extent permitted under applicable law and subject to certain provisions of the Intercreditor Agreement, each of the Secured Parties and the Debtors waives all rights it may otherwise have to require that the security be enforced in any particular order or manner or at any particular time, or that any sum received or recovered from any person, or by virtue of the enforcement of any of the security or of any other security interest, which is capable of being applied in or towards discharge of any of the secured obligations, is so applied.

Security Held by Other Creditors

If any security is held by a Creditor or Operating Facility Lender other than the Security Agent, then that Creditor or Operating Facility Lender may only enforce that security in accordance with instructions given by an Instructing Group pursuant to the terms of the Intercreditor Agreement (and for this purpose references to the Security Agent shall be construed as references to that Creditor or Operating Facility Lender).

Consultation Period

(a) Subject to paragraph (d) below, before giving any instructions to the Security Agent to enforce the security or refrain or cease from enforcing the security or to take any other Enforcement Action, the creditor representative(s) of the creditors of the Group represented in the Instructing Group concerned (and, if applicable, any relevant Hedge Counterparties) shall consult with each other creditor representative, each other Hedge Counterparty, each Operating Facility Lender and the Security Agent in good faith about the instructions to be given by the Instructing Group for a period of not less than 30 days from the date on which details of the proposed instructions are received by such creditor representative(s), Hedge Counterparties, Operating Facility Lenders and the Security Agent (or such shorter period as each creditor representative, Hedge Counterparty, Operating Facility Lender and the Security Agent shall agree) (the "Consultation Period"), and only following the expiry of a Consultation Period shall the Instructing Group be entitled to give any instructions to the Security Agent to enforce the security or refrain or cease from enforcing the security or take any other Enforcement Action.

(b) Subject to paragraph (c) below, in the event conflicting instructions are received from any other Instructing Group, the Security Agent shall enforce the security, refrain or cease from enforcing the security or, as the case may be, take the relevant other Enforcement Action in accordance with the instructions given by an Instructing Group referred to in paragraph (a)(i)(A) of the definition of Instructing Group as set out above (in each case provided that such instructions are consistent with any applicable requirements of the Intercreditor Agreement and the Security Documents) and the terms of all instructions given by any other Instructing Group shall be deemed revoked.

(c) Prior to the Senior Lender Discharge Date, if:

(i) the Senior Creditors have not been fully repaid within six months of the end of the first Consultation Period;

(ii) the Security Agent has not commenced any enforcement of the security (or a transaction in lieu thereof) or other Enforcement Action within three months of the end of the first Consultation Period; or

(iii) an Insolvency Event has occurred and the Security Agent has not commenced any enforcement of the security (or a transaction in lieu thereof) or other Enforcement Action at that time,

then the Security Agent shall follow the instructions given by the Majority Senior Creditors (in each case provided that such instructions are consistent with any applicable requirements of the Intercreditor Agreement and the relevant security documents).

(d) Subject to paragraph (c) above, no Agent or Hedge Counterparty shall be obliged to consult in accordance with paragraph (a) above and an Instructing Group shall be entitled to give any instructions to the Security Agent to enforce the security or take any other Enforcement Action prior to the end of a Consultation Period (in each case provided that such instructions are consistent with any applicable requirements of the Intercreditor Agreement and the Security Documents) if:

(i) the security has become enforceable as a result of an Insolvency Event; or

(ii) the Instructing Group or any creditor representative of the Creditors represented in the Instructing Group determines in good faith (and notifies each other creditor representative, the Hedge Counterparties and the Security Agent) that to enter into such consultations and thereby delay the commencement of enforcement of the security would reasonably be expected to have a material adverse effect on:

(A) the Security Agent's ability to enforce any of the security; or

(B) the realization proceeds of any enforcement of the security,

and, where this paragraph (d) applies:

(1) any instructions shall be limited to those necessary to protect or preserve the interests of the Senior Secured Creditors on behalf of which the relevant Instructing Group is acting in relation to the matters referred to in sub-paragraphs (A) and (B) above; and

(2) the Security Agent shall act in accordance with the instructions first received.

(e) As soon as reasonably practicable following receipt of any instructions from an Instructing Group to enforce the security, refrain or cease from enforcing the security or, as the case may be, take any other Enforcement Action, the Security Agent shall provide a copy of such instructions to each Agent, Hedge Counterparty and Operating Facility Lender (unless it received those instructions from that person).

Duties Owed

Pursuant to the Intercreditor Agreement, each of the secured parties and the Debtors acknowledges that, in the event that the Security Agent enforces, or is instructed to enforce, the security prior to the Senior Discharge Date, the duties of the Security Agent and of any receiver or delegate owed to the Senior Parent Creditors in respect of the method, type and timing of that enforcement or of the exploitation, management or realization of any of that security shall, subject to the section entitled Distressed Disposals below, be no different to or greater than the duty that is owed by the Security Agent, receiver or delegate to the Debtors under general law.

Proceeds of Disposals

Non-Distressed Disposals

The Security Agent is irrevocably authorized and instructed (at the request and cost of the Parent) to promptly release (or procure that any other relevant person releases):

(i) any security (and/or any other claim relating to a debt document) over any asset which is the subject of:

(A) a disposal not prohibited by the terms of the Senior Facilities Agreement, the Senior Notes Indenture, any Permitted Senior Financing Agreement, the Senior Parent Notes Indenture and any Permitted Parent Financing Agreement (each a "Debt Financing Agreement") (including a disposal to a member of the Group, but without prejudice to any obligation of any member of the Group in a Debt Financing Agreement to provide replacement security); or

(B) any other transaction not prohibited by the terms of any Debt Financing Agreement pursuant to which that asset will cease to be held or owned by a member of the Group;

(ii) any security (and/or any other claim relating to a debt document) over any document or other agreement requested in order for any member of the Group to effect any amendment or waiver in respect of that document or agreement or otherwise exercise any rights, comply with any obligations or take any action in relation to that document or agreement (in each case to the extent not prohibited by the terms of any Debt Financing Agreement);

(iii) any security (and/or any other claim relating to a debt document) over any asset of any member of the Group which has ceased to be a Debtor (or will cease to be a Debtor simultaneously with such release); and

(iv) any security (and/or any other claim relating to a debt document) over any other asset to the extent that such release is in accordance with the terms of the Debt Financing Agreements.

In the case of a disposal of shares or other ownership interests in a Debtor (or any holding company of any Debtor), or any other transaction pursuant to which a Debtor (or any holding company of any Debtor) will cease to be a member of the Group or a Debtor (including in connection with the resignation of that

Debtor or the Debtor being designated as an Unrestricted Subsidiary), the Security Agent (on behalf of itself and the Secured Parties) shall (at the request and cost of the relevant Debtor or the Parent) promptly release (or procure the release of) that Debtor and its subsidiaries (and its and their assets) from all present and future liabilities under the Secured Debt Documents.

When making any request for a release pursuant to this "*—Non-Distressed Disposals*" section, the Parent shall confirm in writing to the Security Agent that:

(i) in the case of any release requested pursuant to paragraph (i) or (ii) above, the relevant disposal or other action is not prohibited by the terms of any Debt Financing Agreement; or

(ii) in the case of any release requested pursuant to paragraph (iv) above, the relevant release is in accordance with terms of the Debt Financing Agreements,

and the Security Agent shall be entitled to rely on that confirmation for all purposes under the Secured Debt Documents.

The Security Agent shall (at the cost and expense of the relevant Debtor or the Parent but without the need for any further consent, sanction, authority or further confirmation from any Creditor, Operating Facility Lender or Debtor) promptly enter into and deliver such documentation and/or take such other action as the Parent (acting reasonably) shall require to give effect to any release or other matter described above.

Without prejudice to the foregoing and for the avoidance of doubt, if requested by the Parent in accordance with the terms of any of the Debt Financing Agreements (and provided that the requested action is not expressly prohibited by any of the other Debt Documents), the Security Agent and the other Creditors and Operating Facility Lenders shall (at the cost of the relevant Debtor, the relevant Additional Security Provider and/or the Parent) promptly execute any guarantee, security or other release and/or any amendment, supplement or other documentation relating to the Security Documents as contemplated by the terms of any of the Debt Financing Agreements (and the Security Agent is authorized to execute, and will promptly execute if requested by the Parent, without the need for any further consent, sanction, authority or further confirmation from any Creditor or Operating Facility Lender, any such release or document on behalf of the Creditors and the Operating Facility Lenders). When making any request pursuant to this paragraph (d) the Parent shall confirm in writing to the Security Agent that such request is in accordance with the terms of a Debt Financing Agreement (and the requested action is not expressly prohibited by way of any of the other Debt Documents) and the Security Agent shall be entitled to rely on that confirmation for all purposes under the Secured Debt Documents.

Notwithstanding anything to the contrary in any Debt Document, nothing in any Security Document shall operate or be construed so as to prevent any transaction, matter or other step not prohibited by the terms of this Agreement or the Debt Financing Agreements (a "Permitted Transaction"). The Security Agent (on behalf of itself and the Secured Parties) hereby agrees (and is irrevocably authorized and instructed to do so without any consent, sanction, authority or further confirmation from any Party) that it shall (at the request and cost of the Parent) promptly execute any release or other document and/or take such other action under or in relation to any Debt Document (or any asset subject or expressed to be subject to any Security Document) as is requested by the Parent in order to complete, implement or facilitate a Permitted Transaction.

If any member of the Group is required or permitted under the Senior Debt Documents to apply the proceeds of any disposal or other transaction in prepayment, redemption or any other discharge or reduction of the Senior Liabilities then no such application of those proceeds shall require the consent of any other party or result in any breach of any Senior Parent Finance Documents and such application shall discharge in full any obligation to apply those proceeds in prepayment, redemption or other discharge or reduction of any Senior Parent Liabilities. This paragraph is without prejudice to any right of any member of the Group to apply any proceeds of any disposal or other transaction in prepayment, redemption or any other discharge or reduction of any Senior Parent Liabilities to the extent permitted or contemplated by the Intercreditor Agreement or any other Senior Debt Document.

The Security Agent is irrevocably authorized by each Secured Party to (and will on the request and at the cost of the Parent):

(i) release the security; and

(ii) release each investor, each Debtor and each other member of the Group from all liabilities, undertakings and other obligations under the Secured Debt Documents,

(iii) on the Final Discharge Date (or at any time following such date on the request of the Parent).

Distressed Disposals

Generally, a "Distressed Disposal" is a disposal of an asset of a member of the Group which is (a) being effected at the request of an Instructing Group in circumstances where a security interest has become enforceable in accordance with the terms of the relevant security document(s), (b) being effected by enforcement of a security interest in accordance with the terms of the relevant security document(s) or (c) being disposed of to a third party subsequent to a distress event.

If a Distressed Disposal of any asset of a member of the Group is being effected, the Security Agent is irrevocably authorized (at the cost of the relevant Debtor, or the Parent and without any consent, sanction, authority or further confirmation from any Creditor, Operating Facility Lender or Debtor):

(i) to release the security interest or any other claim over that asset and execute and deliver or enter into any release of that security interest or claim and issue any letters of non-crystallization of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable;

(ii) if the asset which is disposed of consists of shares in the capital of a Debtor to release:

(A) that Debtor and any subsidiary of that Debtor from all or any part of its borrowing liabilities, its guarantee liabilities and its other liabilities;

(B) any security granted by that Debtor or any subsidiary of that Debtor over any of its assets; and

(C) any other claim of an investor, an intra-group lender, or another Debtor over that Debtor's assets or over the assets of any subsidiary of that Debtor,

on behalf of the relevant Creditors, Operating Facility Lenders, Debtors and certain creditor representatives;

(iii) if the asset which is disposed of consists of shares in the capital of any holding company of a Debtor, to release:

(A) that holding company and any subsidiary of that holding company from all or any part of its borrowing liabilities, its guarantees liabilities and its other liabilities;

(B) any security interest granted by that holding company or any subsidiary of that holding company over any of its assets; and

(C) any other claim of any investor, any intra-group lender or another Debtor over that holding company's assets or the assets of any subsidiary of that holding company,

on behalf of the relevant Creditors, Operating Facility Lenders, Debtors and certain creditor representatives;

(iv) if the asset which is disposed of consists of shares in the capital of a Debtor or the holding company of a Debtor and the Security Agent (acting in accordance with the Intercreditor Agreement) decides to dispose of all or any part of the liabilities or the Debtor liabilities owed by that Debtor or holding company or any subsidiary of that Debtor or holding company:

(A) (if the Security Agent (acting in accordance with the Intercreditor Agreement) does not intend that any transferee of those liabilities or Debtor liabilities (the "Transferee") will be treated as a Primary Creditor or a Secured Party for the purposes of the Intercreditor Agreement), to execute and deliver or enter into any agreement to dispose of all or part of those liabilities or Debtor liabilities, provided that, notwithstanding any other provision of any debt document, the Transferee shall not be treated as a Primary Creditor or a Secured Party for the purposes of the Intercreditor Agreement; and

(B) (if the Security Agent (acting in accordance with the Intercreditor Agreement) does intend that any Transferee will be treated as a Primary Creditor or a Secured Party for the purposes of the Intercreditor Agreement), to execute and deliver or enter into any agreement to dispose of: all (and not part only) of the liabilities owed to the Primary Creditors and Operating Facility Lenders and all or part of any other liabilities and the Debtor liabilities,

on behalf of, in each case, the relevant Creditors, Operating Facility Lenders and Debtors;

(v) if the asset which is disposed of consists of shares in the capital of a Debtor or the holding company of a Debtor (the "Disposed Entity") and the Security Agent (acting in accordance with the Intercreditor Agreement) decides to transfer to another Debtor (the "Receiving Entity") all or any part of the Disposed Entity's obligations or any obligations of any subsidiary of that Disposed Entity in respect of the intra-group liabilities or the Debtor liabilities, to execute and deliver or enter into any agreement to:

(A) agree to the transfer of all or part of the obligations in respect of those intra-group liabilities or Debtor liabilities on behalf of the relevant intra-group lenders and Debtors to which those obligations are owed and on behalf of the Debtors which owe those obligations; and

(B) (if the Receiving Entity is a holding company of the Disposed Entity which is also a guarantor of Senior Liabilities) to accept the transfer of all or part of the obligations in respect of those intra-group liabilities or Debtor liabilities on behalf of the Receiving Entity or Receiving Entities to which the obligations in respect of those intra-group liabilities or Debtor liabilities are to be transferred.

The net proceeds of each Distressed Disposal (and the net proceeds of any disposal of liabilities or Debtor liabilities) shall be paid to the Security Agent for application in accordance with the provisions set out under the caption "*—Application of Proceeds*" as if those proceeds were the proceeds of an enforcement of the relevant security interest and, to the extent that any disposal of liabilities or Debtor liabilities has occurred, as if that disposal of liabilities or Debtor liabilities had not occurred.

In the case of a Distressed Disposal (or a disposal of liabilities) effected by, or at the request of, the Security Agent (acting in accordance with the Intercreditor Agreement), the Security Agent shall take reasonable care to obtain a fair market price in the prevailing market conditions (though the Security Agent shall not have any obligation to postpone any such Distressed Disposal or disposal of liabilities in order to achieve a higher price).

Where Borrowing Liabilities, Guarantee Liabilities and/or Other Liabilities would otherwise be released pursuant to the Intercreditor Agreement, the Creditor or Operating Facility Lender concerned may elect to have those Borrowing Liabilities, Guarantee Liabilities and/or Other Liabilities transferred to the Parent in which case the Security Agent is irrevocably authorized (to the extent legally possible and at the cost of the relevant Debtor or the Parent and without any consent, sanction, authority or further confirmation from any Creditor, Operating Facility Lender or Debtor) to execute such documents as are required to so transfer those Borrowing Liabilities, Guarantee Liabilities and/or Other Liabilities.

Subject to the immediately following paragraph, in the case of a Distressed Disposal effected by or at the request of the Security Agent (acting in accordance with the Intercreditor Agreement), unless the consent of each Senior Agent is otherwise obtained, it is a further condition to any release, transfer or disposal that the proceeds of such disposal are in cash (or substantially all in cash) and such sale or disposal is made pursuant to a public auction in respect of which the Primary Creditors are entitled to participate or where a financial adviser selected by the Security Agent has delivered an opinion in respect of such sale or disposal that the amount received in connection therewith is fair from a financial point of view taking into account all relevant circumstances, including the method of enforcement, provided that the liability of such financial adviser may be limited to the amount of its fees in respect of such engagement (it being acknowledged that the Security Agent shall have no obligation to select or engage any financial adviser unless it shall have been indemnified and/or secured and/or prefunded to its satisfaction).

If prior to the first date on which the discharge date for the Senior Parent Notes and any Permitted Parent Financing Debt has occurred, a Distressed Disposal is being effected such that, generally, the guarantees of the Senior Parent Notes and the guarantees of any Permitted Parent Financing Debt or any security over the assets of a Senior Parent Debt Issuer or any Senior Parent Guarantor will be released and/or the Senior Parent Notes liabilities and any Permitted Parent Financing Liabilities will be released, it is a further condition to the release that either:

- the Senior Parent Notes Trustee and any Senior Parent Creditor Representative has approved the release; or

- where shares or assets of a Senior Parent Guarantor or assets of the Senior Parent Debt Issuer are sold:

  (A) the proceeds of such sale or disposal are in cash (or substantially in cash);

  (B) all claims of the Senior Secured Creditors and the Operating Facility Lenders (other than in relation to performance bonds or guarantees or similar instruments) against a member of the Group (if any), all of whose shares (other than any minority interest not owned by members of the Group) are sold or disposed of pursuant to such Enforcement Action, are unconditionally released and discharged or sold or disposed of concurrently with such sale (and are not assumed by the purchaser or one of its affiliates), and all security interests under the security documents in respect of the assets that are sold or disposed of is simultaneously and unconditionally released and discharged concurrently with such sale, provided that, if each Senior Agent (acting reasonably and in good faith):

     (I) determines that the Senior Secured Creditors will recover a greater amount if such claim is sold or otherwise transferred to the purchaser or one of its affiliates and not released or discharged; and

     (II) serves a written notice on the Security Agent confirming the same,

  the Security Agent shall be entitled to sell or otherwise transfer such claim to the purchaser or one of its affiliates; and

  (C) such sale or disposal is made:

     (I) pursuant to a public auction in respect of which the Primary Creditors are entitled to participate; or

     (II) where a financial adviser selected by the Security Agent has delivered an opinion in respect of such sale or disposal that the amount received in connection therewith is fair from a financial point of view, taking into account all relevant circumstances, including the method of enforcement, provided that the liability of such financial adviser may be limited to the amount of its fees in respect of such engagement (it being acknowledged that the Security Agent shall have no obligation to select or engage any financial adviser unless it shall have been indemnified and/or secured and/or prefunded to its satisfaction).

Application of Proceeds

The Intercreditor Agreement provides that secured parties may only benefit from Recoveries (as defined below) to the extent that the liabilities of such secured parties has the benefit of the guarantees or security under which such Recoveries are received and provided that, in all cases, the rights of such secured parties shall in any event be subject to the priorities set out in this section. This shall not prevent a Senior Secured Creditor benefiting from such Recoveries where it was not legally possible for the Senior Secured Creditor to obtain the relevant guarantees or security interests.

Order of Application

The Intercreditor Agreement provides that all amounts from time to time received or recovered by the Security Agent pursuant to the terms of any debt document or in connection with the realization or enforcement of all or any part of the relevant security interests (for the purposes of this "—*Application of Proceeds*" section and the "—*Equalization of the Senior Secured Creditors*" section, the "Recoveries") shall be applied by the Security Agent at any time as the Security Agent (in its discretion) sees fit, to the extent permitted by applicable law (and subject to the provisions of this "—*Application of Proceeds*" section), in the following order of priority:

(i) in discharging any sums owing to the Senior Facility Agent (in respect of the amounts due to the Senior Facility Agent), any Senior Creditor Representative (in respect of amounts due to the Senior Creditor Representative), any Senior Parent Creditor Representative (in respect of amounts due to the Senior Parent Creditor Representative) or certain amounts due to the Senior Notes Trustee or amounts due to the Senior Parent Notes Trustee, or any sums owing to the Security Agent, any receiver or any delegate on a pro rata and pari passu basis;

(ii) in payment of all costs and expenses incurred by any agent, Primary Creditor or Operating Facility Lender in connection with any realization or enforcement of the security taken in accordance with the terms of the Intercreditor Agreement or any action taken at the request of the Security Agent under the Intercreditor Agreement;

(iii) in respect of Recoveries resulting from the realization or enforcement of all or any part of the security or a transaction in lieu thereof, in payment to:

(A) the Senior Facility Agent on its own behalf and on behalf of the arrangers under the Revolving Credit Facility Agreement and the Senior Lenders (or, if required under the laws of Serbia, to the Payment Agent on its own behalf and on behalf of any Senior Lenders making and receiving payments out of a facility office located in Serbia);

(B) the Hedge Counterparties; and

(C) the Operating Facility Lenders;

for application towards the discharge of:

(I) the liabilities of the Debtors owing to the arrangers under or in connection with the Senior Facilities Finance Documents and the Senior Lender Liabilities (in accordance with the terms of the finance documents relating to the Senior Facilities);

(II) the Hedging Liabilities (on a pro rata basis between the Hedging Liabilities of each Hedge Counterparty); and

(III) the Operating Facility Liabilities (on a pro rata basis between the Operating Facility Liabilities of each Operating Facility Lender);

on a pro rata basis and pari passu between the immediately preceding paragraphs (I) to (III) above;

(iv) in payment to:

(A) the Senior Facility Agent on its own behalf and on behalf of the arrangers under the Revolving Credit Facility Agreement and the Senior Lenders (or, if required under the laws of Serbia, to the Payment Agent on its own behalf and on behalf of any Senior Lenders making and receiving payments out of a facility office located in Serbia);

(B) the Hedge Counterparties;

(C) the Operating Facility Liabilities (on a pro rata basis between the Operating Facility Liabilities of each Operating Facility Lender);

(D) the Senior Notes Trustee on its own behalf and on behalf of the holders of the Senior Notes; and

(E) each Senior Creditor Representative on its own behalf and on behalf of the arrangers with respect to the Permitted Senior Financing Debt and the Permitted Senior Financing Creditors; and

for application towards the discharge of:

(I) the liabilities of the Debtors owed to the arrangers under or in connection with the Revolving Credit Facility and the Senior Lender Liabilities (in accordance with the terms of the finance documents in relation to the Senior Facilities);

(II) the Hedging Liabilities (on a pro rata basis between the Hedging Liabilities of each Hedge Counterparty); and

(III) the Operating Facility Liabilities (on a pro rata basis between the Operating Facility Liabilities of each Operating Facility Lender);

(IV) the Senior Notes liabilities (other than sums owing to the Security Agent) (in accordance with the terms of the Indenture and other finance documents for the Senior Notes);

(V) the liabilities of the Debtors owing to the arrangers of the Permitted Senior Financing Debt and the Permitted Senior Financing Liabilities (other than the liabilities owing to a

Senior Creditor Representative) (in accordance with the terms of the Permitted Senior Financing Documents and, if there is more than one Permitted Senior Financing Agreement, on a pro rata basis between the Permitted Senior Financing Debt in respect of each Permitted Senior Financing Agreement);

on a pro rata basis and pari passu between the immediately preceding paragraphs (I) to (V) above;

(v) in payment to:

(A) each Senior Parent Notes Trustee on its own behalf and on behalf of the Senior Parent Note holders; and

(B) each Senior Parent Creditor Representative on its own behalf and on behalf of the arrangers under the Permitted Parent Financing Debt and the Permitted Parent Financing Creditors,

for application towards the discharge of:

(I) the Senior Parent Notes liabilities (other than any sums owing to the Security Agent) (in accordance with the terms of the Senior Parent Notes finance documents); and

(II) the liabilities of the Debtors owed to the arrangers of the Permitted Parent Financing Debt and the Permitted Parent Financing Liabilities (other than the liabilities owing to a Senior Parent Creditor Representative) (in accordance with the terms of the Permitted Parent Financing Documents and, if there is more than one Permitted Parent Financing Agreement, on a pro rata basis between the Permitted Parent Financing Debt in respect of each Permitted Parent Financing Agreement),

on a pro rata basis and pari passu between the immediately preceding paragraphs (I) and (II) above;

(vi) if none of the Debtors is under any further actual or contingent liability under any Secured Debt Document, in payment to any person to whom the Security Agent is obliged to pay in priority to any Debtor; and

(vii) the balance, if any, in payment to the relevant Debtor.

The Security Agent is authorized under the Intercreditor Agreement to hold any non-cash consideration received or recovered in connection with the realization or enforcement of all or any part of the security until cash is received for any such non-cash consideration, provided that the Security Agent may distribute any such non-cash consideration to a Secured Party which has agreed, on terms satisfactory to the Security Agent, to receive such non-cash consideration and the liabilities owed to that Secured Party shall be reduced by an amount equal to the value of that non-cash consideration upon receipt by that Secured Party of that non-cash consideration.

Liabilities of the Senior Parent Debt Issuer

Generally, all amounts from time to time received or recovered by the Security Agent from or in respect of the Senior Parent Debt Issuer pursuant to the terms of any debt document (other than in connection with the realization or enforcement of all or any part of the relevant security interests) shall be held by the Security Agent on trust to apply them at any time as the Security Agent (in its discretion) sees fit, to the extent permitted by applicable law in the following order of priority:

(i) in accordance with paragraph (i) of the section captioned "*—Order of Application;*"

(ii) in accordance with paragraphs (iv) and (v) of the section captioned "*—Order of Application,*" *provided* that payments will be made on a pro rata basis and *pari passu* between each of the payments referred to in paragraphs (iv) and (to the extent relating to Liabilities in respect of Senior Parent Notes and/or Permitted Parent Financing Debt where the relevant Senior Parent Debt Issuer is the issuer or, as the case may be, the borrower) (v);

(iii) if none of the Debtors is under any further actual or contingent liability under any Secured Debt Document, in payment to any person to whom the Security Agent is obliged to pay in priority to any Debtor; and

(iv) the balance, if any, in payment to the relevant Debtor.

Equalization of the Senior Secured Creditors

The Intercreditor Agreement generally provides that if, for any reason, any Senior Liabilities or any Operating Facility Liabilities remain unpaid after the relevant enforcement date and the resulting losses are not borne by the Senior Secured Creditors and the Operating Facility Lenders in the proportions which their respective exposures at the relevant enforcement date bore to the aggregate exposures of all the Senior Secured Creditors and the Operating Facility Lenders at the enforcement date (or, in the case of Recoveries resulting from the realization or enforcement of all or any part of the security or a transaction in lieu thereof, in a manner reflecting the order of priority contemplated in under the section "—*Application of Proceeds—Order of Application*"), the Senior Secured Creditors and the Operating Facility Lenders will make such payments among themselves as the Security Agent shall require to put the Senior Secured Creditors and the Operating Facility Lenders in such a position that (after taking into account such payments) those losses are borne in those proportions (or, as the case may be, to otherwise reflect the order of priority contemplated under the section "*—Application of Proceeds—Order of Application*").

Group Pushdown

The Intercreditor Agreement, generally, provides that on, in contemplation of, or after, a public equity offering (an "IPO Event") of any member of the Group (other than (x) a subsidiary of a borrower or issuer which is restricted from being designated as such by the relevant Debt Financing Agreement and is not replaced prior to such a public equity offering with another Group entity or (y) a subsidiary of the Company) or any of its holding companies (the "IPO Entity"), at the Parent's option:

(i) the Group shall comprise only the IPO Entity and its restricted subsidiaries from time to time;

(ii) the IPO Entity shall take on the Parent's role under the Intercreditor Agreement;

(iii) none of the representations, warranties, undertakings or other provisions of the Intercreditor Agreement shall apply to any Holding Company of the IPO Entity (whether in its capacity as a Debtor or otherwise);

(iv) no event, matter or circumstance relating to any Holding Company of the IPO Entity (whether in its capacity as a Debtor or otherwise) shall, or shall be deemed to, directly or indirectly constitute or result in a breach of any representation, warranty, undertaking or other term of the Intercreditor Agreement or a default or an event of default;

(v) each Holding Company of the IPO Entity shall be irrevocably and unconditionally released from all obligations under the Intercreditor Agreement and the security documents (including any security granted by any such Holding Company; and

(vi) unless otherwise notified by the Parent:

    (A) each person which is party to the Intercreditor Agreement as an investor shall be irrevocably and unconditionally released from the Intercreditor Agreement and all obligations and restrictions under the Intercreditor Agreement (and from the date specified by the Parent that person shall cease to be party to the Intercreditor Agreement as an Investor and shall have no further rights or obligations under the Intercreditor Agreement as an investor); and

    (B) there shall be no obligation or requirement for any person to become party to the Intercreditor Agreement as an Investor, such amendments being a "Group Pushdown."

In the event that any person is released from or does not become party to the Intercreditor Agreement as an investor as a consequence of the above paragraph, any term of any debt document which requires or assumes that any person be an Investor or that any liabilities or obligations to such person be subject to the Intercreditor Agreement or otherwise subordinated shall cease to apply.

The Parent must provide written notice to the Security Agent in order to implement a Group Pushdown. Such a notice may be revoked prior to the IPO Event to which it relates provided that (where requested by an Instructing Group) any security which was released is reinstated and any investor which was released from its obligations under the Intercreditor Agreement accedes again.

The parties to the Intercreditor Agreement shall be required to enter into any amendment to or replacement of it and/or take such other action as is required by the Parent to facilitate or reflect any of the matters contemplated by the preceding paragraph and the Security Agent is irrevocably authorized to promptly execute any release or other document and/or take such other action under or in relation to any

Debt Document (or any asset subject or expressed to be subject to any security document) as is requested in order to complete, implement or facilitate such matters.

Required Consents

The Intercreditor Agreement provides that, subject to certain exceptions, it and/or a security document may be amended or waived only with the written consent of:

(i) if the relevant amendment or waiver (the "Proposed Amendment") is prohibited by the Senior Facilities Agreement, the Senior Facility Agent (acting on the instructions of the requisite Senior Lenders in accordance with the applicable provisions of the Senior Facilities Agreement);

(ii) if any Senior Notes have been issued and the Proposed Amendment is prohibited by the terms of the relevant Senior Notes Indenture, the Senior Notes Trustee;

(iii) if any Permitted Senior Financing Debt has been incurred and the Proposed Amendment is prohibited by the terms of the relevant Permitted Senior Financing Agreement, the Senior Creditor Representative in respect of that Permitted Senior Financing Debt (if applicable, acting on the instructions of the Majority Permitted Senior Financing Creditors);

(iv) if any Senior Parent Notes have been issued and the Proposed Amendment is prohibited by the terms of the relevant Senior Parent Notes Indenture, the Senior Parent Notes Trustee;

(v) if any Permitted Parent Financing Debt has been incurred and the Proposed Amendment is prohibited by the terms of the relevant Permitted Parent Financing Agreement, the Senior Parent Creditor Representative in respect of that Permitted Parent Financing Debt (if applicable, acting on the instructions of the Majority Permitted Parent Financing Creditors);

(vi) if a Hedge Counterparty is providing hedging to a Debtor under a hedging agreement, that Hedge Counterparty (in each case only to the extent that the relevant amendment or waiver adversely affects the continuing rights and/or obligations of that Hedge Counterparty and is an amendment or waiver which is expressed to require the consent of that Hedge Counterparty under the applicable hedging agreement, as notified by the Parent to the Security Agent at the time of the relevant amendment or waiver);

(vii) if an Operating Facility Lender is providing one or more facility to a Debtor under an Operating Facility Document, that Operating Facility Lender (in each case only to the extent that the relevant amendment or waiver adversely affects the continuing rights and/or obligations of that Operating Facility Lender and is an amendment or waiver which is expressed to require the consent of that Operating Facility Lender under the applicable Operating Facility Document, as notified by the Parent to the Security Agent at the time of the relevant amendment or waiver);

(viii) certain investors (as permitted under the Intercreditor Agreement); and

(ix) the Parent.

Notwithstanding the foregoing, any amendment or waiver of any Secured Debt Document that is made or effected in connection with any Debt Refinancing (see "*—Intercreditor Agreement—Debt Refinancing*"), any incurrence of additional and/or refinancing debt (as referred to in "*—Ranking and Priority—Additional and/or Refinancing Debt*") or Non-Distressed Disposal (see "*—Proceeds of Disposals—Non-Distressed Disposals*") or in connection with any other provision of any Secured Debt Document (provided that such amendment or waiver is not expressly prohibited by the terms of any other Secured Debt Document) shall be binding on all parties to the Intercreditor Agreement.

The Intercreditor Agreement or a security document may be amended by the Parent and the Security Agent without the consent of any other party, to cure defects, resolve ambiguities or reflect changes in each case of a minor technical or administrative nature or as otherwise for the benefit of all or any of the Secured Parties. Any amendment, waiver or consent which relates only to the rights or obligations applicable to creditors under a particular Debt Financing Agreement (and which does not materially and adversely affect the rights or interests of creditors under other Debt Financing Agreements) may be approved with only the consent of the creditor representative in respect of that Debt Financing Agreement and the Parent.

Amendments and Waivers: Security Documents

Subject to the paragraph below and to certain exceptions under the Intercreditor Agreement and unless the provisions of any debt document expressly provide otherwise, the Security Agent may, if authorized by an Instructing Group, and if the Parent consents, amend the terms of, waive any of the requirements of or grant consents under, any of the security documents which shall be binding on each party.

Subject to the second and third paragraphs of the section captioned "—*Exceptions*" below, any amendment or waiver of, or consent under, any security document which would adversely affect the nature or scope of the charged property or the manner in which the proceeds of enforcement of the security are distributed requires approval as set out under the section captioned "—*Required Consents.*"

Exceptions

Subject to the following paragraph of this "—*Exceptions*" section, an amendment, waiver or consent which adversely relates to the express rights or obligations of an agent, an arranger or the Security Agent (in each case in such capacity) may not be effected without the consent of that agent, that arranger or the Security Agent (as the case may be) at such time.

The foregoing shall not apply:

- to any release of security, claim or liabilities; or
- to any consent,

which, in each case, the Security Agent gives in accordance with the provisions set out in the caption "—*Proceeds of Disposals*" above.

The first paragraph of this "—*Exceptions*" section shall apply to an arranger only to the extent that the arranger liabilities are then owed to that arranger.

Agreement to Override

Unless expressly stated otherwise in the Intercreditor Agreement, the Intercreditor Agreement overrides anything in the debt documents to the contrary.

Ancillary Facilities

The Group currently has certain short-term facilities in place (in a committed amount of approximately €9 million as of June 30, 2013, with no cash drawn at June 30, 2013) to meet working capital needs (on a bilateral basis between a borrower and the local banks providing such facilities). It is anticipated that these will either be replaced or be extended (in time and value).

DESCRIPTION OF THE NOTES

The following is a description of the €475 million aggregate principal amount of 7⅞% Senior Secured Notes due 2020 (the "Notes"). The Notes will be issued by Adria Bidco B.V., a *besloten vennootschap met beperkte aansprakelijkheid* incorporated under the laws of the Netherlands (the "Issuer"), and unconditionally guaranteed on a senior secured basis by its direct parent, Adria Midco B.V. (the "Company") and by Adria Serbia HoldCo B.V. (together with the Company, the "Guarantors").

In this "*Description of the Notes*", the "Issuer" refers only to Adria Bidco B.V., and any successor obligor to Adria Bidco B.V. on the Notes, and not to any of its subsidiaries or to its parent, the Company. The Company has been incorporated as a *besloten vennootschap met beperkte aansprakelijkheid* under the laws of the Netherlands.

The proceeds of the offering of the Notes sold on the Issue Date will be used by the Issuer, together with the Equity Contribution to fund, directly or indirectly, the purchase price for the Acquisition, including any adjustments or interest payments under the Acquisition Agreement, and to pay fees, costs and expenses incurred in connection with the Transactions, as set forth in this Offering Memorandum under the caption "*Use of Proceeds*."

Pending consummation of the Acquisition and the satisfaction of certain other conditions as described below, the initial purchasers will, concurrently with the closing of the offering of the Notes on the Issue Date, deposit the gross proceeds of this offering of the Notes less certain deductions with respect to fees and expenses into an escrow account (the "Senior Secured Notes Escrow Account") pursuant to the terms of an escrow deed (the "Senior Secured Notes Escrow Agreement") dated as of the Issue Date among, *inter alios*, the Issuer, U.S. Bank Trustees Limited, as trustee (the "Trustee") and Elavon Financial Services Limited, UK Branch as Senior Secured Notes Escrow Agent (the "Escrow Agent"). If the Acquisition is not consummated on or prior to April 30, 2014 (the "Escrow Longstop Date"), then the Notes will be redeemed at a price equal to 100% of the initial issue price of such Notes plus accrued and unpaid interest and Additional Amounts, if any, from the Issue Date to the Special Mandatory Redemption Date (as defined below). See "*—Escrow of Proceeds; Special Mandatory Redemption*."

Upon the initial issuance of the Notes, the Notes will be obligations of the Issuer and will be guaranteed by certain of the Guarantors located in the Netherlands. Prior to the Closing Date, the Issuer and the Company will not control Opco or any of its Subsidiaries, and neither Opco nor any of its Subsidiaries will be subject to the covenants described in this Description of the Notes. As such, we cannot assure you that prior to the Closing Date, Opco and its Subsidiaries will not engage in activities that would otherwise have been prohibited by the indenture had those covenants been applicable to such entities after the Issue Date and prior to the Closing Date. Within 120 days following the Closing Date, subject to Agreed Security Principles the Notes will be guaranteed on a senior secured basis by certain Guarantors located in Luxembourg, the Netherlands, Bosnia and Slovenia.

The Issuer will issue the Notes under an indenture to be dated as of the Issue Date among, *inter alios*, the Issuer, the Guarantors and U.S. Bank Trustees Limited, as Trustee. The Notes will be issued in private transactions that are not subject to the registration requirements of the Securities Act. See "*Notice to Investors*." The terms of the Notes include those stated in the indenture. The indenture will not be qualified under, incorporate provisions by reference to, or otherwise be subject to, the Trust Indenture Act. The Notes are subject to all such terms pursuant to the provisions of the indenture, and Holders of the Notes are referred to the indenture for a statement thereof.

The following is a summary of the material provisions of the indenture, the Senior Secured Notes Escrow Agreement and the Security Documents and does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all provisions of the indenture, the Senior Secured Notes Escrow Agreement and the Security Documents, respectively. Because this is a summary, it may not contain all the information that is important to you. You should read the indenture, the Senior Secured Notes Escrow Agreement and the Security Documents in their entirety. Copies of the indenture and the Intercreditor Agreement are available as described under "*Where You Can Find Other Information*." You can find the definitions of certain terms used in this description under "*—Certain Definitions*."

Brief Description of the Notes and the Guarantees

The Notes

- are senior obligations of the Issuer, secured by the Collateral described below on a first priority basis along with obligations under the Senior Facilities Agreement (although any liabilities in respect of obligations under the Senior Facilities Agreement will, and certain future Hedging Agreements and other indebtedness that is secured by the Collateral may, receive priority over the Notes with respect to any proceeds received upon any enforcement action over the Collateral);
- are senior in right of payment to any Subordinated Indebtedness of the Issuer;
- are effectively senior in right of payment to any existing or future unsecured obligations of the Issuer, to the extent of the value of the Collateral that is available to satisfy the obligations under the Notes; and
- are or will be unconditionally guaranteed on a senior secured basis by the Guarantors, subject to the guarantee limitations described herein and in "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Each Notes Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability.*"

The Guarantees

- are the senior obligations of the relevant Guarantor, which will be secured by the Collateral described below on a first priority basis along with obligations under the Senior Facilities Agreement (although any liabilities in respect of obligations under the Senior Facilities Agreement will, and certain future Hedging Agreements and other indebtedness that is secured by the Collateral may, receive priority over the Guarantees with respect to any proceeds received upon any enforcement action over the Collateral);
- are senior in right of payment to any Subordinated Indebtedness of the relevant Guarantor;
- are effectively senior in right of payment to any existing or future unsecured obligations of the relevant Guarantor, to the extent of the value of the Collateral that is available to satisfy the obligations under the Notes;
- are effectively senior in right of payment to any existing or future obligations of the relevant Guarantor secured on a basis junior to the Notes, to the extent of the value of the Collateral that is available to satisfy the obligations under the Notes; and
- are subject to limitations described herein and in "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Each Notes Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability*."

Principal and Maturity

The Issuer will issue €475 million in aggregate principal amount of Notes on the Issue Date. The Notes will mature on November 15, 2020. The Notes will be issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof.

The rights of holders of beneficial interests in the Notes to receive the payments on such Notes are subject to applicable procedures of Euroclear and Clearstream. If the due date for any payment in respect of any Notes is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

Interest

Interest on the Notes will accrue at the rate of 7.875% per annum and will be payable, in cash, semi-annually in arrears on May 15 and November 15 of each year, commencing on May 15, 2014, to holders of record on the immediately preceding May 1 and November 1, respectively. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. Each interest period shall end on (but not include) the relevant interest payment date.

Additional Notes

From time to time, subject to the Issuer's compliance with the covenants described under the headings *"—Certain Covenants—Limitation on Indebtedness" and "—Certain Covenants—Limitation on Liens"* the Issuer is permitted to issue additional Notes, which shall have terms substantially identical to the Notes except in respect of any of the following terms which shall be set forth in an Officer's Certificate supplied to the Trustee ("Additional Notes"):

(1) the title of such Additional Notes;

(2) the aggregate principal amount of such Additional Notes;

(3) the date or dates on which such Additional Notes will be issued;

(4) the rate or rates (which may be fixed or floating) at which such Additional Notes shall bear interest and, if applicable, the interest rate basis, formula or other method of determining such interest rate or rates, the date or dates from which such interest shall accrue, the interest payment dates on which such interest shall be payable or the method by which such dates will be determined, the record dates for the determination of holders thereof to whom such interest is payable and the basis upon which such interest will be calculated;

(5) the currency or currencies in which such Additional Notes shall be denominated and the currency in which cash or government obligations in connection with such series of Additional Notes may be payable;

(6) the date or dates and price or prices at which, the period or periods within which, and the terms and conditions upon which, such Additional Notes may be redeemed, in whole or in part;

(7) if other than in denominations of €100,000 and in integral multiples of €1,000 in excess thereof, the denominations in which such Additional Notes shall be issued and redeemed; and

(8) the ISIN, Common Code, CUSIP or other securities identification numbers with respect to such Additional Notes.

Such Additional Notes will be treated, along with all other Notes, as a single class for the purposes of the indenture with respect to waivers, amendments and all other matters which are not specifically distinguished for such series. Unless the context otherwise requires, for all purposes of the indenture and this *"Description of the Notes,"* references to "Notes" shall be deemed to include references to the Notes initially issued on the Issue Date as well as any Additional Notes. Additional Notes may be designated to be of the same series as the Notes initially issued on the Issue Date, but only if they have terms substantially identical in all material respects to the initial Notes, and shall be deemed to form one series and references to the Notes shall be deemed to include the Notes initially issued on the Issue Date as well any such Additional Notes.

Methods of Receiving Payments on the Notes

Principal, premium, if any, interest and Additional Amounts (defined below), if any, on the Global Notes (as defined below) will be payable at the specified office or agency of one or more Paying Agents; *provided* that all such payments with respect to Notes represented by one or more Global Note registered in the name of or held by a nominee of the common depositary for accounts of Euroclear or Clearstream, as applicable, will be made by wire transfer of immediately available funds to Euroclear or Clearstream, which will credit the account specified by the Holder or Holders thereof.

Principal, premium, if any, interest and Additional Amounts, if any, on any certificated securities ("Definitive Registered Notes") will be payable at the specified office or agency of one or more Paying Agents (as defined below) maintained for such purposes. In addition, interest on the Definitive Registered Notes may be paid by check mailed to the person entitled thereto as shown on the register for the Definitive Registered Notes. See "*—Paying Agent and Registrar for the Notes*."

Paying Agent and Registrar for the Notes

The Issuer will maintain one or more paying agents (each a "Paying Agent") for the Notes for so long as the Notes are held in registered form. The Issuer will also undertake, to the extent possible, to use reasonable efforts to maintain a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to the European Council Directive 2003/48/EC regarding the taxation of savings income (the "Directive"). The initial Paying Agent for the Notes will be Elavon Financial Services Limited, UK Branch.

The Issuer will also maintain one or more registrars (each, a "Registrar") with offices in Ireland, for so long as the Notes are listed on the Irish Stock Exchange. The Issuer will also maintain a transfer agent in the United Kingdom (the "Transfer Agent"). The initial Registrar will be Elavon Financial Services Limited and the initial Transfer Agent will be Elavon Financial Services Limited, UK Branch. The Registrar and the transfer agent in Ireland will maintain a register reflecting ownership of Definitive Registered Notes outstanding from time to time, if any, and will make payments on and facilitate transfers of Definitive Registered Notes on behalf of the Issuer. The Transfer Agent shall perform the functions of a transfer agent.

The Issuer may change any Paying Agent, Registrar or Transfer Agent for the Notes without prior notice to the Holders of the Notes. The Issuer or any of its Subsidiaries may act as Paying Agent or Registrar in respect of the Notes. For so long as the Notes are listed on the Irish Stock Exchange and admitted for trading on the Global Exchange Market and the rules of the Irish Stock Exchange so require, the Issuer will publish a notice of any change of Paying Agent, Registrar or Transfer Agent in a newspaper having a general circulation in Ireland (which is expected to be the *Irish Times*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Irish Stock Exchange (*www.ise.ie*).

Transfer and Exchange

The Notes will initially be issued in the form of registered notes in global form without interest coupons, as follows:

- The Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act will initially be represented by global notes in registered form without interest coupons attached (the "144A Global Notes").
- The 144A Global Notes will, upon issuance, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear and/or Clearstream.
- The Notes sold outside the United States pursuant to Regulation S under the Securities Act will initially be represented by global notes in registered form without interest coupons attached (the "Regulation S Global Notes" and, together with the 144A Global Notes, the "Global Notes").
- The Regulation S Global Notes will, upon issuance, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear and/or Clearstream.

Ownership of interests in the Global Notes ("Book-Entry Interests") will be limited to persons that have accounts with Euroclear or Clearstream or persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under "*Notice to Investors.*" In addition, transfers of Book-Entry Interests between participants in Euroclear or participants in Clearstream will be effected by Euroclear or Clearstream, as applicable, pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream, as applicable, and their respective participants.

Book-Entry Interests in the 144A Global Notes may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Notes only upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act.

Prior to 40 days after the date of initial issuance of the Notes, ownership of Book-Entry Interests in Regulation S Global Notes will be limited to persons that have accounts with Euroclear or Clearstream or persons who hold interests through Euroclear or Clearstream, and any sale or transfer of such interest to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to

Rule 144A under the Securities Act. Subject to the foregoing, Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of 144A Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Notice to Investors*" and in accordance with any applicable securities law of any other jurisdiction.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of €100,000 aggregate principal amount and integral multiples of €1,000 in excess thereof, upon receipt by the Registrar of instructions relating thereto and any certificates, opinions and other documentation required by the indenture. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as applicable, from the participant that owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the indenture or as otherwise determined by the Issuer to be in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below.

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €100,000 in aggregate principal amount and integral multiples of €1,000 in excess thereof. In connection with any such transfer or exchange, the indenture will require the transferring or exchanging holder to, among other things, furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at Euroclear or Clearstream, as applicable, to furnish certain certificates and opinions, and to pay any taxes, duties and governmental charges in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any taxes, duties and governmental charges payable in connection with such transfer.

Notwithstanding the foregoing, the Registrar is not required to register the transfer or exchange of any Notes:

(1) for a period of 15 days prior to any date fixed for the redemption of such Notes;

(2) for a period of 15 days immediately prior to the date fixed for selection of such Notes to be redeemed in part;

(3) for a period of 15 days prior to the record date with respect to any interest payment date applicable to such Notes; or

(4) which the Holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Disposition Offer.

The Issuer, the Trustee, the Registrar and the Paying Agent will be entitled to treat the Holder of a Note as the owner of it for all purposes.

Restricted Subsidiaries and Unrestricted Subsidiaries

Immediately after the issuance of the Notes and upon the Closing Date, all of the Company's Subsidiaries will be Restricted Subsidiaries. In the circumstances described below under "*—Certain Definitions—Unrestricted Subsidiary*," the Company will be permitted to designate Restricted Subsidiaries (other than the Issuer) as Unrestricted Subsidiaries. Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the indenture.

Escrow of Proceeds; Special Mandatory Redemption

Concurrently with the closing of the offering of the Notes on the Issue Date, the Issuer will enter into the Senior Secured Notes Escrow Agreement with, *inter alios*, the Trustee and the Escrow Agent, pursuant to which the initial purchasers will deposit with the Escrow Agent an amount equal to the gross proceeds of this offering of the Notes less certain deductions with respect to fees and expenses into the Senior

Secured Notes Escrow Account. The initial funds deposited in the Senior Secured Notes Escrow Account, and all other funds, securities, interest, dividends, distributions and other property and payments credited to the Senior Secured Notes Escrow Account (less any property and/or funds paid in accordance with the Senior Secured Notes Escrow Agreement) are referred to, collectively, as the "Senior Secured Notes Escrowed Property."

In order to cause the Escrow Agent to release the Senior Secured Notes Escrowed Property to the Issuer or to such account as may be designated by the Issuer (the "Release"), the Escrow Agent and the Trustee shall have received from the Issuer, on or before the Escrow Longstop Date, an Officer's Certificate to the effect that:

(1) (i) the Acquisition will be consummated, promptly following (and no later than the Business Day after) the release of the Senior Secured Notes Escrowed Property and (ii) no material term or condition of the Acquisition Agreement has been amended or waived in a manner or to an extent that would be materially prejudicial to the interests of Holders of the Notes, other than any amendment or waiver made with the consent of Holders of a majority of the outstanding Notes (*provided* that if the Majority Lenders, as defined in, and pursuant to the Senior Facilities Agreement shall have consented to any such amendment or waiver (or the senior facilities are drawn without any such consent being required) then the consent of the Holders of a majority of the outstanding Notes shall be deemed to have been granted to such amendment or waiver);

(2) immediately after consummation of the Acquisition, the Issuer will own, directly or indirectly, the entire share capital of Opco; and

(3) as of the Closing Date, there are no events of bankruptcy, insolvency or court protection with respect to the Company or the Issuer.

The Release will occur promptly upon the satisfaction of the conditions set forth above (the date of such satisfaction, the "Closing Date"). Upon the Release, the Senior Secured Notes Escrowed Property will be paid out in accordance with the Senior Secured Notes Escrow Agreement and the Senior Secured Notes Escrow Account will be reduced to zero.

In the event that (a) the Closing Date does not take place on or prior to the Escrow Longstop Date, (b) in the reasonable judgment of the Issuer, the Acquisition will not be consummated on or prior to the Escrow Longstop Date, (c) the Acquisition Agreement terminates at any time on or prior to the Escrow Longstop Date or (d) there is an event of bankruptcy, insolvency or court protection with respect to the Company or the Issuer on or prior to the Escrow Longstop Date (the date of any such event being the "Special Termination Date"), the Issuer will redeem all of the Notes (the "Special Mandatory Redemption") at a price (the "Special Mandatory Redemption Price") equal to 100% of the aggregate issue price of the Notes, plus accrued but unpaid interest and Additional Amounts, if any, from the Issue Date to the Special Mandatory Redemption Date (as defined below) (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Notice of the Special Mandatory Redemption will be delivered by the Issuer, no later than one Business Day following the Special Termination Date, to the Trustee and the Escrow Agent, and will provide that the Notes shall be redeemed on a date that is no later than the fifth Business Day after such notice is given by the Issuer in accordance with the terms of the Senior Secured Notes Escrow Agreement (the "Special Mandatory Redemption Date"). On the Special Mandatory Redemption Date, the Escrow Agent shall pay to the Paying Agent for payment to each Holder the Special Mandatory Redemption Price for such Holder's Notes and, concurrently with the payment to such Holders, deliver any excess Senior Secured Notes Escrowed Property (if any) to the Issuer.

In the event that the Special Mandatory Redemption Price payable upon such Special Mandatory Redemption exceeds the amount of the Senior Secured Notes Escrowed Property, one or more of the Initial Investors will be required to fund the accrued and unpaid interest, and Additional Amounts, if any, owing to the holders of the Notes, pursuant to a commitment provided by such Initial Investors.

If at the time of such Special Mandatory Redemption, the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, the Issuer will notify the Irish Stock Exchange that the Special Mandatory Redemption has occurred and any relevant details relating to such special mandatory redemption.

Guarantees

The obligations of the Issuer pursuant to the Notes, including any payment obligation resulting from a Change of Control, will (subject to the Agreed Security Principles) be guaranteed, jointly and severally on a senior basis, by the Guarantors (such guarantee, a "Guarantee").

The initial Guarantors and their respective jurisdictions of incorporation will be as follows:

The Company	The Netherlands
Adria Serbia HoldCo B.V.	The Netherlands

As of the Issue Date, all of the Guarantors mentioned above will be holding companies and conduct no operations other than, in the case of the Company, direct or indirect ownership of the Capital Stock of the Issuer and Adria Serbia Holdco B.V.

In addition, within 120 days following the Closing Date, the obligations of the Issuer pursuant to the Notes, including any payment obligation resulting from a Change of Control, will (subject to the Agreed Security Principles) be guaranteed, jointly and severally on a senior basis, by the following Guarantors:

Adria Cable B.V.	The Netherlands
Adria Media B.V.	The Netherlands
Bosnia Broadband S.à r.l.	Luxembourg
Slovenia Broadband S.à r.l.	Luxembourg
Telemach d.o.o.	Slovenia
Telemach Rotovž d.d.	Slovenia
Telemach d.o.o. Sarajevo	Bosnia
Telemach Tabor d.d.	Slovenia

The Guarantors will grant the Guarantees and will also grant a senior guarantee of the Senior Facilities Agreement.

In addition, as described below under "*—Certain Covenants—Additional Guarantees*" and subject to the Intercreditor Agreement and the Agreed Security Principles, each Restricted Subsidiary of the Company (other than the Issuer) that guarantees the Senior Facilities Agreement, Public Debt or certain other indebtedness shall also enter into a supplemental indenture as a Guarantor of the Notes and accede to the Intercreditor Agreement.

The Agreed Security Principles apply to the granting of guarantees and security in favor of obligations under the Senior Facilities Agreement and the Notes. The Agreed Security Principles include restrictions on the granting of guarantees where, among other things, such grant would be restricted by general statutory or other legal limitations or requirements, financial assistance, corporate benefit, fraudulent preference, "thin capitalization" rules, retention of title claims and similar matters.

Each Guarantee will be limited to the maximum amount that would not render the Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of foreign or state law, or as otherwise required under the Agreed Security Principles to comply with corporate benefit, financial assistance and other laws. By virtue of this limitation, a Guarantor's obligation under its Guarantee could be significantly less than amounts payable with respect to the Notes, or a Guarantor may have effectively no obligation under its Guarantee. See "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Each Notes Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability*" and "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Our subsidiaries located in Serbia, as well as other subsidiaries representing a significant portion of our revenue and EBITDA, will not guarantee the Notes, and the Notes and each of the Notes Guarantees will be structurally subordinated to the liabilities and preference shares (if any) of our non-Guarantor subsidiaries*."

The Guarantee of a Guarantor will terminate and be released upon:

- except in the case of the Guarantee by the Company, a sale or other disposition (including by way of consolidation or merger) of ownership interests in the Guarantor (directly or through a parent company) such that the Guarantor does not remain a Restricted Subsidiary, or the sale or disposition of all or substantially all the assets of the Guarantor (other than to the Company or a Restricted Subsidiary), in each case, otherwise permitted by the indenture;
- except in the case of the Guarantee by the Company, the designation in accordance with the indenture of the Guarantor as an Unrestricted Subsidiary;
- defeasance or discharge of the Notes, as provided in "*—Defeasance*" and "*—Satisfaction and Discharge*;"

- except in the case of the Guarantee by the Company, with respect to a Guarantor that is not a Significant Subsidiary, so long as no Event of Default has occurred and is continuing, to the extent that such Guarantor (i) is unconditionally released and discharged from its liability with respect to the Senior Facilities Agreement and (ii) does not guarantee any other Credit Facility or Public Debt;
- in accordance with the provisions of the Intercreditor Agreement or any Additional Intercreditor Agreement; or
- as described under "*—Amendments and Waivers*."

Substantially all the operations of the Company (and the Issuer) are conducted through its Subsidiaries. Claims of creditors of non-guarantor Subsidiaries, including trade creditors, secured creditors and creditors holding debt and guarantees issued by those Subsidiaries, and claims of preferred and minority stockholders (if any) of those Subsidiaries generally will have priority with respect to the assets and earnings of those Subsidiaries over the claims of creditors of the Issuer and the Guarantors, including Holders of the Notes. The Notes and each Guarantee therefore will be effectively subordinated to creditors (including trade creditors) and preferred and minority stockholders (if any) of Subsidiaries of the Company. As of June 30, 2013, the Guarantor subsidiaries of each of the Telemach Slovenia Group (including Kabel TV which will be merged into Telemach Slovenia) and the Telemach BH Group comprised an aggregate of 27% of our total assets, and for the six months ended June 30, 2013, represented an aggregate of 35% of our total revenues and 32% of our total EBITDA. Our subsidiaries organized in Serbia, Macedonia, Croatia and Montenegro will not guarantee the obligations under the Notes. Although the indenture limits the incurrence of Indebtedness, Disqualified Stock and Preferred Stock of Restricted Subsidiaries, the limitation is subject to a number of significant exceptions. Moreover, the indenture does not impose any limitation on the incurrence by Restricted Subsidiaries of liabilities that are not considered Indebtedness, Disqualified Stock or Preferred Stock under the indenture. See "*—Certain Covenants—Limitation on Indebtedness.*"

The Proceeds Loan and Intercompany Loans

On or prior to the Closing Date, the Issuer will lend, pursuant to a proceeds loan (the "Proceeds Loan"), a portion of the net proceeds of the issuance of the Notes to Adria Bidco do.o Beograd. On the Closing Date, Adria Bidco d.o.o. Beograd will use the amounts received under the Proceeds Loan, as well as amounts received under equity contributions from its direct parent, to fund the acquisition of Srpske Kablovske mreze d.o.o. Beograd by Adria Cable B.V. The proceeds from the sale of Srpske Kablovske mreze d.o.o. Beograd from Adria Cable B.V. will in turn be used by Adria Cable B.V. to make further intercompany loans (the "Intercompany Loans"), for the purpose of repaying certain existing debt of the some of the borrowers. The Proceeds Loan and the Intercompany Loans will be subordinated in right of payment to the Notes and the Guarantees pursuant to the Intercreditor Agreement. The Issuer and the other lenders under the Proceeds Loan and the Intercompany Loans will grant a first-priority security interest in respect of the receivables under the Proceeds Loan and the Intercompany Loans to secure the Notes and the Senior Facilities Agreement. See "*—Security*".

It is anticipated that funds received by the Issuer as payments of interest under the Proceeds Loan will be used to service a portion of the interest payments under the Notes. As the aggregate principal amount of the Proceeds Loan is lower than that of the Notes, the Proceeds Loan may have a variable interest rate that allows for higher interest payments from time to time and the principal on the Proceeds Loan may be repaid in order to service interest payments on the Notes. In addition, subsidiaries of the Issuer may upstream further funds as needed by means of dividends or loans.

Under the indenture for the Notes, the Company will procure that the borrowers of the Proceeds Loan extended by the Issuer to Adria Bidco d.o.o Beograd and the Intercompany Loan extended by Adria Cable B.V. to Srpske Kablovske Mreze d.o.o on the Closing Date will not repay any of the principal amount thereof, except to the extent that a corresponding reduction is made in the principal amount of the Notes, whether by redemption, repurchase, repayment, defeasance or otherwise.

Security

The Collateral

Pursuant to the Security Documents to be entered into on or prior to the Closing Date, the Issuer, the Company and Adria Serbia Holdco B.V. have granted or will grant in favor of the Security Agent, liens and security interests on an equal and ratable first-priority basis, subject to the operation of the Agreed Security Principles, certain perfection requirements and any Permitted Collateral Liens, over certain of their assets, as listed below:

- shares in the Issuer, Adria Serbia Holdco B.V. and Adria Bidco d.o.o. Beograd;
- certain bank accounts of the Issuer, the Company and Adria Serbia Holdco B.V.;
- receivables owed to the Issuer under an intercompany loan to Adria Bidco d.o.o. Beograd; and
- the rights of the Issuer under the documents governing the Acquisition.

In addition, pursuant to Security Documents to be entered into within 120 days following the Closing Date, the Notes and the Guarantees are expected to be secured by the following assets, subject to the operation of the Agreed Security Principles, certain perfection requirements and any Permitted Collateral Liens:

- shares in the Guarantors (other than the Company);
- certain other receivables owing to Guarantors in respect of intercompany loans; and
- certain bank accounts of the Guarantors;

(together, the "Initial Collateral").

In addition, subject to the Intercreditor Agreement and subject to the Agreed Security Principles, each subsidiary of the Company (other than the Issuer) that accedes to the Senior Facilities Agreement as a guarantor after the Issue Date (other than any subsidiary incorporated in Serbia) and grants security in connection with such accession shall also enter into a supplemental indenture as a Guarantor with respect to the Notes and accede to the Intercreditor Agreement, and security will be granted over the ownership interests in such Guarantor and its material operating bank accounts and intercompany receivables (together with the Initial Collateral, the "Collateral"). All Collateral shall be subject to the operation of the Agreed Security Principles and any Permitted Collateral Liens.

Notwithstanding the foregoing, certain assets will not be pledged (or the Liens not perfected), in accordance with the Agreed Security Principles, including:

- if providing such security would be prohibited by general statutory limitations, financial assistance, capital maintenance, corporate benefit, fraudulent preference, "earnings stripping", "controlled foreign corporation", "thin capitalization" rules, tax restrictions, retention of title claims and similar matters or providing security would be outside the applicable pledgor's capacity or conflict with fiduciary duties of directors or cause material risk of personal or criminal liability after the use of reasonable endeavors to overcome such obstacle;
- if the cost of providing security is not proportionate to the benefit accruing to the Holders;
- if there is material incremental cost involved in creating security over all assets of a Guarantor in a particular category of assets, only the material assets in that category will be subject to security;
- if certain security may be provided by the relevant Guarantor granting a promise to pledge coupled with an irrevocable power of attorney as opposed to a definitive legal mortgage or pledge over the relevant asset;
- if it is expressly acknowledged that it may be either impossible or impractical to create security over certain categories of assets, security will not be taken over such assets;
- if providing such security requires consent before such assets may be secured or where providing such security would give a third party the right to terminate or otherwise amend any rights, benefits and/or obligations of the Company, the Issuer or any of their Subsidiaries in respect of those assets or require any of them to take any action materially adverse to their interests and where (subject to certain conditions being met) such consent cannot be obtained after the use of reasonable endeavors;
- if providing such security would have a material adverse effect (as reasonably determined in good faith by such Subsidiary) on the ability of such Subsidiary to conduct its operations and business in the ordinary course as otherwise permitted by the indenture and any requirement under the Agreed Security Principles to seek consent of any person or take or not take any other action shall be subject to this principle;

- if the aggregate of notarial costs and all registration and like taxes relating to the provision of security exceeds an agreed amount;
- if the assets are located outside the security jurisdictions, which are Slovenia, Bosnia and Herzegovina, the Netherlands and Luxembourg;
- in the case of security from or over, or over assets of, any joint venture or similar arrangement, any minority interest or any entity (other than the Company) that is not wholly-owned; and
- in the case of assets subject to security in favor of a third party.

The Collateral will also secure the liabilities under the Senior Facilities Agreement, any Operating Facilities, hedging agreements and any Additional Notes; *provided* that lenders under the Senior Facilities Agreement, such Operating Facilities and counterparties to hedging agreements will receive proceeds from the enforcement of the Collateral in priority to holders of the Notes. Pursuant to the Intercreditor Agreement, any liabilities in respect of obligations under the Senior Facilities Agreement, Operating Facilities and any hedging obligations permitted to be incurred under the covenant "*—Certain Covenants—Limitation on Indebtedness*" and permitted to be secured on the Collateral on a super priority basis (see "*—Certain Definitions—Permitted Collateral Liens*") will receive priority over the Holders with respect to any proceeds received upon any enforcement action over any Collateral. Subject to certain conditions, including compliance with the covenant described under "*—Certain Covenants—Impairment of Security Interest*," the Company is permitted to grant security over the Collateral in connection with future issuances of its Indebtedness or Indebtedness of its Restricted Subsidiaries, including any Additional Notes, in each case, as permitted under the indenture and the Intercreditor Agreement. Any proceeds received upon any enforcement over any Collateral, after all liabilities in respect of obligations under the Senior Facilities Agreement, Operating Facilities and certain hedging obligations that are secured have been discharged from such recoveries, will be applied *pro rata* in payment of all liabilities in respect of obligations under the indenture and the Notes and any other Indebtedness of the Company or its Restricted Subsidiaries permitted to be incurred and secured by the Collateral pursuant to the indenture and the Intercreditor Agreement.

Administration of Security and Enforcement of Liens

The Security Documents and the Collateral will be administered by the Security Agent, in each case pursuant to the Intercreditor Agreement for the benefit of all holders of secured obligations. In addition, in certain jurisdictions, due to the laws and jurisprudence governing the creation and perfection of security interests, the Intercreditor Agreement provides for the creation of a parallel debt which will form part of the secured obligation. The parallel debt construct has not been tested under law in certain of these jurisdictions. The enforcement of the Security Documents will be subject to the procedures set forth in the Intercreditor Agreement. For a description of the Intercreditor Agreement, see "*Description of Certain Indebtedness—Intercreditor Agreement*".

The ability of holders of the Notes to realize upon the Collateral will be subject to various bankruptcy law limitations in the event of the Issuer's or a Guarantor's bankruptcy. See "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Insolvency laws and other limitations on the Notes Guarantees and the security may adversely affect their validity and enforceability*." In addition, the enforcement of the Collateral will be limited to the maximum amount required under the Agreed Security Principles to comply with corporate benefit, financial assistance and other laws. As a result of these limitations, the enforceable amounts of the Issuer's obligation under the Notes and a Guarantor's obligation under its Guarantee could be significantly less than the total amounts payable with respect to the Notes, or a Guarantor may have effectively no obligation under its Guarantee. See "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—Each Notes Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability.*"

Subject to the terms of the Security Documents, the Issuer, the Guarantors and any other Collateral provider will have the right to remain in possession and retain exclusive control of the Collateral securing the Notes (other than as set forth in the Security Documents), to freely operate the Collateral and to collect, invest and dispose of any income therefrom.

No appraisals of any of the Collateral have been prepared by or on behalf of the Issuer in connection with the issuance of the Notes. There can be no assurance that the proceeds from the sale of the Collateral would be sufficient to satisfy the obligations owed to the holders of the Notes, the payment of obligations under the Senior Facilities Agreement and any hedging obligations. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral can be sold in a short period of time or at all.

In addition, the Intercreditor Agreement and the Security Documents place limitations on the ability of the Security Agent to cause the sale of some of the Collateral. These limitations may include requirements that some or all of the Collateral be disposed of only pursuant to public auctions or only at a price confirmed by a valuation. See "*Description of Certain Indebtedness—Intercreditor Agreement*."

The Trustee for the Notes has, and by accepting a Note, each Holder will be deemed to have:

- irrevocably appointed the Security Agent to act as its agent under the Intercreditor Agreement and the other relevant documents to which it is a party (including, without limitation, the Security Documents);
- irrevocably authorized the Security Agent to (i) perform the duties and exercise the rights, powers and discretions that are specifically given to it under the Intercreditor Agreement or other documents to which it is a party (including, without limitation, the Security Documents), together with any other incidental rights, power and discretions; and (ii) execute each document, waiver, modification, amendment, renewal or replacement expressed to be executed by the Security Agent on its behalf; and
- accepted the terms and conditions of the Intercreditor Agreement and any Additional Intercreditor Agreement (as defined below) and each Holder will also be deemed to have authorized the Trustee and the Security Agent to enter into any such Additional Intercreditor Agreement.

Priority

The relative priority with regard to the Collateral as between (a) the lenders under the Senior Facilities Agreement and other future indebtedness (including the Operating Facilities) (b) the counterparties under certain hedging agreements, and (c) the Trustee and the Holders under the indenture, is established by the terms of the Intercreditor Agreement and the Security Documents, which provide that the obligations under the Notes, the Senior Facilities Agreement and such hedging agreements will receive proceeds of enforcement of security over the Collateral equally and ratably on a first priority basis, provided that obligations under the Senior Facilities Agreement, certain other future indebtedness (including the Operating Facilities) and such hedging agreements will be repaid in enforcement prior to the Notes. See "*Description of Certain Indebtedness—Intercreditor Agreement*." In addition, pursuant to the Intercreditor Agreement or Additional Intercreditor Agreements entered into after the Issue Date, the Collateral may be pledged to secure other Indebtedness. Under certain circumstances, the creditors under such Indebtedness will receive proceeds from an enforcement of the Collateral in priority to the Trustee and the Holders under the indenture. See "*—Release of Liens*," "*—Certain Covenants—Impairment of Security Interest*" and "*—Certain Definitions—Permitted Collateral Liens*."

Release of Liens

The Security Agent will take any action required to effectuate any release of Collateral required by a Security Document:

(1) upon payment in full of principal, interest and all other obligations in respect of the Notes issued under the indenture or discharge or defeasance thereof in accordance with the indenture;

(2) upon release of a Guarantee (with respect to the Liens securing such Guarantee granted by such Guarantor) in accordance with the indenture;

(3) in connection with any disposition of Collateral, directly or indirectly, to (a) any Person other than the Company or any of its Restricted Subsidiaries (but excluding any transaction subject to "*—Certain Covenants—Merger and Consolidation—The Issuer and the Company*") that is permitted by the indenture (with respect to the Lien on such Collateral) or (b) the Company or any Restricted Subsidiary consistent with the Intercreditor Agreement;

(4) as described under "*—Amendments and Waivers*;"

(5) automatically without any action by the Trustee, if the Lien granted in favor of the Senior Facilities Agreement, Public Debt or such other Indebtedness that gave rise to the obligation to

grant the Lien over such Collateral is released (other than pursuant to the repayment and discharge thereof); *provided* that such release would otherwise be permitted by another clause above;

(6) as otherwise provided in the Intercreditor Agreement; and

(7) in order to effectuate a merger, consolidation, conveyance or transfer conducted in compliance with the covenant described under "*—Certain Covenants—Merger and Consolidation*."

Each of these releases shall be effected by the Security Agent and, to the extent required or necessary, the Trustee without the consent of the Holders.

The Company, the Issuer, the other Restricted Subsidiaries and any other Collateral provider may also, among other things, without any release or consent by the Trustee or the Security Agent, conduct ordinary course activities with respect to the Collateral, including, without limitation, (i) selling or otherwise disposing of, in any transaction or series of related transactions, any property subject to the Lien under the Security Documents which has become worn out, defective or obsolete or not used or useful in the business; (ii) selling, transferring or otherwise disposing of current assets in the ordinary course of business; and (iii) any other action permitted by the Security Documents or the Intercreditor Agreement.

Amendments to the Intercreditor Agreement and Additional Intercreditor Agreements

In connection with the Incurrence of any Indebtedness by the Company or any of its Restricted Subsidiaries that is permitted to share the Collateral, the Trustee and the Security Agent shall, at the request of the Company, enter into with the Company, the relevant Restricted Subsidiaries and the holders of such Indebtedness (or their duly authorized representatives) one or more intercreditor agreements or deeds (including a restatement, replacement, amendment or other modification of the Intercreditor Agreement) (an "Additional Intercreditor Agreement"), on substantially the same terms as the Intercreditor Agreement (or terms that are not materially less favorable to the Holders) and substantially similar as applies to sharing of the proceeds of security and enforcement of security, priority and release of security; *provided* that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or Security Agent or adversely affect the personal rights, duties, liabilities, indemnification or immunities of the Trustee or the Security Agent under the indenture or the Intercreditor Agreement. In connection with the foregoing, the Company shall furnish to the Trustee such documentation in relation thereto as it may reasonably require. As used herein, a reference to the Intercreditor Agreement will also include any Additional Intercreditor Agreement.

In relation to the Intercreditor Agreement, the Trustee shall consent on behalf of the holders to the payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby; *provided, however*, that such transaction would comply with the covenant described herein under "*—Certain Covenants—Limitation on Restricted Payments*."

The indenture will also provide that, at the written direction of the Issuer and without the consent of Holders, the Trustee and the Security Agent shall from time to time enter into one or more amendments to any Intercreditor Agreement to: (1) cure any ambiguity, omission, defect or inconsistency of any such agreement, (2) increase the amount or types of Indebtedness covered by any such Intercreditor Agreement that may be Incurred by the Company or its Restricted Subsidiaries that is subject to any such Intercreditor Agreement (provided that such Indebtedness is Incurred in compliance with the indenture), (3) add Guarantors or other Restricted Subsidiaries to the Intercreditor Agreement, (4) further secure the Notes (including Additional Notes), (5) make provision to implement any Permitted Collateral Liens in accordance with the terms of the indenture, or (6) make any other change to any such agreement that does not adversely affect the Holders of Notes in any material respect.

The Issuer shall not otherwise direct the Trustee or Security Agent to enter into any amendment to any Intercreditor Agreement without the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under "*—Amendments and Waivers*" or as permitted by the terms of such Intercreditor Agreement, and the Issuer may only direct the Trustee or Security Agent to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, adversely affect their respective rights, duties, liabilities or immunities under the indenture or any Intercreditor Agreement.

The indenture will also provide that each Holder, by accepting a Note, shall be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein) and to have authorized the Trustee and the Security Agent to enter into the Intercreditor Agreement and any Additional Intercreditor Agreement on each Holder's behalf.

A copy of the Intercreditor Agreement or an Additional Intercreditor Agreement shall be made available to the Holders upon request and will be made available for inspection during normal business hours on any Business Day upon prior written request at the office of the Issuer and, for so long as any Notes are admitted for trading on the Global Exchange Market of the Irish Stock Exchange, at the offices of the Listing Agent in Ireland.

Optional Redemption

Except as set forth herein and under "*—Redemption for Taxation Reasons*" and "*—Escrow of Proceeds; Special Mandatory Redemption*," the Notes are not redeemable at the option of the Issuer.

At any time prior to November 15, 2016, the Issuer may redeem the Notes in whole or in part, at its option, upon not less than 10 nor more than 60 days prior notice at a redemption price equal to 100% of the principal amount of such Notes plus the relevant Applicable Premium as of, and accrued and unpaid interest and Additional Amounts, if any, to the redemption date.

At any time prior to November 15, 2016, the Issuer may, during each twelve-month period commencing on the Issue Date, redeem up to 10% of the aggregate principal amount of the Notes (calculated after giving effect to the issuance of any Additional Notes) at a redemption price equal to 103% of the principal amount redeemed plus accrued and unpaid interest, if any, to the redemption date.

At any time and from time to time on or after November 15, 2016, the Issuer may redeem the Notes in whole or in part, at its option, upon not less than 10 nor more than 60 days prior notice at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest to the redemption date:

Twelve month period commencing in	Percentage
2016	103.938%
2017	101.969%
2018 and thereafter	100.000%

At any time and from time to time prior to November 15, 2016, the Issuer may redeem the Notes with the net cash proceeds received by the Issuer from any Equity Offering at a redemption price equal to 107.875% plus accrued and unpaid interest to the redemption date, in an aggregate principal amount for all such redemptions not to exceed 40% of the original aggregate principal amount of the Notes (including any Additional Notes of the same series), *provided* that:

(1) in each case the redemption takes place not later than 180 days after the closing of the related Equity Offering; and

(2) not less than 60% of the original principal amount of the Notes being redeemed (including the principal amount of any Additional Notes of the same series) remains outstanding immediately thereafter.

Notice of any redemption upon any Equity Offering may be given prior to the completion thereof.

General

Any redemption and notice of redemption may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent (including, in the case of a redemption related to an Equity Offering, the consummation of such Equity Offering).

If the Issuer effects an optional redemption of the Notes, it will, for so long as the Notes are listed on the Irish Stock Exchange and admitted for trading on the Global Exchange Market and the rules of the Irish Stock Exchange so require, inform the Irish Stock Exchange of such optional redemption and confirm the aggregate principal amount of the Notes that will remain outstanding immediately after such redemption.

If the optional redemption date is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest will be paid to the Person in whose name the Note is registered at the close of business on such record date, and no additional interest will be payable to Holders whose Notes will be subject to redemption by the Issuer.

Sinking Fund

Other than the Special Mandatory Redemption, the Issuer will not be required to make mandatory redemption payments or sinking fund payments with respect to the Notes.

Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Paying Agent or the Registrar, as applicable, will select the Notes for redemption in compliance with the requirements of the principal securities exchange, if any, on which the Notes are listed, as certified to the Trustee, the Paying Agent and the Registrar, as applicable, by the Issuer, and in compliance with the requirements of Euroclear or Clearstream, or if the Notes are not so listed or such exchange prescribes no method of selection and the Notes are not held through Euroclear or Clearstream or Euroclear or Clearstream prescribe no method of selection, on a *pro rata* basis or by use of a pool factor; *provided*, *however*, that no Note of €100,000 in aggregate principal amount or less shall be redeemed in part and only Notes in integral multiples of €1,000 will be redeemed. Neither the Paying Agent nor the Registrar will be liable for any selections made by it in accordance with this paragraph.

So long as any Notes are listed on the Irish Stock Exchange and admitted for trading on the Global Exchange Market and the rules of the Irish Stock Exchange so require, any such notice to the Holders of the relevant Notes shall to the extent and in the manner permitted by such rules be posted on the official website of the Irish Stock Exchange (*www.ise.ie*) and in addition to such release, not less than 10 days nor more than 60 days prior to the redemption date, the Issuer will mail, or at the expense of the Issuer, cause to be mailed, such notice to Holders by first-class mail, postage prepaid, at their respective addresses as they appear on the registration books of the Registrar. Such notice of redemption may also be posted on the website of the Irish Stock Exchange (*www.ise.ie*), to the extent and in the manner permitted by the rules of the Irish Stock Exchange.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note shall state the portion of the principal amount thereof to be redeemed, in which case a portion of the original Note will be issued in the name of the Holder thereof upon cancellation of the original Note. In the case of a Global Note, an appropriate notation will be made on such Note to decrease the principal amount thereof to an amount equal to the unredeemed portion thereof. Subject to the terms of the applicable redemption notice (including any conditions contained therein), Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption.

Redemption for Taxation Reasons

The Issuer may redeem the Notes in whole, but not in part, at any time upon giving not less than 10 nor more than 60 days' notice to the Holders of the Notes (which notice will be irrevocable) at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed for redemption (a "Tax Redemption Date") (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) and all Additional Amounts, if any, then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise, if any, if the Issuer or Guarantor determine in good faith that, as a result of:

(1) any change in, or amendment to, the law or treaties (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction (as defined below) affecting taxation; or

(2) any change in, or amendment to, or the introduction of, an official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction) of a Relevant Taxing Jurisdiction (each of the foregoing in clauses (1) and (2), a "Change in Tax Law"),

the Issuer or Guarantor are, or on the next interest payment date in respect of the Notes would be, required to pay any Additional Amounts, and such obligation cannot be avoided by taking reasonable measures available to the Issuer or Guarantor (including, for the avoidance of doubt, the appointment of a new Paying Agent where this would be reasonable but not including assignment of the obligation to make payment with respect to the Notes). In the case of redemption due to withholding or deduction as a result of a Change in Tax Law in a jurisdiction that is a Relevant Taxing Jurisdiction at the date of this Offering Memorandum, such Change in Tax Law must become effective on or after the date of this Offering Memorandum. In the case of redemption due to withholding or deduction as a result of a Change in Tax Law in a jurisdiction that becomes a Relevant Taxing Jurisdiction after the date of this Offering Memorandum, such Change in Tax Law must become effective on or after the date the jurisdiction becomes a Relevant Taxing Jurisdiction, unless the Change in Tax Law would have applied to the predecessor of a Successor Company or the predecessor of a successor of a Guarantor. Notice of redemption for taxation reasons will be published in accordance with the procedures described under "—*Selection and Notice*." Notwithstanding the foregoing, no such notice of redemption will be given (a) earlier than 90 days prior to the earliest date on which the Payor would be obliged to make such payment of Additional Amounts if a payment in respect of the Notes were then due and (b) unless at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. Prior to the publication or mailing of any notice of redemption of the Notes pursuant to the foregoing, the Issuer or Guarantor, or a successor to either, where applicable, will deliver to the Trustee (a) an Officer's Certificate stating that the Issuer or Guarantor, or a successor to either, where applicable, is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to its right so to redeem have been satisfied and (b) an opinion of an independent tax counsel of recognized standing to the effect that the Issuer or Guarantor, or a successor to either, where applicable, has or have been or will become obligated to pay Additional Amounts as a result of a Change in Tax Law. The Trustee will accept such Officer's Certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, without further inquiry, in which event it will be conclusive and binding on the Holders.

The foregoing will apply *mutatis mutandis* to any jurisdiction in which any successor to the Issuer is incorporated or organized or otherwise considered to be a resident or doing business for tax purposes, or any jurisdiction from or through which such successor makes any payment on the Notes or any Guarantees, and any political subdivision or taxing authority or agency thereof or therein.

Withholding Taxes

All payments made by the Issuer or a Guarantor (a "Payor") on the Notes or the Guarantees, as defined below, will be made free and clear of and without withholding or deduction for, or on account of, any Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of:

(1) Ireland, the Netherlands or any political subdivision or Governmental Authority thereof or therein having power to tax;

(2) any jurisdiction from or through which payment on any such Note or Guarantee is made by the Payor or its agents, or any political subdivision or Governmental Authority thereof or therein having the power to tax; or

(3) any other jurisdiction in which the Payor is incorporated or organized, resident for tax purposes, or any political subdivision or Governmental Authority thereof or therein having the power to tax (each of clause (1), (2) and (3), a "Relevant Taxing Jurisdiction"),

will at any time be required from any payments made by a Payor with respect to any Note or Guarantee, including payments of principal, redemption price, premium, if any, or interest, the Payor will pay (together with such payments) such additional amounts (the "Additional Amounts") as may be necessary in order that the net amounts received in respect of such payments by the Holders after such withholding or deduction (including any such deduction or withholding from such Additional Amounts), will equal the amounts which would have been received in respect of such payments on any such Note or Guarantee in the absence of such withholding or deduction; *provided*, *however*, that no such Additional Amounts will be payable for or on account of:

(1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder or the beneficial owner of a Note (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant Holder or beneficial owner, if the relevant Holder or beneficial owner is an estate, nominee, trust, partnership, limited liability company or corporation) and the Relevant Taxing Jurisdiction

(including being a citizen or resident or national or domiciliary of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, the Relevant Taxing Jurisdiction) but excluding, in each case, any connection arising solely from the acquisition, ownership or holding of such Note or the receipt of any payment in respect thereof;

(2) any Taxes that are imposed or withheld by reason of the failure by the Holder or the beneficial owner of the Note to comply with a written request of the Payor addressed to the Holder or beneficial owner, after reasonable notice, to provide certification, information, documents or other evidence concerning the nationality, residence, identity or connection with the Relevant Taxing Jurisdiction of the Holder or such beneficial owner or to make any declaration or similar claim or satisfy any other reporting requirement relating to such matters, which is required by a statute, treaty, regulation or administrative practice of the Relevant Taxing Jurisdiction as a precondition to exemption from all or part of such Taxes;

(3) any Taxes that are payable otherwise than by deduction or withholding from a payment of the principal of, premium, if any, or interest, if any, on the Notes or any Guarantee;

(4) any estate, inheritance, gift, value added, sales, excise, transfer, personal property or similar Taxes, assessment or other governmental charge;

(5) any Taxes that are required to be deducted or withheld on a payment to a Holder or beneficial owner and that are required to be made pursuant to the European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of November 26 and 27, 2000 on taxation of savings income or any law implementing or complying with, or introduced in order to conform to any such directives;

(6) any Taxes imposed in connection with a Note presented for payment (where presentation is permitted or required for payment) by or on behalf of a Holder or beneficial owner who would have been able to avoid such Taxes by presenting the relevant Note to, or otherwise accepting payment from, another paying agent; or

(7) any combination of the above.

Such Additional Amounts will also not be payable (x) if the payment could have been made without such deduction or withholding if the beneficiary of the payment had presented the Note for payment (where presentation is permitted or required for payment) within 15 days after the relevant payment was first made available for payment to the Holder or (y) where, had the beneficial owner of the Note been the Holder, such beneficial owner would not have been entitled to payment of Additional Amounts by reason of any of clauses (1) to (7) inclusive above.

In addition, no Additional Amounts shall be paid with respect to any payment to any Holder who is a fiduciary or a partnership or other than the sole beneficial owner of such Notes to the extent that the beneficiary or settlor with respect to such fiduciary, the member of such partnership or the beneficial owner of such Notes would not have been entitled to Additional Amounts had such beneficiary, settlor, member or beneficial owner held such Notes directly.

The Payor will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law. The Payor will use all reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes, in such form as provided in the ordinary course by the Relevant Taxing Jurisdiction and as is reasonably available to the Payor and will provide such certified copies to the Trustee. Such copies shall be made available to the Holders upon request and will be made available at the offices of the Listing Agent in Ireland if the Notes are then admitted for trading on the Global Exchange Market.

If any Payor will be obligated to pay Additional Amounts under or with respect to any payment made on any Note or Guarantee, at least 30 days prior to the date of such payment, the Payor will deliver to the Trustee an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount so payable and such other information necessary to enable the Paying Agent to pay Additional Amounts to Holders on the relevant payment date (unless such obligation to pay Additional Amounts arises less than 45 days prior to the relevant payment date, in which case the Payor may deliver such Officer's Certificate as promptly as practicable after the date that is 30 days prior to the payment date). The Trustee will be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

Wherever in either the indenture, the Guarantees or this "*Description of the Notes*" there are mentioned, in any context:

(1) the payment of principal;

(2) purchase prices in connection with a purchase of Notes;

(3) interest; or

(4) any other amount payable on or with respect to any of the Notes,

such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Payor will pay any present or future stamp, court or documentary Taxes, or any other property or similar taxes, charges or levies that arise in any jurisdiction from the execution, delivery, registration or enforcement of any Notes, the indenture, the Security Documents or any other document or instrument in relation thereto (other than a transfer or exchange of the Notes) excluding any such Taxes, charges or levies imposed by any jurisdiction that is not a Relevant Taxing Jurisdiction, and the Payor agrees to indemnify the Holders for any such Taxes paid by such Holders. The foregoing obligations of this paragraph will survive any termination, defeasance or discharge of the indenture and will apply *mutatis mutandis* to any jurisdiction in which any successor to the Issuer is organized or any political subdivision or taxing authority or agency thereof or therein.

Change of Control

If a Change of Control occurs, subject to the terms hereof, each Holder will have the right to require the Issuer to repurchase all or part (equal to €100,000 aggregate principal amount, and integral multiples of €1,000 in excess thereof), as the case may be, of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided*, *however*, that the Issuer shall not be obliged to repurchase Notes as described under this "*—Change of Control*" section in the event and to the extent that it has unconditionally exercised its right to redeem all of the Notes as described under "*—Optional Redemption*" or all conditions to such redemption have been satisfied or waived.

Unless the Issuer has unconditionally exercised its right to redeem all the Notes as described under "*—Optional Redemption*" or all conditions to such redemption have been satisfied or waived, no later than the date that is 60 days after any Change of Control, the Issuer will mail a notice (the "Change of Control Offer") to each Holder of any such Notes, with a copy to the Trustee:

(1) stating that a Change of Control has occurred or may occur and that such Holder has the right to require the Issuer to purchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of such Notes plus accrued and unpaid interest to, but not including, the date of purchase (subject to the right of Holders of record on a record date to receive interest on the relevant interest payment date) (the "Change of Control Payment");

(2) stating the repurchase date (which shall be no earlier than 10 days nor later than 60 days from the date such notice is mailed) (the "Change of Control Payment Date");

(3) describing the circumstances and relevant facts regarding the transaction or transactions that constitute the Change of Control;

(4) describing the procedures determined by the Issuer, consistent with the indenture, that a Holder must follow in order to have its Notes repurchased; and

(5) if such notice is mailed prior to the occurrence of a Change of Control, stating that the Change of Control Offer is conditional on the occurrence of such Change of Control.

On the Change of Control Payment Date, if the Change of Control shall have occurred, the Issuer will, to the extent lawful:

(1) accept for payment all Notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes so tendered;

(3) deliver or cause to be delivered to the Trustee an Officer's Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Issuer in the Change of Control Offer;

(4) in the case of Global Notes, deliver, or cause to be delivered, to the Paying Agent the Global Notes in order to reflect thereon the portion of such Notes or portions thereof that have been tendered to and purchased by the Issuer; and

(5) in the case of Definitive Registered Notes, deliver, or cause to be delivered, to the relevant Registrar for cancellation all Definitive Registered Notes accepted for purchase by the Issuer.

If any Definitive Registered Notes have been issued, the relevant Paying Agent will promptly mail to each Holder of Definitive Registered Notes so tendered the Change of Control Payment for such Notes, and the Trustee will promptly authenticate (or cause to be authenticated) and mail (or cause to be transferred by book entry) to each Holder of Definitive Registered Notes a new Note equal in aggregate principal amount to the unpurchased portion of the Notes surrendered, if any; *provided* that each such new Note will be in an aggregate principal amount that is at least €100,000 and integral multiples of €1,000 in excess thereof.

If and for so long as the Notes are listed on the Irish Stock Exchange and admitted for trading on the Global Exchange Market and the rules of the Irish Stock Exchange so require, the Issuer will publish notices relating to the Change of Control Offer as soon as reasonably practicable after the Change of Control Payment Date in a leading newspaper of general circulation in Ireland (which is expected to be the *Irish Times*) or, to the extent and in the manner permitted by such rules, post such notices on the official website of the Irish Stock Exchange (*www.ise.ie*).

The Change of Control provisions described above will be applicable whether or not any other provisions of the indenture are applicable. Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the Holders to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. The existence of a Holder's right to require the Issuer to repurchase such Holder's Notes upon the occurrence of a Change of Control may deter a third party from seeking to acquire the Company or its Subsidiaries in a transaction that would constitute a Change of Control.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations (or rules of any exchange on which the Notes are then listed) in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations (or exchange rules) conflict with provisions of the indenture, the Issuer will comply with the applicable securities laws and regulations (or exchange rules) and will not be deemed to have breached its obligations, or require a repurchase of the Notes, under the Change of Control provisions of the indenture by virtue of the conflict.

Under the Senior Facilities Agreement, the occurrence of a change of control would require the repayment of such debt. Future debt of the Company or its Subsidiaries may prohibit the Issuer from purchasing Notes in the event of a Change of Control or provide that a Change of Control is a default or requires repurchase upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Issuer to purchase the Notes could cause a default under, or require a repurchase of, other debt, even if the Change of Control itself does not, due to the financial effect of the purchase on the Issuer.

Finally, the Issuer's ability to pay cash to the Holders following the occurrence of a Change of Control may be limited by the Issuer's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—We may not have the ability to raise the funds necessary to finance and offer to repurchase the Notes upon the occurrence of a change of control as required by the Indenture and the change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events.*"

The definition of "Change of Control" includes a disposition of all or substantially all of the property and assets of the Company and its Restricted Subsidiaries taken as a whole to specified other Persons.

Although there is limited case law interpreting the phrase "substantially all", there is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the property or assets of a Person. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions of the indenture relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of Holders of a majority in outstanding aggregate principal amount of the Notes under the indenture.

Certain Covenants

Limitation on Indebtedness

The Company will not, and will not permit any of its Restricted Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness); *provided*, *however*, that the Company and any Guarantor may Incur Indebtedness if on the date of such Incurrence and after giving pro forma effect thereto (including pro forma application of the proceeds thereof), the Consolidated Leverage Ratio for the Company and the Restricted Subsidiaries is less than 4.25 to 1.0.

The first paragraph of this covenant will not prohibit the Incurrence of the following Indebtedness:

(1) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to any Credit Facility (including letters of credit or bankers' acceptances issued or created under any Credit Facility), and any Refinancing Indebtedness in respect thereof and Guarantees in respect of such Indebtedness, in a maximum aggregate principal amount of Indebtedness at any time outstanding not exceeding (i) the greater of (a) €60 million plus the Accordion Amount and (b) 100% of Consolidated EBITDA minus any Indebtedness incurred under clause (14) of this paragraph, plus (ii) in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing;

(2) (a) Guarantees by the Company or any Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary in each case so long as the Incurrence of such Indebtedness is permitted under the terms of the indenture; or

(b) without limiting the covenant described under "*—Limitation on Liens,*" Indebtedness arising by reason of any Lien granted by or applicable to such Person securing Indebtedness of the Company or any Restricted Subsidiary, in each case so long as the Incurrence of such Indebtedness is permitted under the terms of the indenture;

(3) Indebtedness of the Company owing to and held by any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Company or any Restricted Subsidiary; *provided*, *however*, that:

(a) if any Guarantor or the Issuer is the obligor on any such Indebtedness and the obligee is not a Guarantor or the Issuer, it is unsecured and expressly subordinated in right of payment to prior payment in full in cash (whether upon Stated Maturity, acceleration or otherwise) and the performance in full of its obligations under the indenture to the extent required by the Intercreditor Agreement;

(b) (i) any subsequent issuance or transfer of Capital Stock or any other event which results in any such Indebtedness being beneficially held by a Person other than the Company or a Restricted Subsidiary of the Company; and (ii) any sale or other transfer of any such Indebtedness to a Person other than the Company or a Restricted Subsidiary of the Company, shall be deemed, in each case, to constitute an Incurrence of such Indebtedness by the Company or such Restricted Subsidiary, as the case may be;

(4) Indebtedness represented by (a) the Notes (other than any Additional Notes), (b) any Indebtedness (other than Indebtedness described in clauses (1) and (3) of this paragraph) of the Company or any Restricted Subsidiary (including the Target Group) outstanding on the Closing Date, and the guarantees of and security granted with respect to the Notes, (c) Refinancing Indebtedness Incurred in respect of any Indebtedness described in this clause (4) or clause (5) of

this paragraph or Incurred pursuant to the first paragraph of this covenant and (d) Management Advances;

(5) Indebtedness (i) of any Person Incurred and outstanding on the date on which such Person becomes a Restricted Subsidiary of the Company or another Restricted Subsidiary of the Company or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Company or any Restricted Subsidiary or (ii) of the Company or any Restricted Subsidiary Incurred to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which a Person became a Restricted Subsidiary or was otherwise acquired by the Company or a Restricted Subsidiary; *provided, however*, with respect to each of clause (5)(i) and (5)(ii), that at the time of such acquisition or other transaction (x) the Company would have been able to Incur €1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving effect to the Incurrence of such Indebtedness pursuant to this clause (5) or (y) the Consolidated Leverage Ratio would not be greater than it was immediately prior to giving effect to such acquisition or other transaction;

(6) Indebtedness under Currency Agreements, Interest Rate Agreements and Commodity Hedging Agreements entered into for *bona fide* hedging purposes of the Company or its Restricted Subsidiaries and not for speculative purposes (as determined in good faith by the Board of Directors or Senior Management of the Company);

(7) Indebtedness represented by Capitalized Lease Obligations or Purchase Money Obligations, and in each case any Refinancing Indebtedness in respect thereof, in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (7) and then outstanding, will not exceed at any time outstanding the greater of (A) €5 million and (B) 0.65% of Total Assets;

(8) Indebtedness in respect of (a) workers' compensation claims, self-insurance obligations, performance, indemnity, surety, judgment, appeal, advance payment, customs, VAT or other tax or other guarantees or other similar bonds, instruments or obligations and completion guarantees and warranties provided by the Company or a Restricted Subsidiary or relating to liabilities, obligations or guarantees Incurred in the ordinary course of business, (b) letters of credit, bankers' acceptances, guarantees or other similar instruments or obligations issued or relating to liabilities or obligations Incurred in the ordinary course of business; *provided, however*, that upon the drawing of such letters of credit or similar instruments, the obligations are reimbursed within 30 days following such drawing, (c) the financing of insurance premiums in the ordinary course of business and (d) any customary cash management, cash pooling or netting or setting off arrangements in the ordinary course of business;

(9) Indebtedness arising from agreements providing for customary guarantees, indemnification, obligations in respect of earn-outs or other adjustments of purchase price or, in each case, similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Capital Stock of a Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring or disposing of such business or assets or such Subsidiary for the purpose of financing such acquisition or disposition); *provided* that the maximum liability of the Company and its Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the fair market value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Company and its Restricted Subsidiaries in connection with such disposition;

(10) (a) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of Incurrence;

(b) Customer deposits and advance payments received in the ordinary course of business from customers for goods purchased in the ordinary course of business;

(c) Indebtedness owed on a short-term basis of no longer than 30 days to banks and other financial institutions incurred in the ordinary course of business of the Company and its Restricted Subsidiaries with such banks or financial institutions that arises in connection with ordinary banking arrangements to manage cash balances of the Company and its Restricted Subsidiaries; and

(d) Indebtedness incurred by a Restricted Subsidiary in connection with bankers acceptances, discounted bills of exchange or the discounting or factoring of receivables for credit management of bad debt purposes, in each case incurred or undertaken in the ordinary course of business on arm's length commercial terms on a recourse basis;

(11) Indebtedness in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness in respect thereof and the aggregate principal amount of all other Indebtedness Incurred pursuant to this clause (11) and then outstanding, will not exceed the greater of €15 million and 1.9% of Total Assets;

(12) Indebtedness of the Issuer, the Company or another Guarantor in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness in respect thereof and the principal amount of all other Indebtedness Incurred pursuant to this clause (12) and then outstanding, will not exceed 100% of the Net Cash Proceeds received by the Company from the issuance or sale (other than to a Restricted Subsidiary) of its Subordinated Shareholder Funding or its Capital Stock (other than Disqualified Stock, Designated Preference Shares or an Excluded Contribution) or otherwise contributed to the equity (other than through the issuance of Disqualified Stock, Designated Preference Shares or an Excluded Contribution) of the Company, in each case, subsequent to the Closing Date; *provided*, *however*, that (i) any such Net Cash Proceeds that are so received or contributed shall be excluded for purposes of making Restricted Payments under the first paragraph and clauses (1), (6), (10), (13) and (14) of the third paragraph of the covenant described below under "*—Limitation on Restricted Payments*" to the extent the Company and its Restricted Subsidiaries incur Indebtedness in reliance thereon and (ii) any Net Cash Proceeds that are so received or contributed shall be excluded for purposes of Incurring Indebtedness pursuant to this clause (12) to the extent the Company or any of its Restricted Subsidiaries makes a Restricted Payment under the first paragraph and clauses (1), (6) and (10) of the third paragraph of the covenant described below under "*—Limitation on Restricted Payments*" in reliance thereon;

(13) Indebtedness under daylight borrowing facilities incurred in connection with the Transactions or any refinancing of Indebtedness (including by way of set-off or exchange) so long as any such Indebtedness is repaid within three days of the date on which such Indebtedness is Incurred; and

(14) Indebtedness consisting of local lines of credit, bilateral facilities, working capital facilities and/or other operating facilities ("Operating Facilities") not exceeding €20 million outstanding at one time.

For purposes of determining compliance with, and the outstanding principal amount of any particular Indebtedness Incurred pursuant to and in compliance with, this covenant:

(1) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in the first and second paragraphs of this covenant, the Company, in its sole discretion, will classify, and may from time to time reclassify, such item of Indebtedness and only be required to include the amount and type of such Indebtedness in one of the clauses of the second paragraph or the first paragraph of this covenant;

(2) all Indebtedness outstanding on the Closing Date under the Senior Facilities Agreement shall be deemed initially Incurred under clause (1) of the second paragraph of the description of this covenant and not the first paragraph or clause (4)(b) of the second paragraph of the description of this covenant, and any Indebtedness Incurred under clause (1) of the second paragraph of the description of this covenant may not be reclassified pursuant to clause (1) of this paragraph;

(3) Guarantees of, or obligations in respect of letters of credit, bankers' acceptances or other similar instruments relating to, or Liens securing, Indebtedness that is otherwise included in the determination of a particular amount of Indebtedness shall not be included;

(4) if obligations in respect of letters of credit, bankers' acceptances or other similar instruments are Incurred pursuant to any Credit Facility and are being treated as Incurred pursuant to clause (1), (7), (11) or (14) of the second paragraph above or the first paragraph above and the letters of credit, bankers' acceptances or other similar instruments relate to other Indebtedness, then such other Indebtedness shall not be included;

(5) the principal amount of any Disqualified Stock of the Company or a Restricted Subsidiary, or Preferred Stock of a Restricted Subsidiary, will be equal to the greater of the maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or the liquidation preference thereof;

(6) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness;

(7) the amount of Indebtedness shall be calculated as described under the definition of "Indebtedness"; and

(8) for the purposes of determining "Consolidated EBITDA" under clause (1) of the second paragraph of this covenant, (i) pro forma effect shall be given to Consolidated EBITDA on the same basis as for calculating the Consolidated Leverage Ratio for the Company and its Restricted Subsidiaries and (ii) Consolidated EBITDA shall be measured on the most recent date on which new commitments are obtained (in the case of revolving facilities) or the date upon which Indebtedness is incurred (in the case of term facilities) and for the period of the most recent two consecutive fiscal quarters ending prior to such date for which internal consolidated financial statements of the Company are available, multiplied by two.

Accrual of interest, accrual of dividends, the accretion of accreted value, the accretion or amortization of original issue discount, the payment of interest in the form of additional Indebtedness, the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock or the reclassification of commitments or obligations not treated as Indebtedness due to a change in IFRS, including a change of IFRS to U.S. GAAP, will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant.

If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be Incurred by a Restricted Subsidiary of the Company as of such date.

For purposes of determining compliance with any euro-denominated restriction on the Incurrence of Indebtedness, the Euro Equivalent of the aggregate principal amount of Indebtedness denominated in another currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or, at the option of the Company, first committed, in the case of Indebtedness Incurred under a revolving credit facility; *provided* that (a) if such Indebtedness is Incurred to refinance other Indebtedness denominated in a currency other than euro, and such refinancing would cause the applicable euro-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such euro-denominated restriction shall be deemed not to have been exceeded so long as the aggregate principal amount of such Refinancing Indebtedness does not exceed the aggregate principal amount of such Indebtedness being refinanced; (b) the Euro Equivalent of the aggregate principal amount of any such Indebtedness outstanding on the Closing Date shall be calculated based on the relevant currency exchange rate in effect on the Closing Date; and (c) if and for so long as any such Indebtedness is subject to a Currency Agreement with respect to the currency in which such Indebtedness is denominated covering principal and interest on such Indebtedness, the amount of such Indebtedness, if denominated in euro, will be the amount of the principal payment required to be made under such Currency Agreement and, otherwise, the Euro Equivalent of such amount plus the Euro Equivalent of any premium which is at such time due and payable but is not covered by such Currency Agreement.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Company or a Restricted Subsidiary may Incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Restricted Payments

The Company will not, and will not permit any of its Restricted Subsidiaries, directly or indirectly, to:

(1) declare or pay any dividend or make any distribution on or in respect of the Company's or any Restricted Subsidiary's Capital Stock (including any payment in connection with any merger or consolidation involving the Company or any of its Restricted Subsidiaries) except:

(a) dividends or distributions payable in Capital Stock of the Company (other than Disqualified Stock) or in Subordinated Shareholder Funding;

(b) dividends or distributions payable to the Company or a Restricted Subsidiary (and, in the case of any such Restricted Subsidiary making such dividend or distribution, to holders of its Capital Stock other than the Company or another Restricted Subsidiary on no more than a *pro rata* basis, measured by value); and

(c) dividends or distributions paid to any Parent Holding Company in respect of Indebtedness of such Parent Holding Company which is guaranteed by the Company;

(2) purchase, redeem, retire or otherwise acquire for value any Capital Stock of the Company or any direct or indirect Parent Holding Company held by Persons other than the Company or a Restricted Subsidiary of the Company (other than in exchange for Capital Stock of the Company (other than Disqualified Stock));

(3) make any principal payment on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Indebtedness (other than (a) any such payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of purchase, repurchase, redemption, defeasance or other acquisition or retirement and (b) any Indebtedness Incurred pursuant to clause (3) of the second paragraph of the covenant described under "*—Limitation on Indebtedness*");

(4) make any payment (other than by capitalization of interest) on or with respect to, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, any Subordinated Shareholder Funding; or

(5) make any Restricted Investment in any Person;

(any such dividend, distribution, payment, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Restricted Investment referred to in clauses (1) through (5) are referred to herein as a "Restricted Payment"), if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

(a) a Default shall have occurred and be continuing (or would result immediately thereafter therefrom);

(b) the Company is not able to Incur an additional €1.00 of Indebtedness pursuant to the first paragraph under the "*—Limitation on Indebtedness*" covenant after giving effect, on a pro forma basis, to such Restricted Payment; or

(c) the aggregate amount of such Restricted Payment and all other Restricted Payments made subsequent to the Closing Date (and not returned or rescinded) (including Permitted Payments permitted below by clauses (6), (10), (11), (12) and (17) of the second succeeding paragraph, but excluding all other Restricted Payments permitted by the second succeeding paragraph) would exceed the sum of (without duplication):

(i) 100% of Consolidated EBITDA for the period (treated as one accounting period) from the first day of the first fiscal quarter commencing prior to the Closing Date to the end of the most recent fiscal quarter ending prior to the date of such Restricted Payment for which internal consolidated financial statements of the Company are available, less the product of 1.5 times the Consolidated Interest Expense for the period (treated as one accounting period) from the first day of the first fiscal quarter commencing prior to the Closing Date to the end of the most recent fiscal quarter ending prior to the date of such Restricted Payment for which internal consolidated financial statements of the Company are available;

(ii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or marketable securities, received by the Company from the issue or sale of its Capital Stock (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding subsequent to the Closing Date or otherwise contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Company subsequent to the Closing Date (other than (x) Net Cash Proceeds or property or assets or marketable securities received from an issuance or sale of such Capital Stock to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Company or any Subsidiary of the Company for the benefit of its employees to the extent funded by the Company or any Restricted Subsidiary, (y) Net Cash Proceeds or property or assets or marketable securities to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (6) of the second succeeding paragraph and (z) Excluded Contributions and the Equity Contribution);

(iii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or marketable securities, received by the Company or any Restricted Subsidiary from the issuance or sale (other than to the Company or a Restricted Subsidiary of the Company or an employee stock ownership plan or trust established by the Company or any Subsidiary of the Company for the benefit of its employees to the extent funded by the Company or any Restricted Subsidiary) by the Company or any Restricted Subsidiary subsequent to the Closing Date of any Indebtedness that has been converted into or exchanged for Capital Stock of the Company (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding (plus the amount of any cash, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or marketable securities, received by the Company or any Restricted Subsidiary upon such conversion or exchange);

(iv) the amount equal to the net reduction in Restricted Investments made by the Company or any of its Restricted Subsidiaries resulting from:

(A) repurchases, redemptions or other acquisitions or retirements of any such Restricted Investment, proceeds realized upon the sale or other disposition to a Person other than the Company or a Restricted Subsidiary of any such Restricted Investment, repayments of loans or advances or other transfers of assets (including by way of dividend, distribution, interest payments or returns of capital) to the Company or any Restricted Subsidiary; or

(B) the redesignation of Unrestricted Subsidiaries as Restricted Subsidiaries (valued, in each case, as provided in the definition of "Investment") not to exceed, in the case of any Unrestricted Subsidiary, the amount of Investments previously made by the Company or any Restricted Subsidiary in such Unrestricted Subsidiary, which amount, in each case under this clause (iv), was included in the calculation of the amount of Restricted Payments referred to in the first sentence of this clause (c); *provided*, *however*, that no amount will be included in Consolidated Net Income for purposes of the preceding clause (i) to the extent that it is (at the Company's option) included under this clause (iv); and

(v) the amount of the cash and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or of marketable securities received by the Company or any of its Restricted Subsidiaries in connection with:

(A) the sale or other disposition (other than to the Company or a Restricted Subsidiary or an employee stock ownership plan or trust established by the Company or any Subsidiary of the Company for the benefit of its employees to the extent funded by the Company or any Restricted Subsidiary) of Capital Stock of an Unrestricted Subsidiary of the Company; and

(B) any dividend or distribution made by an Unrestricted Subsidiary or Affiliate to the Company or a Restricted Subsidiary;

provided, *however*, that no amount will be included in Consolidated Net Income for purposes of the preceding clause (i) to the extent that it is (at the Company's option) included under this clause (v); *provided further*, *however*, that such amount under this clause (v) shall not exceed the amount included in the calculation of the amount of Restricted Payments referred to in the first sentence of this clause (c). Upon a Specified Change of Control Event, all amounts calculated pursuant to this clause (c) shall be reset to zero and all references to the Closing Date in this clause (c) shall thereafter refer to the date of such Specified Change of Control Event.

The fair market value of property or assets other than cash covered by the preceding sentence shall be the fair market value thereof as determined in good faith by the Board of Directors of the Company.

The foregoing provisions will not prohibit any of the following (collectively, "Permitted Payments"):

(1) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Capital Stock, Disqualified Stock, Designated Preference Shares, Subordinated Shareholder Funding or Subordinated Indebtedness made by exchange for or out of the proceeds of the substantially concurrent sale of (other than to the Company or a Restricted Subsidiary or an employee stock ownership plan or trust established by the Company or any Subsidiary of the Company for the benefit of its employees to the extent funded by the Company or any Restricted Subsidiary), Capital Stock of the Company (other than Disqualified Stock or Designated Preference Shares), Subordinated Shareholder Funding or a substantially concurrent contribution to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of the Company; *provided*, *however*, that to the extent so applied, the Net Cash Proceeds, or fair market value (as determined in accordance with the preceding sentence) of property or assets or of marketable securities, from such sale of Capital Stock, Subordinated Shareholder Funding or such contribution will be excluded from clause (c)(ii) of the preceding paragraph;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness made by exchange for, or out of the proceeds of the substantially concurrent sale of, Refinancing Indebtedness permitted to be Incurred pursuant to the covenant described under "*—Limitation on Indebtedness*" above;

(3) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Preferred Stock of the Company or a Restricted Subsidiary made by exchange for or out of the proceeds of the substantially concurrent sale of Preferred Stock of the Company or a Restricted Subsidiary, as the case may be, that, in each case, is permitted to be Incurred pursuant to the covenant described under "*—Limitation on Indebtedness*" above, and that in each case, constitutes Refinancing Indebtedness;

(4) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness:

   (a) (i) from Net Available Cash to the extent permitted under "*—Limitation on Sales of Assets and Subsidiary Stock*" below, but only if the provisions of the covenant described under "*—Limitation on Sales of Assets and Subsidiary Stock*" have first been complied with and (ii) at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest;

   (b) to the extent required by the agreement governing such Subordinated Indebtedness, following the occurrence of a Change of Control (or other similar event described therein as a "change of control"), but only (i) if the Issuer shall have first complied with the terms of the covenant described under "*—Change of Control,*" if required, and purchased all Notes tendered pursuant to the offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 101% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest; or

   (c) (i) consisting of Acquired Indebtedness (other than Indebtedness Incurred (A) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by the Company or a Restricted Subsidiary or (B) otherwise in connection with or contemplation of such acquisition) and (ii) at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest and any premium required by the terms of any Acquired Indebtedness;

(5) any dividends paid within 60 days after the date of declaration if at such date of declaration such dividend would have complied with this covenant;

(6) the purchase, repurchase, redemption, defeasance or other acquisition, cancellation or retirement for value of Capital Stock of any Parent Holding Company and loans, advances, dividends or distributions by the Company to any Parent Holding Company to permit any Parent Holding Company to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of any Parent Holding Company, or payments to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of any Parent Holding Company (including any options, warrants or other rights in respect thereof), in each case from Management Investors; *provided* that such payments, loans, advances, dividends or distributions do not exceed an amount (net of repayments of any such loans or advances) equal to (1) €3 million plus (2) €2 million multiplied by the number of calendar years that have commenced since the Closing Date plus (3) the Net Cash Proceeds received by the Company or its Restricted Subsidiaries since the Closing Date (including through receipt of proceeds from the issuance or sale of its Capital Stock or Subordinated Shareholder Funding to a Parent Holding Company) from, or as a contribution to the equity (in each case under this clause (6), other than through the issuance of Disqualified Stock or Designated Preference Shares, and other than the Equity Contribution) of the Company from, the issuance or sale to Management Investors of Capital Stock of any Parent Holding Company, to the extent such Net Cash Proceeds are not included in any calculation under clause (c)(ii) of the preceding paragraph;

(7) the declaration and payment of dividends to holders of any class or series of Disqualified Stock, or of any Preferred Stock of a Restricted Subsidiary, Incurred in accordance with the terms of the covenant described under "*—Limitation on Indebtedness*" above;

(8) purchases, repurchases, redemptions, defeasances or other acquisitions or retirements of Capital Stock deemed to occur upon the exercise of stock options, warrants or other rights in respect thereof if such Capital Stock represents a portion of the exercise price thereof;

(9) dividends, loans, advances or distributions to any Parent Holding Company or other payments by the Company or any Restricted Subsidiary in amounts equal to (without duplication):

(a) the amounts required for any Parent Holding Company to pay any Parent Holding Company Expenses or any Related Taxes; or

(b) amounts constituting or to be used for purposes of making payments to the extent specified in clauses (2), (3), (5), (7), (11) and (12) of the second paragraph under "*—Limitation on Affiliate Transactions*;"

(10) so long as no Default or Event of Default has occurred and is continuing (or would result from), the declaration and payment by the Company of, or loans, advances, dividends or distributions to any Parent Holding Company to pay, dividends on the common stock or common equity interests of the Company or any Parent Holding Company following a Public Offering of such common stock or common equity interests, in an amount not to exceed in any fiscal year the greater of (a) 6% of the Net Cash Proceeds received by the Company from such Public Offering or contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of the Company or loaned as Subordinated Shareholder Funding to the Company and (b) following the Initial Public Offering, an amount equal to the greater of (A) 7% of the Market Capitalization and (B) 7% of the IPO Market Capitalization; *provided* that, in the case of clause (A) or (B), after giving pro forma effect to such loans, advances, dividends or distributions, the Consolidated Leverage Ratio shall be equal to or less than 3.25 to 1.00;

(11) so long as no Default or Event of Default has occurred and is continuing (or would result from), Restricted Payments (including loans or advances) in an aggregate amount outstanding at any time not to exceed €20 million or, if greater, 2.5% of Total Assets;

(12) payments by the Company, or loans, advances, dividends or distributions to any Parent Holding Company to make payments, to holders of Capital Stock of the Company or any Parent Holding Company in lieu of the issuance of fractional shares of such Capital Stock, *provided*, *however*, that

any such payment, loan, advance, dividend or distribution shall not be for the purpose of evading any limitation of this covenant or otherwise to facilitate any dividend or other return of capital to the holders of such Capital Stock (as determined in good faith by the Board of Directors of the Company);

(13) Investments in an aggregate amount outstanding at any time not to exceed the aggregate cash amount of Excluded Contributions, or consisting of non-cash Excluded Contributions, or Investments to the extent made in exchange for or using as consideration Investments previously made under this clause (13);

(14) (i) the declaration and payment of dividends to holders of any class or series of Designated Preference Shares of the Company issued after the Closing Date; and (ii) the declaration and payment of dividends to any Parent Holding Company or any Affiliate thereof, the proceeds of which will be used to fund the payment of dividends to holders of any class or series of Designated Preference Shares of such Parent Holding Company issued after the Closing Date; *provided*, *however*, that, in the case of clauses (i) and (ii), the amount of all dividends declared or paid pursuant to this clause (14) shall not exceed the Net Cash Proceeds received by the Company or the aggregate amount contributed in cash to the equity (other than through the issuance of Disqualified Stock or an Excluded Contribution or, in the case of Designated Preference Shares by Parent Holding Company or an Affiliate, the issuance of Designated Preference Shares, and other than the Equity Contribution) of the Company or loaned as Subordinated Shareholder Funding to the Company, from the issuance or sale of such Designated Preference Shares;

(15) dividends or other distributions of Capital Stock of Unrestricted Subsidiaries;

(16) payment of any Receivables Fees and purchases of Receivables Assets pursuant to a Receivables Repurchase Obligation in connection with a Qualified Receivables Financing; and

(17) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), any dividend, distribution, loan or other payment; *provided* that the Consolidated Leverage Ratio on a pro forma basis after giving effect to any such dividend, distribution, loan or other payment does not exceed 3.0 to 1.0.

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred or issued by the Company or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment. The fair market value of any cash Restricted Payment shall be its face amount, and the fair market value of any non-cash Restricted Payment shall be determined conclusively by the Board of Directors of the Company acting in good faith.

Limitation on Liens

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, Incur or suffer to exist any Lien upon any of its property or assets (including Capital Stock of a Restricted Subsidiary of the Company), whether owned on the Issue Date or acquired after that date, or any interest therein or any income or profits therefrom, which Lien is securing any Indebtedness (such Lien, the "Initial Lien"), except (a) in the case of any property or asset that does not constitute Collateral, (1) Permitted Liens or (2) Liens on property or assets that are not Permitted Liens if the Notes and the indenture (or a Guarantee in the case of Liens of a Guarantor) are secured equally and ratably with (or prior to, in the case of Liens with respect to Subordinated Indebtedness) such Indebtedness for so long as such Indebtedness is so secured (*provided* that a Lien to secure Indebtedness pursuant to clauses (1) or (6) of the second paragraph of the "Limitation on Indebtedness" covenant may have priority not materially less favorable to the Holders than that accorded to the Senior Facilities Agreement pursuant to the Intercreditor Agreement), and (b) in the case of any property or asset that constitutes Collateral, Permitted Collateral Liens.

Any such Lien created in favor of the Notes pursuant to clause (a)(2) of the preceding paragraph will be automatically and unconditionally released and discharged upon (i) the release and discharge of the Initial Lien to which it relates, and (ii) otherwise as set forth under "*—Security—Release of Liens*."

Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to:

(A) pay dividends or make any other distributions in cash or otherwise on its Capital Stock or pay any Indebtedness or other obligations owed to the Issuer or the Company;

(B) make any loans or advances to the Issuer or the Company; or

(C) sell, lease or transfer any of its property or assets to the Issuer or the Company,

provided that (x) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill requirements to) loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary shall not be deemed to constitute such an encumbrance or restriction.

The provisions of the preceding paragraph will not prohibit:

(1) any encumbrance or restriction pursuant to (a) any Credit Facility (including the Senior Finance Documents) or (b) any other agreement or instrument, in each case, in effect at or entered into on the Issue Date or on the Closing Date;

(2) any encumbrance or restriction pursuant to an agreement or instrument of a Person or relating to any Capital Stock or Indebtedness of a Person, entered into on or before the date on which such Person was acquired by or merged, consolidated or otherwise combined with or into the Company or any Restricted Subsidiary, or was designated as a Restricted Subsidiary or on which such agreement or instrument is assumed by the Company or any Restricted Subsidiary in connection with an acquisition of assets (other than Capital Stock or Indebtedness Incurred as consideration in, or to provide all or any portion of the funds utilized to consummate, the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was acquired by the Company or was merged, consolidated or otherwise combined with or into the Company or any Restricted Subsidiary entered into or in connection with such transaction) and outstanding on such date; *provided* that, for the purposes of this clause (2), if another Person is the Successor Company, any Subsidiary thereof or agreement or instrument of such Person or any such Subsidiary shall be deemed acquired or assumed by the Company or any Restricted Subsidiary when such Person becomes the Successor Company;

(3) any encumbrance or restriction pursuant to an agreement or instrument effecting a refinancing of Indebtedness Incurred pursuant to, or that otherwise refinances, an agreement or instrument referred to in clause (1) or (2) of this paragraph or this clause (3) (an "Initial Agreement") or contained in any amendment, supplement or other modification to an agreement referred to in clause (1) or (2) of this paragraph or this clause (3); *provided*, *however*, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such agreement or instrument are no less favorable in any material respect to the Holders taken as a whole than the encumbrances and restrictions contained in the Initial Agreement or Initial Agreements to which such refinancing or amendment, supplement or other modification relates (as determined in good faith by the Company);

(4) any encumbrance or restriction:

  (a) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any lease, license or other contract;

  (b) contained in mortgages, pledges, charges or other security agreements permitted under the indenture or securing Indebtedness of the Company or a Restricted Subsidiary permitted under the indenture to the extent such encumbrances or restrictions restrict the transfer of the property or assets subject to such mortgages, pledges, charges or other security agreements; or

  (c) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of the Company or any Restricted Subsidiary;

(5) any encumbrance or restriction pursuant to Purchase Money Obligations and Capitalized Lease Obligations permitted under the indenture, in each case, that impose encumbrances or restrictions on the property so acquired or any encumbrance or restriction pursuant to a joint venture agreement that imposes restrictions on the transfer of the assets of the joint venture;

(6) any encumbrance or restriction with respect to a Restricted Subsidiary (or any of its property or assets) imposed pursuant to an agreement entered into for the direct or indirect sale or disposition to a Person of all or substantially all the Capital Stock or assets of such Restricted Subsidiary (or the property or assets that are subject to such restriction) pending the closing of such sale or disposition;

(7) customary provisions in leases, licenses, joint venture agreements and other similar agreements and instruments entered into in the ordinary course of business;

(8) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation or order, or required by any regulatory authority;

(9) any encumbrance or restriction on cash or other deposits or net worth imposed by customers under agreements entered into in the ordinary course of business;

(10) any encumbrance or restriction pursuant to Currency Agreements, Interest Rate Agreements or Commodity Hedging Agreements;

(11) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be Incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under "*—Limitation on Indebtedness*" if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders than (i) the encumbrances and restrictions contained in the Senior Facilities Agreement and the Intercreditor Agreement, together with the security documents associated therewith as in effect on the Closing Date or (ii) in comparable financings (as determined in good faith by the Company) or where the Company determines when such Indebtedness is Incurred that such encumbrances or restrictions will not adversely affect, in any material respect, the Issuer's ability to make principal or interest payments on the Notes;

(12) any encumbrance or restriction existing by reason of any Lien permitted under "*—Limitation on Liens*"; or

(13) restrictions effected in connection with a Qualified Receivables Financing that, in the good faith determination of the Board of Directors of the Company, are necessary or advisable to effect such Qualified Receivables Financing.

Limitation on Sales of Assets and Subsidiary Stock

The Company will not, and will not permit any of its Restricted Subsidiaries to, make any Asset Disposition unless:

(1) the Company or such Restricted Subsidiary, as the case may be, receives consideration (including by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise) at least equal to the fair market value (such fair market value to be determined on the date of contractually agreeing to such Asset Disposition), as determined in good faith by the Board of Directors of the Company, of the shares and assets subject to such Asset Disposition (including, for the avoidance of doubt, if such Asset Disposition is a Permitted Asset Swap);

(2) in any such Asset Disposition, or series of related Asset Dispositions (except to the extent the Asset Disposition is a Permitted Asset Swap), at least 75% of the consideration from such Asset Disposition (excluding any consideration by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise, other than Indebtedness) received by the Company or such Restricted Subsidiary, as the case may be, is in the form of cash, Cash Equivalents or Temporary Cash Investments; and

(3) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company or such Restricted Subsidiary, as the case may be:

(a) to the extent the Company or any Restricted Subsidiary, as the case may be, elects (or is required by the terms of any Indebtedness of a Restricted Subsidiary), (i) to prepay, repay or purchase any Indebtedness of a Restricted Subsidiary that is not a Guarantor (in each case, other than Indebtedness owed to the Company or any Restricted Subsidiary) or Indebtedness under the Senior Facilities Agreement (or any Refinancing Indebtedness in respect thereof) within 365 days from the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash; *provided*, *however*, that, in connection with any prepayment, repayment or purchase of Indebtedness pursuant to this clause (a), the Company or such Restricted Subsidiary will retire such Indebtedness and will cause the related commitment (if any) (except in the case of any revolving Indebtedness including, but not limited to, the revolving credit facility made available under the Senior Facilities Agreement) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased; or (ii) to prepay, repay or purchase Pari Passu Indebtedness at a price of no more than 100% of the principal amount of such Pari Passu Indebtedness plus accrued and unpaid interest to the date of such prepayment, repayment or purchase; *provided* that the Company shall redeem, repay or repurchase Pari Passu Indebtedness that is Public Debt pursuant to this clause (ii) only if the Company makes (at such time or subsequently in compliance with this covenant) an offer to the Holders of the Notes to purchase their Notes in accordance with the provisions set forth below for an Asset Disposition Offer for an aggregate principal amount of Notes at least equal to the proportion that (x) the total aggregate principal amount of Notes outstanding bears to (y) the sum of the total aggregate principal amount of Notes outstanding plus the total aggregate principal amount outstanding of such Pari Passu Indebtedness; or

(b) to the extent the Company or such Restricted Subsidiary elects, to invest in or commit to invest in Additional Assets (including by means of an investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by the Company or a Restricted Subsidiary) within 365 days from the later of (i) the date of such Asset Disposition and (ii) the receipt of such Net Available Cash; *provided*, *however*, that any such reinvestment in Additional Assets made pursuant to a definitive binding agreement or a commitment approved by the Board of Directors of the Company that is executed or approved within such time will satisfy this requirement, so long as such investment is consummated within 180 days of such 365th day,

provided that, pending the final application of any such Net Available Cash in accordance with clause (a) or clause (b) above, the Company and its Restricted Subsidiaries may temporarily reduce Indebtedness or otherwise invest such Net Available Cash in any manner not prohibited by the indenture.

Any Net Available Cash from Asset Dispositions that is not applied or invested or committed to be applied or invested as provided in the preceding paragraph will be deemed to constitute "Excess Proceeds" under the indenture. On the 366th day after an Asset Disposition, or at such earlier date that the Company elects, if the aggregate amount of Excess Proceeds under the indenture exceeds €10 million and has not been committed in accordance with clause (3)(b) of the first paragraph of this covenant, the Company will be required to make an offer ("Asset Disposition Offer") to all Holders of Notes issued under the indenture and, to the extent the Company elects, to all holders of other outstanding Pari Passu Indebtedness, to purchase the maximum aggregate principal amount of Notes and any such Pari Passu Indebtedness to which the Asset Disposition Offer applies that may be purchased out of the Excess Proceeds, at an offer price in respect of the Notes in an amount equal to (and, in the case of any Pari Passu Indebtedness, at an offer price of no more than) 100% of the principal amount of the Notes and 100% of the principal amount of such Pari Passu Indebtedness, in each case, plus accrued and unpaid interest, if any, to, but not including, the date of purchase, in accordance with the procedures set forth in the indenture or the agreements governing such Pari Passu Indebtedness, as applicable, and, in the case of the Notes, in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof.

To the extent that the aggregate principal amount of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Asset Disposition Offer is less than the Excess Proceeds, the Company may use any remaining Excess Proceeds for general corporate purposes, subject to the other covenants contained in the indenture. If the aggregate principal amount of the Notes surrendered in any Asset Disposition Offer by Holders and other Pari Passu Indebtedness surrendered by holders or lenders, collectively, exceeds the amount of Excess Proceeds, the Excess Proceeds shall be allocated among the Notes and Pari Passu Indebtedness to be purchased on a *pro rata* basis on the basis of the aggregate principal amount of tendered Notes and Pari Passu Indebtedness. For the purposes of calculating the aggregate principal amount of any such Indebtedness not denominated in euro, such Indebtedness shall be calculated by converting any such aggregate principal amounts into their Euro Equivalent determined as of a date selected by the Company that is within the Asset Disposition Offer Period (as defined below). Upon completion of any Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero. To the extent that any portion of Net Available Cash payable in respect of the Notes is denominated in a currency other than the currency in which the relevant Notes are denominated, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in the currency in which such Notes are denominated that is actually received by the Company upon converting such portion into such currency.

The Asset Disposition Offer, in so far as it relates to the Notes, will remain open for a period of not less than 20 Business Days following its commencement (the "Asset Disposition Offer Period"). No later than five Business Days after the termination of the Asset Disposition Offer Period (the "Asset Disposition Purchase Date"), the Company will purchase (or procure the purchase of) the aggregate principal amount of Notes and, to the extent they elect, Pari Passu Indebtedness required to be purchased pursuant to this covenant (the "Asset Disposition Offer Amount") or, if less than the Asset Disposition Offer Amount has been so validly tendered, all Notes and Pari Passu Indebtedness validly tendered in response to the Asset Disposition Offer.

On or before the Asset Disposition Purchase Date, the Company will, to the extent lawful, accept for payment, on a *pro rata* basis to the extent necessary, the Asset Disposition Offer Amount of Notes and Pari Passu Indebtedness or portions of Notes and such Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to the Asset Disposition Offer, or if less than the Asset Disposition Offer Amount has been validly tendered and not properly withdrawn, all Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn and, in the case of the Notes, in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof. The Company will deliver to the Trustee an Officer's Certificate stating that such Notes or portions thereof were accepted for payment by the Company in accordance with the terms of this covenant. The Company or the Paying Agent, as the case may be, will promptly (but in any case not later than five Business Days after termination of the Asset Disposition Offer Period) mail or deliver to each tendering Holder of Notes an amount equal to the purchase price of the Notes so validly tendered and not properly withdrawn by such Holder, and accepted by the Company for purchase, and the Company will promptly issue a new Note (or amend the Global Note), and the Trustee (or its authenticating agent), upon delivery of an Officer's Certificate from the Company, will authenticate and mail or deliver (or cause to be transferred by book entry) such new Note to such Holder, in an aggregate principal amount equal to any unpurchased portion of the Note surrendered; *provided* that each such new Note will be in an aggregate principal amount with a minimum denomination of €100,000. Any Note not so accepted will be promptly mailed or delivered (or transferred by book entry) by the Company to the Holder thereof.

For the purposes of clause (2) of the first paragraph of this covenant, the following will be deemed to be cash:

(1) the assumption by the transferee of Indebtedness of the Company or Indebtedness of a Restricted Subsidiary (other than Subordinated Indebtedness of the Company or a Guarantor) and the release of the Company or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition;

(2) securities, notes or other obligations received by the Company or any Restricted Subsidiary of the Company from the transferee that are converted by the Company or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of such Asset Disposition;

(3) Indebtedness of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Disposition, to the extent that the Company and each other Restricted Subsidiary are released from any Guarantee of payment of such Indebtedness in connection with such Asset Disposition;

(4) consideration consisting of Indebtedness of the Company (other than Subordinated Indebtedness) received after the Issue Date from Persons who are not the Company or any Restricted Subsidiary; and

(5) any Designated Non-Cash Consideration received by the Company or any Restricted Subsidiary in such Asset Dispositions having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this covenant that is at that time outstanding, not to exceed the greater of €15 million and 1.9% of Total Assets (with the fair market value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value).

The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations (or rules of any exchange on which the Notes are then listed) in connection with the repurchase of Notes pursuant to the indenture. To the extent that the provisions of any securities laws or regulations (or exchange rules) conflict with provisions of this covenant, the Company will comply with the applicable securities laws and regulations (or exchange rules) and will not be deemed to have breached its obligations under the indenture by virtue of any conflict.

Limitation on Affiliate Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or conduct any transaction (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Company (an "Affiliate Transaction") involving aggregate value in excess of €2 million unless:

(1) the terms of such Affiliate Transaction taken as a whole are not materially less favorable to the Company or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable transaction at the time of such transaction or the execution of the agreement providing for such transaction in arm's length dealings with a Person who is not such an Affiliate; and

(2) in the event such Affiliate Transaction involves an aggregate value in excess of €10 million, the terms of such transaction have been approved by a majority of the members of the Board of Directors of the Company.

The provisions of the preceding paragraph will not apply to:

(1) any Restricted Payment permitted to be made pursuant to the covenant described under "*—Limitation on Restricted Payments,*" any Permitted Payments (other than pursuant to clause (9)(b) of the third paragraph of the covenant described under "*—Limitation on Restricted Payments*") or any Permitted Investment (other than Permitted Investments described in paragraphs (1)(b), (2) and (11) of the definition thereof);

(2) any issuance or sale of Capital Stock, other equity-related interests or other securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, or entering into, or maintenance of, any employment, consulting, collective bargaining or benefit plan, program, agreement or arrangement, related trust or other similar agreement and other compensation arrangements to purchase Capital Stock of the Company, any Restricted Subsidiary or any Parent Holding Company restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits or consultants' plans (including valuation, health, insurance, deferred compensation, severance, retirement, savings or similar plans, programs or arrangements) or indemnities provided on behalf of officers, employees, directors or consultants approved by the Board of Directors of the Company, in each case in the ordinary course of business;

(3) any Management Advances and any waiver or transaction with respect thereto;

(4) any transaction between or among the Company and any Restricted Subsidiary (or entity that becomes a Restricted Subsidiary as a result of such transaction), or between or among Restricted Subsidiaries;

(5) the payment of reasonable fees and reimbursement of expenses to, and customary indemnities (including under customary insurance policies) and employee benefit and pension expenses provided on behalf of, directors, officers, consultants or employees of the Company, any

Restricted Subsidiary of the Company or any Parent Holding Company (whether directly or indirectly and including through any Person owned or controlled by any of such directors, officers or employees);

(6) the Transactions and the entry into and performance of obligations of the Company or any of its Restricted Subsidiaries under the terms of any transaction arising out of, and any payments pursuant to or for purposes of funding, any agreement or instrument in effect as of or on the Issue Date or the Closing Date, as these agreements and instruments may be amended, modified, supplemented, extended, renewed or refinanced from time to time in accordance with the other terms of this covenant or to the extent not more disadvantageous to the Holders in any material respect and the entry into and performance of any registration rights or other listing agreement in connection with any Public Offering;

(7) the execution, delivery and performance of any Tax Sharing Agreement or the formation and maintenance of any consolidated group for tax, accounting or cash pooling or management purposes in the ordinary course of business;

(8) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business, which are fair to the Company or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or the Senior Management of the Company or the relevant Restricted Subsidiary, or are on terms no less favorable than those that could reasonably have been obtained at such time from an unaffiliated party;

(9) any transaction in the ordinary course of business between or among the Company or any Restricted Subsidiary and any Affiliate of the Company or an Associate or similar entity that would constitute an Affiliate Transaction solely because the Company or a Restricted Subsidiary owns an equity interest in or otherwise controls such Affiliate, Associate or similar entity;

(10) (a) issuances or sales of Capital Stock (other than Disqualified Stock or Designated Preference Shares) of the Company or Subordinated Shareholder Funding; *provided* that the interest rate and other financial terms of such Subordinated Shareholder Funding are approved by a majority of the members of the Board of Directors of the Company in their reasonable determination and (b) any amendment, waiver or other transaction with respect to any Subordinated Shareholder Funding in compliance with the other provisions of the indenture;

(11) without duplication in respect of payments made pursuant to clause (12) hereof, (a) payments by the Company or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including through any Parent Holding Company) of annual customary management, consulting, monitoring or advisory fees and related expenses in an aggregate amount not to exceed, in each 12 month period that has commenced since the Issue Date, beginning on the Issue Date, the greater of €1.5 million and 1.5% of Consolidated EBITDA for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination and (b) customary payments by the Company or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including through any Parent Holding Company) for financial advisory, consulting, financing, underwriting or placement services or in respect of other investment banking activities, including in connection with acquisitions or divestitures, which payments in respect of this clause (b) are approved by a majority of the Board of Directors of the Company in good faith;

(12) payment to any Permitted Holder of all reasonable out-of-pocket expenses Incurred by such Permitted Holder in connection with its direct or indirect investment in the Company and its Subsidiaries; and

(13) any transaction effected as part of a Qualified Receivables Financing.

Reports

For so long as any Notes are outstanding, the Company will provide to the Trustee the following reports:

(1) within 120 days after the end of the fiscal year beginning with the first fiscal year ending after the Issue Date, annual reports containing, to the extent applicable, the following information: (a) audited consolidated balance sheets of the Company or its predecessor as of the end of the

two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Company or its predecessor for the two most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) unaudited pro forma income statement information and balance sheet information of the Company (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available), together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year; (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources of the Company, and a discussion of material commitments and contingencies and critical accounting policies, with a similar scope to that included in this offering memorandum; (d) description of the business, management and shareholders of the Company, all material affiliate transactions and a description of all material contractual arrangements, including material debt instruments; and (e) a description of material risk factors and material recent developments;

(2) within 60 days (or, in the case of the fiscal quarter ending March 31, 2014, 90 days) following the end of the first three fiscal quarters of the Company beginning with the quarter ending March 31, 2014, all quarterly reports of the Company containing the following information: (a) an unaudited condensed consolidated balance sheet of the Company as of the end of such quarter and unaudited condensed statements of income and cash flow of the Company for the most recent quarter year-to-date period ending on the unaudited condensed balance sheet date, and the comparable prior year period of the Company or its predecessor, together with condensed footnote disclosure; (b) unaudited pro forma income statement information and balance sheet information of the Company (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available), together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the relevant quarter; (c) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition, EBITDA and material changes in liquidity and capital resources of the Company, and a discussion of material changes not in the ordinary course of business in commitments and contingencies since the most recent report; and (d) material recent developments; and

(3) promptly after the occurrence of any material acquisition, disposition or restructuring or any senior executive officer changes at the Company or Opco or change in auditors of the Company or any other material event that the Company or any of its Restricted Subsidiaries announces publicly, a report containing a description of such event.

In addition, on or prior to January 30, 2014, the Company will provide to the Trustee a preliminary trading statement containing (i) a discussion of revenue and EBITDA of the Target Group, prepared on the basis of IFRS methodology and consistent with the presentation of the Target Group financial statements for the six months ended June 30, 2013, and capital expenditures of the Target Group, prepared on a basis consistent with that in the offering memorandum, in each case for the quarter ended September 30, 2013, and compared to the quarter ended June 30, 2013 (ii) a discussion of material changes in liquidity and capital resources of the Target Group in the quarter ended September 30, 2013, (iii) a discussion of the following key performance metrics as of September 30, 2013 compared to June 30, 2013: homes passed, unique cable subscribers, RGUs penetration and blended cable ARPU, and (iv) pro forma gross leverage ratio, pro forma net leverage ratio for the quarter ended September 30, 2013 (with a reconciliation to EBITDA).

All financial statement and pro forma financial information shall be prepared in accordance with IFRS as in effect on the date of such report or financial statement (or otherwise on the basis of IFRS as then in effect) and on a consistent basis for the periods presented; *provided*, *however*, that the reports set forth in clauses (1), (2) and (3) above may, (x) in the event of a change in applicable IFRS, present earlier periods on a basis that applied to such periods and (y) to the extent comparable prior period financial information of the Company does not exist, the comparable prior period financial information of Target Group may be provided in lieu thereof. Except as provided for in this covenant, no report need include separate financial statements for any Subsidiaries of the Company. The filing of an Annual Report on Form 20-F within the time period specified in (1) will satisfy such provision. Following an IPO on the Capital Stock of the Company or any parent thereof and/or the listing of such Capital Stock on a recognized European stock exchange, the requirements of paragraphs (1), (2) and (3) above shall be considered to have been fulfilled if the IPO Entity complies with the reporting requirements of such stock exchange.

At any time that any of the Company's Subsidiaries are Unrestricted Subsidiaries and any such Unrestricted Subsidiary or group of Unrestricted Subsidiaries, if taken together as one Subsidiary, constitutes a Significant Subsidiary of the Company, then the annual and quarterly financial information required by clauses (1) and (2) of the first paragraph of this covenant shall include either (i) a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Company or (ii) stand-alone audited or unaudited financial statements, as the case may be, of such Unrestricted Subsidiary or Unrestricted Subsidiaries (as a group or otherwise) together with an unaudited reconciliation to the financial information of the Company and its Subsidiaries, which reconciliation shall include the following items: turnover, net sales, EBITDA, net income, cash, total assets, total debt, shareholders equity, capital expenditures and interest expense.

Substantially concurrently with the issuance to the Trustee of the reports or statement specified in clauses (1), (2) and (3) of the first paragraph or the second paragraph of this covenant, the Company shall also (a) use its commercially reasonable efforts (i) to post copies of such reports or statement on such website as may be then maintained by the Company and its Subsidiaries or (ii) otherwise to provide substantially comparable availability of such reports (as determined by the Company in good faith) or (b) to the extent the Company determines in good faith that it cannot make such reports or statement available in the manner described in the preceding clause (a) owing to applicable law or after the use of its commercially reasonable efforts, furnish such reports or statement to the Holders and, upon request, prospective purchasers of the Notes. The Company will also make available copies of all reports required by clauses (1) through (3) of the first paragraph of this covenant, if and so long as the Notes are listed on the Irish Stock Exchange and admitted for trading on the Global Exchange Market and the rules of the Irish Stock Exchange so require, at the offices of the Listing Agent in Ireland or, to the extent and in the manner permitted by such rules, post such reports on the official website of the Irish Stock Exchange.

In addition, so long as the Notes remain outstanding and during any period during which the Company is not subject to Section 13 or 15(d) of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Company shall furnish to the Holders and, upon their request, prospective purchasers of the Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Merger and Consolidation

The Issuer and the Company

Neither the Issuer nor the Company will consolidate with or merge with or into, or convey, transfer or lease all or substantially all its assets to, any Person, unless:

(1) the resulting, surviving or transferee Person (the "Successor Company") will be a Person organized and existing under the laws of any member state of the European Union or the United States of America, any State of the United States or the District of Columbia, Canada or any province of Canada, Norway or Switzerland and the Successor Company (if not the Issuer or the Company, as the case may be) will expressly assume (in each case subject to any limitations contemplated by the Agreed Security Principles) (a) by supplemental indenture, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, all the obligations of the Issuer or the Company, as the case may be, under the Notes or the Guarantee and (b) all obligations of the Issuer or the Company, as the case may be, under the Security Documents (and, to the extent required by the Intercreditor Agreement, the Intercreditor Agreement);

(2) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Subsidiary of the Successor Company as a result of such transaction as having been Incurred by the Successor Company or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;

(3) in the case of a transaction involving the Company, immediately after giving effect to such transaction, either (a) the Successor Company would be able to Incur at least an additional €1.00 of Indebtedness pursuant to the first paragraph of the covenant described under "*—Limitation on Indebtedness*" or (b) the Consolidated Leverage Ratio would not be greater than it was immediately prior to giving effect to such transaction; and

(4) the Issuer or the Company, as the case may be, shall have delivered to the Trustee an Officer's Certificate to the effect that such consolidation, merger or transfer comply with the indenture and that all conditions precedent in the indenture relating to such consolidation, merger or transfer have been satisfied and that the Indenture, the Notes, the Intercreditor Agreement and the Security Documents constitute legal, valid and binding obligations of the Issuer or the Company enforceable in accordance with their terms; provided that in giving an opinion of counsel, counsel may rely on an Officer's Certificate as to any matters of fact. The Trustee shall be entitled to rely conclusively on such Officer's Certificate and Opinion of Counsel without independent verification.

Any Indebtedness that becomes an obligation of the Issuer, the Company or any Restricted Subsidiary (or that is deemed to be Incurred by any Restricted Subsidiary that becomes a Restricted Subsidiary) as a result of any such transaction undertaken in compliance with this covenant, and any Refinancing Indebtedness with respect thereto, shall be deemed to have been Incurred in compliance with the covenant described under "*—Limitation on Indebtedness*."

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer, or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Issuer or the Company, as the case may be, which properties and assets, if held by the Issuer or the Company instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Issuer or the Company on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer or the Company, as the case may be.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, the Issuer or the Company, as the case may be, under the indenture but in the case of a lease of all or substantially all its assets, the predecessor company will not be released from its obligations under such indenture or the Notes.

Notwithstanding the preceding clauses (2) and (3) and the provisions described below under "*—Subsidiary Guarantors*" (which do not apply to transactions referred to in this sentence) and, other than with respect to the second preceding paragraph, clause (4) of the first paragraph of this covenant, (a) any Restricted Subsidiary of the Company may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to the Issuer or the Company, (b) any Restricted Subsidiary may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other Restricted Subsidiary and (c) the Issuer, the Company and its Restricted Subsidiaries may undertake the Transactions. Notwithstanding the preceding clauses (2), (3) and (4) (which do not apply to the transactions referred to in this sentence), the Issuer or the Company may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Issuer or the Company, reincorporating the Issuer or the Company in another jurisdiction, or changing the legal form of the Issuer or the Company.

There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

The foregoing provisions (other than the requirements of clause (2) of the first paragraph of this covenant) will not apply to the creation of a new Subsidiary as a Restricted Subsidiary of the Company.

Subsidiary Guarantors

No Guarantor that is a Subsidiary of the Issuer (a "Subsidiary Guarantor") may:

(1) consolidate with or merge with or into any Person;

(2) sell, convey, transfer or dispose of, all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions, to any Person; or

(3) permit any Person to merge with or into such Guarantor,

unless

(A) the other Person is the Company or any Restricted Subsidiary that is a Guarantor or becomes a Guarantor concurrently with the transaction); or

(B) (1) either (x) a Guarantor is the continuing Person or (y) the resulting, surviving or transferee Person expressly assumes (in each case subject to any limitations contemplated by the Agreed Security Principles) all of the obligations of the Guarantor under its Guarantee and the Security Documents (and, to the extent required by the Intercreditor Agreement, the Intercreditor Agreement); and

(2) immediately after giving effect to the transaction, no Default has occurred and is continuing; or

(C) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of the Guarantor or the sale or disposition of all or substantially all the assets of the Guarantor (in each case other than to the Company or a Restricted Subsidiary) otherwise permitted by the indenture.

Notwithstanding the preceding clause (B) and the provisions described above under "*—The Issuer and the Company*" (which does not apply to transactions referred to in this sentence), (a) any Restricted Subsidiary may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to a Subsidiary Guarantor, (b) any Subsidiary Guarantor may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other Subsidiary Guarantor and (c) the Subsidiary Guarantors may undertake the Transactions. Notwithstanding the preceding clause B(2) (which does not apply to the transactions referred to in this sentence), a Subsidiary Guarantor may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Subsidiary Guarantor reincorporating the Subsidiary Guarantor in another jurisdiction, or changing the legal form of the Subsidiary Guarantor.

There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

Suspension of Covenants on Achievement of Investment Grade Status

If on any date following the Issue Date, the Notes have achieved Investment Grade Status and no Default or Event of Default has occurred and is continuing (a "Suspension Event"), then, beginning on that day and continuing until the Reversion Date, the provisions of the indenture summarized under the following captions will not apply to such Notes: "*—Limitation on Restricted Payments*," "*—Limitation on Indebtedness*," "*—Limitation on Restrictions on Distributions from Restricted Subsidiaries*," "*—Limitation on Affiliate Transactions*," "*—Limitation on Sales of Assets and Subsidiary Stock*," "*—Additional Guarantees*," "*—Lines of Business*," and the provisions of clause (3) of the first paragraph of the covenant described under "*—Merger and Consolidation—The Issuer and the Company*", and, in each case, any related default provision of the indenture will cease to be effective and will not be applicable to the Company and its Restricted Subsidiaries. Such covenants and any related default provisions will again apply according to their terms from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company properly taken during the continuance of the Suspension Event, and the "*—Limitation on Restricted Payments*" covenant will be interpreted as if it has been in effect since the date of such indenture except that no default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. On the Reversion Date, all Indebtedness Incurred during the continuance of the Suspension Event will be classified, at the Company's option, as having been Incurred pursuant to the first paragraph of the covenant described under "*—Limitation on Indebtedness*" or one of the clauses set forth in the second paragraph of such covenant (to the extent such Indebtedness would be permitted to be Incurred thereunder as of the Reversion Date and after giving effect to Indebtedness Incurred prior to the Suspension Event and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred under the first two paragraphs of the covenant described under "*—Limitation on Indebtedness*," such Indebtedness will be deemed to have been outstanding on the Closing Date, so that it is classified as permitted under clause (4)(b) of the second paragraph of the covenant described under "*—Limitation on Indebtedness*." The Company shall notify the Trustee that the conditions under this covenant have been satisfied, although such notification shall not be a condition for the suspension of the covenants set forth above to be effective. The Trustee shall not be obliged to notify Holders of such event.

Additional Guarantees

The Company will not cause or permit any of its Restricted Subsidiaries that are not Guarantors or the Issuer, directly or indirectly, to Guarantee any Indebtedness under the Senior Facilities Agreement (or other Indebtedness that is Incurred under clause (1) of the second paragraph of the covenant described under "*—Limitation on Indebtedness*"), any Public Debt and any refinancing thereof or any other Indebtedness of the Issuer, the Company or a Guarantor exceeding €20 million in principal amount, in whole or in part unless, in each case, such Restricted Subsidiary becomes a Guarantor on the date on which such other Guarantee is Incurred and, if applicable, executes and delivers to the Trustee a supplemental indenture in the form attached to the indenture pursuant to which such Restricted Subsidiary will provide a Guarantee, which Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's Guarantee of such other Indebtedness.

A Restricted Subsidiary that is not a Guarantor may become a Guarantor if it executes and delivers to the Trustee a supplemental indenture in the form attached to the indenture pursuant to which such Restricted Subsidiary will provide a Guarantee.

Following the provision of any additional Guarantees as described above, subject to the Intercreditor Agreement and any Additional Intercreditor Agreement (if such security is being granted in respect of the other Indebtedness), and subject to the Agreed Security Principles, any such Guarantor will provide security over certain of its material assets (excluding any assets of such Guarantor which are subject to a Permitted Lien at the time of the execution of such supplemental indenture if providing such security interest would not be permitted by the terms of such Permitted Lien or by the terms of any obligations secured by such Permitted Lien) to secure its Guarantee on a first priority basis consistent with the Collateral.

Each additional Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, thin capitalization, distributable reserves, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Notwithstanding the foregoing, the Company shall not be obligated to cause any Restricted Subsidiary to Guarantee the Notes or provide security to the extent and for so long as the Incurrence of such Guarantee could reasonably be expected to give rise to or result in: (1) any violation of applicable law or regulation; (2) any liability for the officers, directors or (except in the case of a Restricted Subsidiary that is a partnership) shareholders of such Restricted Subsidiary (or, in the case of a Restricted Subsidiary that is a partnership, directors or shareholders of the partners of such partnership); (3) any cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out-of-pocket expenses and other than reasonable expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to clause (1) of this paragraph undertaken in connection with, such Guarantee, which in any case under any of clauses (1), (2) and (3) of this paragraph cannot be avoided through measures reasonably available to the Company or a Restricted Subsidiary; or (4) an inconsistency with the Intercreditor Agreement or the Agreed Security Principles.

Impairment of Security Interest

The Company shall not, and shall not permit any Restricted Subsidiary to, take or omit to take any action that would have the result of materially impairing the security interest with respect to the Collateral (it being understood that the Incurrence of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Trustee and the Holders, and the Company shall not, and shall not permit any Restricted Subsidiary to, grant to any Person other than the Security Agent, for the benefit of the Trustee and the Holders and the other beneficiaries described in the Security Documents, any Lien over any of the Collateral that is prohibited by the covenant entitled "*—Limitation on Liens;*" *provided*, that the Company and its Restricted Subsidiaries may Incur any Lien over any of the Collateral that is not prohibited by the covenant entitled "*—Limitation on Liens,*" including Permitted Collateral Liens, and the Collateral may be discharged, transferred or released in any circumstances not prohibited by the indenture, the Intercreditor Agreement or the applicable Security Documents.

Notwithstanding the above, nothing in this covenant shall restrict the discharge and release of any Lien in accordance with the indenture and the Intercreditor Agreement. Subject to the foregoing, the

Security Documents may be amended, extended, renewed, restated, supplemented or otherwise modified or released (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets) to (i) cure any ambiguity, omission, defect or inconsistency therein; (ii) provide for Permitted Collateral Liens; (iii) add to the Collateral; or (iv) make any other change thereto that does not adversely affect the Holders in any material respect; *provided, however*, that, (except where permitted by the indenture or the Intercreditor Agreement or to effect or facilitate the creation of Permitted Collateral Liens for the benefit of the Security Agent and holders of other Indebtedness Incurred in accordance with the indenture), no Security Document may be amended, extended, renewed, restated or otherwise modified or released (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), unless contemporaneously with such amendment, extension, renewal, restatement or modification or release (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), the Company delivers to the Security Agent and the Trustee, either (1) a solvency opinion, in form and substance reasonably satisfactory to the Security Agent and the Trustee, from an Independent Financial Advisor or appraiser or investment bank of international standing which confirms the solvency of the Company and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, modification or release (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), (2) a certificate from the chief financial officer or the Board of Directors of the relevant Person which confirms the solvency of the person granting any such Lien after giving effect to any transactions related to such amendment, extension, renewal, restatement, modification or replacement, or (3) an opinion of counsel (subject to any qualifications customary for this type of opinion of counsel), in form and substance reasonably satisfactory to the Trustee, confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or release (followed by an immediate retaking of a lien of at least equivalent ranking over the same assets), the Lien or Liens created under the Security Document, so amended, extended, renewed, restated, modified or released and replaced are valid and perfected Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement and to which the new Indebtedness secured by the Permitted Collateral Lien is not subject.

In the event that the Company and its Restricted Subsidiaries comply with the requirements of this covenant, the Trustee and the Security Agent shall (subject to customary protections and indemnifications) consent to such actions without the need for instructions from the Holders.

Lines of Business

The Company will not, and will not permit any Restricted Subsidiary to, engage in any business other than a Similar Business, except to such extent as would not be material to the Company and its Restricted Subsidiaries, taken as a whole.

Events of Default

Each of the following is an Event of Default under the indenture:

(1) default in any payment of interest or Additional Amounts, if any, on any Note when due and payable, continued for 30 days;

(2) default in the payment of the principal amount of or premium, if any, on any Note issued under the indenture when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise;

(3) failure to comply for 30 days after written notice by the Trustee on behalf of the Holders or by the Holders of 30% in aggregate principal amount of the outstanding Notes with any of the Company's obligations under the covenants described under "*—Change of Control*" above or under the covenants described under "*—Certain Covenants*" above (in each case, other than a failure to purchase Notes which will constitute an Event of Default under clause (2) above);

(4) failure by the Company or any of its Restricted Subsidiaries to comply for 60 days after written notice by the Trustee on behalf of the Holders or by the Holders of 30% in aggregate principal amount of the outstanding Notes with its other agreements contained in the indenture;

(5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company

or any of its Restricted Subsidiaries (or the payment of which is Guaranteed by the Company or any of its Restricted Subsidiaries) other than Indebtedness owed to the Company or a Restricted Subsidiary whether such Indebtedness or Guarantee now exists, or is created after the date hereof, which default:

(a) is caused by a failure to pay principal at stated maturity on such Indebtedness, immediately upon the expiration of the grace period provided in such Indebtedness ("payment default"); or

(b) results in the acceleration of such Indebtedness prior to its maturity (the "cross acceleration provision");

and, in each case, the aggregate principal amount of any such Indebtedness, together with the aggregate principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates €15 million or more;

(6) certain events of bankruptcy, insolvency or court protection of the Company, the Issuer or a Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Company and its Restricted Subsidiaries), would constitute a Significant Subsidiary (the "bankruptcy provisions");

(7) failure by the Company, the Issuer or any Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Company and its Restricted Subsidiaries), would constitute a Significant Subsidiary to pay final judgments aggregating in excess of €15 million (exclusive of any amounts that a solvent insurance company has acknowledged liability for), which judgments are not paid, discharged or stayed for a period of 60 days after the judgment becomes final and due (the "judgment default provision");

(8) any security interest under the Security Documents on any Collateral having a fair market value in excess of €15 million shall, at any time, cease to be in full force and effect (other than in accordance with the terms of the relevant Security Document, the Intercreditor Agreement and the indenture) for any reason other than the satisfaction in full of all obligations under the indenture or the release or amendment of any such security interest in accordance with the terms of the indenture, the Intercreditor Agreement or such Security Document or any such security interest created thereunder shall be declared invalid or unenforceable or the Company or any Restricted Subsidiary shall assert in writing that any such security interest is invalid or unenforceable and any such Default continues for 10 days (the "security default provisions"); and

(9) any Guarantee of the Company or a Significant Subsidiary ceases to be in full force and effect (other than in accordance with the terms of such Guarantee or the indenture) or is declared invalid or unenforceable in a judicial proceeding or any Guarantor denies or disaffirms in writing its obligations under its Guarantee and any such Default continues for 10 days (the "guarantee provisions").

However, a default under clauses (3), (4), (5) or (7) of this paragraph will not constitute an Event of Default until the Trustee or the Holders of 30% in aggregate principal amount of the outstanding Notes notify the Company of the default and, with respect to clauses (3), (4), (5) and (7), the Company does not cure such default within the time specified in clauses (3), (4), (5) or (7), as applicable, of this paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default described in clause (6) above) occurs and is continuing, the Trustee by notice to the Company or the Holders of at least 30% in aggregate principal amount of the outstanding Notes by written notice to the Company and the Trustee, may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest, including Additional Amounts, if any, on all the Notes to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest, including Additional Amounts, if any, will be due and payable immediately. In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (5) under "Events of Default" has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (5) shall be remedied or cured, or waived by the holders of the Indebtedness, or the Indebtedness that gave rise to such Event of

Default shall have been discharged in full, within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except nonpayment of principal, premium or interest, including Additional Amounts, if any, on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

If an Event of Default described in clause (6) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest, including Additional Amounts, if any, on all the Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders.

The Holders of a majority in aggregate principal amount of the outstanding Notes under the indenture may waive all past or existing Defaults or Events of Default (except with respect to nonpayment of principal, premium or interest, or Additional Amounts, if any) and rescind any such acceleration with respect to such Notes and its consequences if rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Subject to the provisions of the indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee indemnity or security satisfactory to the Trustee against any loss, liability or expense. Except to enforce the right to receive payment of principal or interest when due, no Holder may pursue any remedy with respect to the indenture or the Notes unless:

(1) such Holder has previously given the Trustee written notice that an Event of Default is continuing;

(2) Holders of at least 30% in aggregate principal amount of the outstanding Notes have requested in writing the Trustee to pursue the remedy;

(3) such Holders have offered in writing the Trustee security and/or indemnity satisfactory to it against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt of the written request and the offer of security and/or indemnity; and

(5) the Holders of a majority in aggregate principal amount of the outstanding Notes have not given the Trustee a written direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in aggregate principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The indenture will provide that, in the event an Event of Default has occurred and is continuing, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. Prior to taking any action under the indenture, the Trustee will be entitled to indemnification and/or security satisfactory to it against all losses and expenses caused by taking or not taking such action.

The indenture will provide that if a Default occurs and is continuing and the Trustee is informed of such occurrence by the Company, the Trustee must give notice of the Default to the Holders within 60 days after being notified by the Company. Except in the case of a Default in the payment of principal of, or premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a committee of trust officers of the Trustee in good faith determines that withholding notice is in the interests of the Holders. The Company is required to deliver to the Trustee, within 120 days after the end of each fiscal year, an Officer's Certificate indicating whether the signers thereof know of any Default that occurred during the previous year. The Company is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any events of which it is aware which would constitute certain Defaults, their status and what action the Company is taking or proposes to take in respect thereof.

The Notes provide for the Trustee to take action on behalf of the Holders in certain circumstances, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and, accordingly, in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Holders to take action directly.

Holders of the Notes may not enforce the indenture or the Notes except as provided in the indenture and may not enforce the Security Documents except as provided in such Security Documents and the Intercreditor Agreement or any Additional Intercreditor Agreement.

Amendments and Waivers

Subject to certain exceptions, the Note Documents may be amended, supplemented or otherwise modified with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes) and, subject to certain exceptions, any default or compliance with any provisions thereof may be waived with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes); *provided* that, if any amendment, waiver or other modification will only affect one series of the Notes, only the consent of a majority in principal amount of the then outstanding Notes of such series shall be required. However, without the consent of Holders holding not less than 90% of the then outstanding aggregate principal amount of Notes affected, an amendment or waiver may not, with respect to any such series of the Notes held by a non-consenting Holder:

(1) reduce the principal amount of such Notes whose Holders must consent to an amendment;

(2) reduce the stated rate of or extend the stated time for payment of interest on any such Note;

(3) reduce the principal of or extend the Stated Maturity of any such Note;

(4) reduce the premium payable upon the redemption of any such Note or change the time at which any such Note may be redeemed, in each case as described above under "*—Optional Redemption*";

(5) make any such Note payable in money other than that stated in such Note;

(6) impair the right of any Holder to receive payment of principal of and interest on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any such payment on or with respect to such Holder's Notes;

(7) make any change in the provision of the indenture described under "*—Withholding Taxes*" that adversely affects the right of any Holder of such Notes in any material respect or amends the terms of such Notes in a way that would result in a loss of an exemption from any of the Taxes described thereunder or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the Payor agrees to pay Additional Amounts, if any, in respect thereof;

(8) release (i) the security interest granted for the benefit of the Holders in the Collateral or (ii) any Guarantee, in each case, other than pursuant to the terms of the Security Document or the indenture, as applicable, except as permitted by the Intercreditor Agreement;

(9) waive a Default or Event of Default with respect to the nonpayment of principal, premium or interest (except pursuant to a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of such Notes and a waiver of the payment default that resulted from such acceleration); or

(10) make any change in the amendment or waiver provisions which require the Holders' consent described in this sentence.

Notwithstanding the foregoing, without the consent of any Holder, the Company, the Trustee and the other parties thereto, as applicable, may amend or supplement any Note Documents to:

(1) cure any ambiguity, omission, defect, error or inconsistency, conform any provision to this "*Description of the Notes*," or reduce the minimum denomination of the Notes;

(2) provide for the assumption by a successor Person of the obligations of the Company, the Issuer or any Guarantor under any Note Document;

(3) provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 4701(b)(1)(B) of the Code);

(4) add to the covenants or provide for a Guarantee for the benefit of the Holders or surrender any right or power conferred upon the Company or any Restricted Subsidiary;

(5) make any change that does not adversely affect the rights of any Holder in any material respect;

(6) make such provisions as necessary (as determined in good faith by the Company) for the issuance of Additional Notes;

(7) to provide for any Restricted Subsidiary to provide a Guarantee in accordance with the Covenant described under "*—Certain Covenants—Limitation on Indebtedness*" and "*—Certain Covenants—Additional Guarantees*," to add Guarantees with respect to the Notes, to add security to or for the benefit of the Notes, or to confirm and evidence the release, termination, discharge or retaking of any Guarantee or Lien (including the Collateral and the Security Documents) with respect to or securing the Notes when such release, termination, discharge or retaking is provided for under the indenture, the Intercreditor Agreement or the Security Documents;

(8) to evidence and provide for the acceptance and appointment under the indenture of a successor Trustee pursuant to the requirements thereof or to provide for the accession by the Trustee to any Note Document; or

(9) in the case of the Security Documents, to mortgage, pledge, hypothecate or grant a security interest in favor of the Security Agent for the benefit of parties to the Senior Facilities Agreement, in any property which is required by the Senior Facilities Agreement (as in effect on the Issue Date) to be mortgaged, pledged or hypothecated, or in which a security interest is required to be granted to the Security Agent, or to the extent necessary to grant a security interest for the benefit of any Person; *provided* that the granting of such security interest is not prohibited by the indenture and the covenant described under "*—Certain Covenants—Impairment of Security Interest*" is complied with.

In formulating its decisions on such matters, the Trustee shall be entitled to rely on such evidence as it deems appropriate including Officer's Certificates and Opinions of Counsel.

The consent of the Holders is not necessary under the indenture to approve the particular form of any proposed amendment of any Note Document. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the indenture by any Holder of Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

Acts by Holders

In determining whether the Holders of the required aggregate principal amount of the Notes have concurred in any direction, waiver or consent, any Notes owned by the Company or by any Person directly or indirectly controlled, or controlled by, or under direct or indirect common control with, the Company will be disregarded and deemed not to be outstanding.

Defeasance

The Issuer at any time may terminate all its and each Guarantor's obligations under the Notes and the indenture ("legal defeasance") and cure all then existing Defaults and Events of Default, except for certain obligations, including those respecting the defeasance trust, the rights, powers, trusts, duties, immunities and indemnities of the Trustee and the obligations of the Issuer in connection therewith and obligations concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust. Subject to the foregoing, if the Issuer exercises its legal defeasance option, the Security Documents in effect at such time will terminate (other than with respect to the defeasance trust).

The Issuer at any time may terminate its and the Guarantor's obligations under the covenants described under "*—Certain Covenants*" (other than with respect to clauses (1) and (2) of the covenant described under "*—Certain Covenants—Merger and Consolidation—The Issuer and the Company*" and clause (A), (B) and (C) of the covenant described under "*—Certain Covenants—Merger and Consolidation—Subsidiary Guarantors*") and "*—Change of Control*" and default provisions relating to such covenants described under "*—Events of Default*" above, the operation of the cross-default upon a payment default, the cross acceleration provisions, the bankruptcy provisions with respect to the Company, the Issuer and its Significant Subsidiaries, the judgment default provision, the guarantee provision and the security default provision described under "*—Events of Default*" above ("covenant defeasance").

The Issuer at its option at any time may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Issuer exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to the Notes. If the Issuer exercises its covenant defeasance option with respect to the Notes, payment of the Notes may not be accelerated because of an Event of Default specified in clause (3) (other than with respect to clauses (1) and (2) of the covenant described under "*—Certain Covenants—Merger and Consolidation—The Issuer and the Company*" and clauses (A), (B), (C) of the covenant described under "*—Certain Covenants—Merger and Consolidation—Subsidiary Guarantors*"), (4), (5), (6) (with respect only to the Company and Significant Subsidiaries (other than the Issuer)), (7), (8) or (9) under "*—Events of Default*" above.

In order to exercise either defeasance option, the Issuer must irrevocably deposit in trust (the "defeasance trust") with the Trustee (or such entity designated or appointed (as agent) by the Trustee for this purpose) cash in euros or euro-denominated European Government Obligations or a combination thereof for the payment of principal, premium, if any, and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including delivery to the Trustee of:

(1) an Opinion of Counsel in the United States to the effect that Holders of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and in the case of legal defeasance only, such Opinion of Counsel in the United States must be based on a ruling of the U.S. Internal Revenue Service or other change in applicable U.S. federal income tax law since the issuance of the Notes);

(2) an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of defeating, hindering, delaying, defrauding or preferring any creditors of the Issuer;

(3) an Officer's Certificate and an Opinion of Counsel (which opinion of counsel may be subject to customary assumptions and exclusions), each stating that all conditions precedent provided for or relating to legal defeasance or covenant defeasance, as the case may be, have been complied with;

(4) an Opinion of Counsel to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the U.S. Investment Company Act of 1940; and

(5) all other documents or other information that the Trustee may reasonably require in connection with either defeasance option.

Satisfaction and Discharge

The indenture and the rights of the Trustee and the Holders under the Security Document will be discharged and cease to be of further effect (except as to surviving rights of conversion or transfer or exchange of the Notes, as expressly provided for in the indenture) as to all outstanding Notes when (1) either (a) all the Notes previously authenticated and delivered (other than certain lost, stolen or destroyed Notes and certain Notes for which provision for payment was previously made and thereafter the funds have been released to the Issuer) have been delivered to the Trustee for cancellation; or (b) all Notes not previously delivered to the Trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their Stated Maturity within one year or (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Issuer; (2) the Issuer has deposited or caused to be deposited with the Trustee (or such entity designated or appointed (as agent) by the Trustee for this purpose), euros or euro-denominated European Government Obligations or a combination thereof, as applicable in an amount sufficient to pay and discharge the entire indebtedness on the Notes not previously delivered to the Trustee for cancellation, for principal, premium, if any, and interest to the date of deposit (in the case of Notes that have become due and payable), or to the Stated Maturity or redemption date, as the case may be; (3) the Issuer has paid or caused to be paid all other sums payable under the indenture; (4) the Issuer has delivered irrevocable instructions under the indenture to apply the deposited money towards payment of the Notes at maturity or on the redemption date, as the case may be; and (5) the Issuer has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel each to the effect that all conditions precedent under the "*—Satisfaction and Discharge*" section of the indenture relating to the satisfaction and discharge of the indenture have been complied with, provided that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2) and (3)).

No Personal Liability of Directors, Officers, Employees and Shareholders

No director, officer, employee, incorporator or shareholder of the Company or any of its Subsidiaries or Affiliates, as such, shall have any liability for any obligations of the Company or any of its Subsidiaries under the Note Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws and it is the view of the SEC that such a waiver is against public policy.

Concerning the Trustee and Certain Agents

U.S. Bank Trustees Limited is to be appointed as Trustee under the indenture. The indenture will provide that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are set forth specifically in such indenture. During the existence of an Event of Default, the Trustee will exercise such of the rights and powers vested in it under the indenture and use the same degree of care that a prudent Person would use in conducting its own affairs. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the indenture will not be construed as an obligation or duty.

The indenture will set out the terms under which the Trustee may retire or be removed, and replaced. Such terms will include, among others, (1) that the Trustee may be removed at any time by the Holders of a majority in principal amount of the then outstanding Notes, or may resign at any time by giving written notice to the Issuer and (2) that if the Trustee at any time (a) has or acquires a conflict of interest that is not eliminated (b) becomes incapable of acting as Trustee or becomes insolvent or bankrupt, then the Issuer may remove the Trustee, or any Holder who has been a *bona fide* Holder for not less than 6 months may petition any court for removal of the Trustee and appointment of a successor Trustee.

Any removal or resignation of the Trustee shall not become effective until the acceptance of appointment by the successor Trustee.

The indenture will contain provisions for the indemnification of the Trustee for any loss, liability, taxes and expenses incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the indenture.

Notices

All notices to Holders of Notes will be validly given if mailed to them at their respective addresses in the register of the Holders of the Notes, if any, maintained by the Registrar. In addition, for so long as any of the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange shall so require, notices with respect to the Notes will be published in a newspaper having general circulation in Ireland (which is expected to be the *Irish Times*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Irish Stock Exchange (*www.ise.ie*). In addition, for so long as any Notes are represented by Global Notes, all notices to Holders of the Notes will be delivered to Euroclear and Clearstream, each of which will give such notices to the holders of Book-Entry Interests. Such notices may also be published on the website of the Irish Stock Exchange (*www.ise.ie*), to the extent and in the manner permitted by the rules of the Irish Stock Exchange.

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made; *provided* that, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Any notice or communication mailed to a Holder shall be mailed to such Person by first-class mail or other equivalent means and shall be sufficiently given to such Holder if so mailed within the time prescribed. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

Prescription

Claims against the Issuer or any Guarantor for the payment of principal, or premium, if any, on the Notes will be prescribed five years after the applicable due date for payment thereof. Claims against the Issuer for the payment of interest on the Notes will be prescribed three years after the applicable due date for payment of interest.

Currency Indemnity and Calculation of Euro-Denominated Restrictions

The euro is the sole currency of account and payment for all sums payable by the Issuer and the Guarantors under or in connection with the Notes and the relevant Guarantees, as the case may be, including damages. Any amount received or recovered in a currency other than euro, whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, any Guarantor or otherwise by any Holder or by the Trustee, in respect of any sum expressed to be due to it from the Issuer or a Guarantor will only constitute a discharge to the Issuer or such Guarantor, as applicable, to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that euro amount is less than the euro amount expressed to be due to the recipient or the Trustee under any Note, the Issuer and the Guarantors will indemnify them against any loss sustained by such recipient or the Trustee as a result. In any event, the Issuer and the Guarantors will indemnify the recipient or the Trustee on a joint or several basis against the cost of making any such purchase. For the purposes of this currency indemnity provision, it will be *prima facie* evidence of the matter stated therein for the Holder of a Note or the Trustee to certify in a manner reasonably satisfactory to the Issuer (indicating the sources of information used) the loss it Incurred in making any such purchase. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantors' other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder of a Note or the Trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, any Guarantee or to the Trustee.

Except as otherwise specifically set forth herein, for purposes of determining compliance with any euro-denominated restriction herein, the Euro Equivalent amount for purposes hereof that is denominated in a non-euro currency shall be calculated based on the relevant currency exchange rate in effect on the date such non-euro amount is Incurred or made, as the case may be.

Enforceability of Judgments

Since, as of the Closing Date, substantially all the assets of the Issuer and the Guarantors are held by Subsidiaries located outside the United States, any judgment obtained in the United States against the Issuer or any Guarantor, including judgments with respect to the payment of principal, premium, if any, interest, Additional Amounts, if any, and any redemption price and any purchase price with respect to the Notes or the Guarantees, may not be collectable within the United States.

Consent to Jurisdiction and Service

In relation to any legal action or proceedings arising out of or in connection with the indenture and the Notes and the Guarantees, the Issuer and each Guarantor will in the indenture irrevocably submit to the jurisdiction of the federal and state courts in the Borough of Manhattan in the City of New York, County and State of New York, United States.

Governing Law

The indenture and the Notes, including any Guarantees, and the rights and duties of the parties thereunder will be governed by and construed in accordance with the laws of the State of New York.

Certain Definitions

"*Accordion Amount*" means Indebtedness and other obligations incurred under a Credit Facility *provided* that the principal amount of Indebtedness so Incurred does not exceed €75 million.

"*Acquired Indebtedness*" means Indebtedness (1) of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary, or (2) assumed in connection with the acquisition of assets from such Person, in each case whether or not Incurred by such Person in connection with such Person becoming a Restricted Subsidiary of the Company or such acquisition or (3) of a Person at the time such Person merges with or into or consolidates or otherwise combines with the Company or any Restricted Subsidiary. Acquired Indebtedness shall be deemed to have been Incurred, with respect to clause (1) of the preceding sentence, on the date such Person becomes a Restricted Subsidiary and, with respect to clause (2) of the preceding sentence, on the date of consummation of such acquisition of assets and, with respect to clause (3) of the preceding sentence, on the date of the relevant merger, consolidation or other combination.

"*Acquisition*" means the acquisition of Opco and Serbia Broadband-Srpske Kablovske mreže d.o.o. Beograd by the Issuer pursuant to the Acquisition Agreement.

"*Acquisition Agreement*" means the securities purchase agreement, dated as of October 15, 2013, by and among the Issuer and Broadband Investments II S.à r.l., as amended from time to time.

"*Additional Assets*" means:

(1) any property or assets (other than Indebtedness and Capital Stock) used or to be used by the Company, a Restricted Subsidiary or otherwise useful in a Similar Business (it being understood that capital expenditures on property or assets already used in Similar Business or to replace any property or assets that are the subject of such Asset Disposition shall be deemed an investment in Additional Assets);

(2) the Capital Stock of a Person that is engaged in a Similar Business and becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or a Restricted Subsidiary of the Company; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary of the Company.

"*Affiliate*" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"*Agreed Security Principles*" means the Agreed Security Principles as set out in an annex to the Senior Facilities Agreement as in effect on the Issue Date, as applied *mutatis mutandis* with respect to the Notes in good faith by the Company.

"*Applicable Premium*" means, with respect to any Note, the greater of:

(A) 1% of the principal amount of such Note; and

(B) on any redemption date, the excess (to the extent positive) of:

  (a) the present value at such redemption date of (i) the redemption price of such Note at November 15, 2016 (such redemption price (expressed in percentage of principal amount) being set forth in the table under "*—Optional Redemption*" (excluding accrued but unpaid interest)), plus (ii) all required interest payments due on such Note to and including such date set forth in clause (i) (excluding accrued but unpaid interest), computed upon the redemption date using a discount rate equal to the Bund Rate at such redemption date plus 50 basis points; over

  (b) the outstanding principal amount of such Note,

as calculated by the Company or on behalf of the Company by such Person as the Company shall designate. Calculation of the Applicable Premium shall not be an obligation or duty of the Trustee or any Paying Agent.

"*Asset Disposition*" means any direct or indirect sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases (other than operating leases entered into in the ordinary course of business), transfers, issuances or dispositions that are part of a common plan, of shares of Capital Stock of a Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purposes of this definition as a "disposition") by the Company or any of its Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction. Notwithstanding the preceding provisions of this definition, the following items shall not be deemed to be Asset Dispositions:

(1) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Restricted Subsidiary;

(2) a disposition of cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;

(3) a disposition of inventory or other assets in the ordinary course of business;

(4) a disposition of obsolete, surplus or worn out equipment or other assets or equipment or other assets that are no longer useful in the conduct of the business of the Company and its Restricted Subsidiaries;

(5) transactions permitted under "*—Certain Covenants—Merger and Consolidation—The Issuer and the Company*" or a transaction that constitutes a Change of Control;

(6) an issuance of Capital Stock by a Restricted Subsidiary to the Company or to another Restricted Subsidiary or as part of or pursuant to an equity incentive or compensation plan approved by the Board of Directors of the Company;

(7) any dispositions of Capital Stock, properties or assets in a single transaction or series of related transactions with a fair market value (as determined in good faith by the Company) of less than €10 million or, if greater, 1.3% of Total Assets;

(8) any Restricted Payment that is permitted to be made, and is made, under the covenant described above under "*—Certain Covenants—Limitation on Restricted Payments*" and the making of any Permitted Payment or Permitted Investment or, solely for purposes of clause (3) of the first paragraph under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*," asset sales, the proceeds of which are used to make such Restricted Payments or Permitted Investments;

(9) dispositions in connection with Permitted Liens;

(10) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(11) the licensing or sub-licensing of intellectual property or other general intangibles and licenses, sub-licenses, leases or subleases of other property, in each case, in the ordinary course of business;

(12) foreclosure, condemnation or any similar action with respect to any property or other assets;

(13) the sale or discount (with or without recourse, and on customary or commercially reasonable terms and for credit management purposes) of accounts receivable or notes receivable arising in the ordinary course of business, or the conversion or exchange of accounts receivable for notes receivable;

(14) any disposition of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary;

(15) any disposition of Capital Stock of a Restricted Subsidiary pursuant to an agreement or other obligation with or to a Person (other than the Company or a Restricted Subsidiary) from whom such Restricted Subsidiary was acquired, or from whom such Restricted Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;

(16) any surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;

(17) any disposition of assets to a Person who is providing services related to such assets, the provision of which have been or are to be outsourced by the Company or any Restricted Subsidiary to such Person;

(18) any disposition with respect to property built, owned or otherwise acquired by the Company or any Restricted Subsidiary pursuant to customary sale and lease-back transactions, asset securitizations and other similar financings permitted by the indenture; and

(19) sales or dispositions of receivables in connection with any Qualified Receivables Financing or any factoring transaction or in the ordinary course of business.

"*Associate*" means (i) any Person engaged in a Similar Business of which the Company or its Restricted Subsidiaries are the legal and beneficial owners of between 20% and 50% of all outstanding Voting Stock and (ii) any joint venture entered into by the Company or any Restricted Subsidiary of the Company.

"*Board of Directors*" means (1) with respect to the Company or any corporation, the board of directors or managers, as applicable, of the corporation, or any duly authorized committee thereof; (2) with respect to any partnership, the board of directors or other governing body of the general partner of the partnership or any duly authorized committee thereof; and (3) with respect to any other Person, the board or any duly authorized committee of such Person serving a similar function. Whenever any provision requires any action or determination to be made by, or any approval of, a Board of Directors, such action, determination or approval shall be deemed to have been taken or made if approved by a majority of the directors (excluding employee representatives, if any) on any such Board of Directors (whether or not such action or approval is taken as part of a formal board meeting or as a formal board approval).

"*Bund Rate*" means the yield to maturity at the time of computation of direct obligations of the Federal Republic of Germany (Bunds or *Bundesanleihen*) with a constant maturity (as officially compiled and published in the most recent financial statistics that has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected by the Company in good faith)) most nearly equal to the period from the redemption date to November 15, 2016; *provided, however*, that if the period from the redemption date to the applicable date set forth above is not equal to the constant maturity of a direct obligation of the Federal Republic of Germany for which a weekly average yield is given, the Bund Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the Federal Republic of Germany for which such yields are given, except that if the period from such redemption date to the applicable date set forth above is less than one year, the weekly average yield on actually traded direct obligations of the Federal Republic of Germany adjusted to a constant maturity of one year shall be used.

"*Business Day*" means each day that is not a Saturday, Sunday or other day on which banking institutions in Ireland, the Netherlands, London, United Kingdom, or New York, New York, United States are authorized or required by law to close; *provided*, *however*, that for any payments to be made under the indenture, such day shall also be a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer ("TARGET") payment system is open for the settlement of payments.

"*Capital Stock*" of any Person means any and all shares of, rights to purchase, warrants or options for, or other equivalents of or partnership or other interests in (however designated), equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

"*Capitalized Lease Obligations*" means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes on the basis of IFRS. The amount of Indebtedness represented by such obligation will be the capitalized amount of such obligation at the time any determination thereof is to be made as determined on the basis of IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

"*Cash Equivalents*" means:

(1) securities issued or directly and fully Guaranteed or insured by the United States or Canadian governments, a Permissible Jurisdiction, Switzerland or Norway or, in each case, any agency or instrumentality of thereof (*provided* that the full faith and credit of such country or such member state is pledged in support thereof), having maturities of not more than two years from the date of acquisition;

(2) certificates of deposit, time deposits, eurodollar time deposits, overnight bank deposits or bankers' acceptances having maturities of not more than one year from the date of acquisition thereof issued by any lender or by any bank or trust company (a) whose commercial paper is rated at least "A-1" or the equivalent thereof by S&P or at least "P-1" or the equivalent thereof by Moody's (or if at the time neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) or (b) (in the event that the bank or trust company does not have commercial paper which is rated) having combined capital and surplus in excess of €500 million;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) entered into with any bank meeting the qualifications specified in clause (2) above;

(4) commercial paper rated at the time of acquisition thereof at least "A-2" or the equivalent thereof by S&P or "P-2" or the equivalent thereof by Moody's or carrying an equivalent rating by a Nationally Recognized Statistical Rating Organization, if both of the two named rating agencies cease publishing ratings of investments or, if no rating is available in respect of the commercial paper, the issuer of which has an equivalent rating in respect of its long-term debt, and in any case maturing within one year after the date of acquisition thereof;

(5) readily marketable direct obligations issued by any state of the United States of America, any province of Canada, any Permissible Jurisdiction, Switzerland or Norway or any political subdivision thereof, in each case, having one of the two highest rating categories obtainable from either Moody's or S&P (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of not more than two years from the date of acquisition;

(6) Indebtedness or preferred stock issued by Persons with a rating of "BBB−" or higher from S&P or "Baa3" or higher from Moody's (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of 12 months or less from the date of acquisition;

(7) bills of exchange issued in the United States, Canada, a Permissible Jurisdiction, Switzerland, Norway or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent); and

(8) interests in any investment company, money market or enhanced high yield fund which invests 95% or more of its assets in instruments of the type specified in clauses (1) through (7) above.

"*Change of Control*" means:

(1) the Company becomes aware of (by way of a report or any other filing pursuant to Section 13(d) of the Exchange Act, proxy, vote, written notice or otherwise) any "person" or "group" of related persons (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act as in effect on the Issue Date), other than one or more Permitted Holders, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act as in effect on the Issue Date), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Company, provided that for the purposes of this clause, (x) no Change of Control shall be deemed to occur by reason of the Company becoming a Subsidiary of a Successor Parent Holding Company and (y) any Voting Stock of which any Permitted Holder is the "beneficial owner" (as so defined) shall not be included in any Voting Stock of which any such person or group is the "beneficial owner" (as so defined), unless that person or group is not an affiliate of a Permitted Holder and has greater voting power with respect to that Voting Stock than any other Permitted Holder; or

(2) the sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the assets of the Company and its Restricted Subsidiaries taken as a whole to a Person, other than a Restricted Subsidiary or one or more Permitted Holders;

provided that, in each case, a Change of Control shall not be deemed to have occurred if such Change of Control is also a Specified Change of Control Event.

"*Clearstream*" means Clearstream Banking, a *société anonyme* as currently in effect or any successor securities clearing agency.

"*Closing Date*" means the date on which the Acquisition is consummated.

"*Code*" means the United States Internal Revenue Code of 1986, as amended.

"*Commodity Hedging Agreements*" means, in respect of a Person, any commodity purchase contract, commodity futures or forward contract, commodities option contract or other similar contract (including commodities derivative agreements or arrangements), to which such Person is a party or a beneficiary.

"Company" means Adria Midco B.V.

"*Consolidated EBITDA*" for any period means, without duplication, the Consolidated Net Income for such period, plus the following to the extent deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense and Receivables Fees;

(2) Consolidated Income Taxes;

(3) consolidated depreciation expense;

(4) consolidated amortization or impairment expense;

(5) any expenses, charges or other costs related to any Equity Offering, Investment, acquisition (including one-time amounts paid in connection with the acquisition or retention of one or more individuals comprising part of a management team retained to manage the acquired business; *provided* that such payments are made in connection with such acquisition and are consistent with the customary practice in the industry at the time of such acquisition), disposition, recapitalization or the Incurrence of any Indebtedness permitted by the indenture (in each case whether or not successful)(including any such fees or charges related to the Transactions) in each case, as determined in good faith by an Officer of the Company;

(6) any minority interest expense (whether paid or not) consisting of income attributable to minority equity interests of third parties in such period;

(7) the amount of management, monitoring, consulting and advisory fees and related expenses paid in such period to the Permitted Holders to the extent permitted by the covenant described under "*—Certain Covenants—Limitation on Affiliate Transactions*"; and

(8) other non-cash charges, write-downs or items reducing Consolidated Net Income (excluding any such non-cash charge, write-down or item to the extent it represents an accrual of or reserve for cash charges in any future period) or other items classified by the Company as extraordinary, exceptional, unusual or nonrecurring items less other non-cash items of income increasing Consolidated Net Income (excluding any such non-cash item of income to the extent it represents a receipt of cash in any future period).

Notwithstanding the foregoing, the provision for taxes and the depreciation, amortization, non-cash items, charges and write-downs of a Restricted Subsidiary shall be added to Consolidated Net Income to compute Consolidated EBITDA only to the extent (and in the same proportion, including by reason of minority interests) that the net income (loss) of such Restricted Subsidiary was included in calculating Consolidated Net Income for the purposes of this definition.

"*Consolidated Income Taxes*" means taxes or other payments, including deferred Taxes, based on income, profits or capital (including without limitation withholding taxes), trade taxes and franchise taxes of any of the Company and its Restricted Subsidiaries whether or not paid, estimated, accrued or required to be remitted to any Governmental Authority.

"*Consolidated Interest Expense*" means, for any period (in each case, determined on the basis of IFRS), the consolidated net interest income/expense of the Company and its Restricted Subsidiaries, including any pension liability interest cost, plus or including (without duplication) any interest, costs and charges consisting of:

(1) interest expense attributable to Capitalized Lease Obligations;

(2) amortization of debt discount, debt issuance cost and premium;

(3) non-cash interest expense;

(4) commissions, discounts and other fees and charges owed with respect to financings not included in clause (2) above;

(5) costs associated with Hedging Obligations;

(6) dividends on other distributions in respect of all Disqualified Stock of the Company and all Preferred Stock of any Restricted Subsidiary, to the extent held by Persons other than the Company or a subsidiary of the Company;

(7) the consolidated interest expense that was capitalized during such period; and

(8) interest actually paid by the Company or any Restricted Subsidiary under any Guarantee of Indebtedness or other obligation of any other Person.

Notwithstanding the foregoing, for the purposes of the definition of Consolidated Interest Expense in clause (c)(i) of the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*", Consolidated Interest Expense shall not include (a) any interest accrued, capitalized or paid in respect of Subordinated Shareholder Funding, (b) any commissions, discounts, yield and other fees and charges related to Receivables Financings, (c) any payments on any operating leases, including without limitation any payments on any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the Issue Date, (d) any foreign currency gains or losses, (e) any pension liability cost and (f) any interest, costs and charges contained in clauses (2), (4), (5) or (6) of this definition.

"*Consolidated Leverage*" means the sum of the aggregate outstanding Indebtedness of the Company and its Restricted Subsidiaries (excluding Hedging Obligations except to the extent provided in clause (c) of the penultimate paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*").

"*Consolidated Leverage Ratio*" means, as of any date of determination, the ratio of (x) Consolidated Leverage at such date to (y) two times the aggregate amount of Consolidated EBITDA for the period of the most recent two consecutive fiscal quarters ending prior to the date of such determination for which internal consolidated financial statements of the Company are available; *provided*, *however*, that for the purposes of calculating Consolidated EBITDA for such period, if, as of such date of determination:

(1) since the beginning of such period the Company or any Restricted Subsidiary has disposed of any company, any business, or any group of assets constituting an operating unit of a business (any such disposition, a "Sale") or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is such a Sale, Consolidated EBITDA for such period will be reduced by an amount equal to the Consolidated EBITDA (if positive) attributable to the assets which are the subject of such Sale for such period or increased by an amount equal to the Consolidated EBITDA (if negative) attributable thereto for such period; *provided* that if any such sale constitutes "discontinued operations" in accordance with IFRS, Consolidated Net Income shall be reduced by an amount equal to the Consolidated Net Income (if positive) attributable to such operations for such period or increased by an amount equal to the Consolidated Net Income (if negative) attributable thereto for such period;

(2) since the beginning of such period, the Company or any Restricted Subsidiary (by merger or otherwise) has made an Investment in any Person that thereby becomes a Restricted Subsidiary, or otherwise has acquired any company, any business, or any group of assets constituting an operating unit of a business (any such Investment or acquisition, a "Purchase"), including any such Purchase occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated EBITDA for such period will be calculated after giving pro forma effect thereto, including anticipated synergies and cost savings as if such Purchase occurred on the first day of such period; and

(3) since the beginning of such period, any Person (that became a Restricted Subsidiary or was merged or otherwise combined with or into the Company or any Restricted Subsidiary since the beginning of such period) will have made any Sale or any Purchase that would have required an adjustment pursuant to clause (1) or (2) above if made by the Company or a Restricted Subsidiary since the beginning of such period, Consolidated EBITDA for such period will be calculated after giving pro forma effect thereto, including anticipated synergies and cost savings as if such Sale or Purchase occurred on the first day of such period.

For the purposes of this definition and the definitions of Consolidated EBITDA, Consolidated Income Taxes, Consolidated Interest Expense and Consolidated Net Income, (a) calculations will be as determined in good faith by a responsible financial or chief accounting officer of the Company (including in respect of cost savings and synergies) as though the full effect of synergies and cost savings were realized on the first day of the relevant period and shall also include the reasonably anticipated full run rate cost savings effect (as calculated in good faith by a responsible financial or chief accounting officer of the Company) of cost savings programs that have been initiated by the Company or its Restricted Subsidiaries as though such cost savings programs had been fully implemented on the first day of the relevant period and (b) in determining the amount of Indebtedness outstanding on any date of determination, pro forma effect shall be given to any Incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Indebtedness as if such transaction had occurred on the first day of the relevant period. For the purposes of this definition and the definitions of Consolidated EBITDA, Consolidated Income Taxes, Consolidated Interest Expense and Consolidated Net Income, the financial results of the Target Group shall be considered the financial information of the Company for any periods prior to the date of the acquisition of the Target Group.

"*Consolidated Net Income*" means, for any period, the net income (loss) of the Company and its Restricted Subsidiaries determined on a consolidated basis on the basis of IFRS; *provided*, *however*, that there will not be included in such Consolidated Net Income:

(1) subject to the limitations contained in clause (3) below, any net income (loss) of any Person if such Person is not a Restricted Subsidiary, except that the Company's equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution or return on investment or that could have been distributed, as reasonably determined by an Officer of the Company (subject, in the case of a dividend or other distribution or return on investment to a Restricted Subsidiary, to the limitations contained in clause (2) below);

(2) solely for the purpose of determining the amount available for Restricted Payments under clause (c)(i) of the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*," any net income (loss) of any Restricted Subsidiary (other than Guarantors) if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company or a Guarantor by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Notes or the indenture, and (c) restrictions not prohibited by the covenant described under "*—Certain Covenants—Limitation on Restrictions on Distributions from Restricted Subsidiaries*," except that the Company's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause));

(3) any net gain (or loss) realized upon the sale or other disposition of any asset or disposed operations of the Company or any Restricted Subsidiaries (including pursuant to any sale/leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by an Officer or the Board of Directors of the Company);

(4) any extraordinary, exceptional, unusual or nonrecurring gain, loss or charge (including for the avoidance of doubt, any tax referable to any payments, dividends or other distributions made or declared intra-group) or any charges or reserves in respect of any restructuring, redundancy or severance expense or other costs related to the Transactions, in each case, as determined in good faith by the Company;

(5) the cumulative effect of a change in accounting principles;

(6) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards and any non-cash deemed finance charges in respect of any pension liabilities or other provisions;

(7) all deferred financing costs written off and premiums paid or other expenses incurred directly in connection with any early extinguishment of Indebtedness and any net gain (loss) from any write-off or forgiveness of Indebtedness, and any provisions in respect of working capital;

(8) any unrealized gains or losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value of changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations;

(9) any unrealized foreign currency transaction gains or losses in respect of Indebtedness of any Person denominated in a currency other than the functional currency of such Person and any unrealized foreign exchange gains or losses relating to translation of assets and liabilities denominated in foreign currencies;

(10) any unrealized foreign currency translation or transaction gains or losses in respect of Indebtedness or other obligations of the Company or any Restricted Subsidiary owing to the Company or any Restricted Subsidiary;

(11) any purchase accounting effects including, but not limited to, adjustments to inventory, property and equipment, software and other intangible assets and deferred revenues in component amounts required or permitted by IFRS and related authoritative pronouncements (including the effects of such adjustments pushed down to the Company and the Restricted Subsidiaries), as a result of any consummated acquisition or the amortization or write-off of any amounts thereof (including any write-off of in process research and development);

(12) any goodwill or other intangible asset impairment charge, amortization or write-off;

(13) Consolidated Income Taxes to the extent in excess of cash payments made in respect of such Consolidated Income Taxes;

(14) solely for the purpose of determining the amount available for Restricted Investments (but not other Restricted Payments) under clause (c)(i) of the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments,*" consolidated depreciation expense, to the extent in excess of capital expenditure related to tangible assets for the relevant period; and

(15) the impact of capitalized, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Funding.

"*Consolidated Secured Leverage Ratio*" means the Consolidated Leverage Ratio, but calculated by excluding all Indebtedness other than Secured Indebtedness.

"*Contingent Obligations*" means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that does not constitute Indebtedness ("primary obligations") of any other Person (the "primary obligor"), including any obligation of such Person, whether or not contingent:

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;

(2) to advance or supply funds:

    (a) for the purchase or payment of any such primary obligation; or

    (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

"*Credit Facility*" means, with respect to the Company or any of its Subsidiaries, one or more debt facilities, indentures or other arrangements (including the Senior Facilities Agreement or commercial paper facilities and overdraft facilities) with banks, other financial institutions or investors providing for revolving credit loans, term loans, notes, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), letters of credit or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks or institutions and whether provided under the Senior Facilities Agreement or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term "Credit Facility" shall include any agreement or instrument (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Company as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

"*Currency Agreement*" means, in respect of a Person, any foreign exchange contract, currency swap agreement, currency futures contract, currency option contract, currency derivative or other similar agreement to which such Person is a party or beneficiary.

"*Default*" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"*Designated Non-Cash Consideration*" means the fair market value (as determined in good faith by the Company) of non-cash consideration received by the Company or one of its Restricted Subsidiaries in connection with an Asset Disposition that is so designated as Designated Non-Cash Consideration pursuant to an Officer's Certificate, setting forth the basis of such valuation, less the amount of cash, Cash Equivalents or Temporary Cash Investments received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with the covenant described under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*."

"*Designated Preference Shares*" means, with respect to the Company or any Parent Holding Company, Preferred Stock (other than Disqualified Stock) (a) that is issued for cash (other than to the Company or a Subsidiary of the Company or an employee stock ownership plan or trust established by the Company or any such Subsidiary for the benefit of their employees to the extent funded by the Company or such Subsidiary) and (b) that is designated as "Designated Preference Shares" pursuant to an Officer's Certificate of the Company at or prior to the issuance thereof, the Net Cash Proceeds of which are excluded from the calculation set forth in clause (c)(ii) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*."

"*Disqualified Stock*" means, with respect to any Person, any Capital Stock of such Person which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

(1) matures or is mandatorily redeemable for cash or in exchange for Indebtedness pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable for Indebtedness or Disqualified Stock (excluding Capital Stock which is convertible or exchangeable solely at the option of the Company or a Restricted Subsidiary); or

(3) is or may become (in accordance with its terms) upon the occurrence of certain events or otherwise redeemable or purchasable for cash or in exchange for Indebtedness at the option of the holder of the Capital Stock in whole or in part, in each case on or prior to the earlier of (a) the Stated Maturity of the Notes or (b) the date on which there are no Notes outstanding; *provided*, *however*, that (i) only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock and (ii) any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the Company to repurchase such Capital Stock upon the occurrence of a change of control or asset sale (howsoever defined or referred to) shall not constitute Disqualified Stock if any such

redemption or repurchase obligation is subject to compliance by the relevant Person with the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*."

"*Equity Contribution*" means the contribution to the Company of shareholder funds on or about the Closing Date as part of the Transactions.

"*Equity Offering*" means (x) a sale of Capital Stock of the Company (other than Disqualified Stock) other than offerings registered on Form S-8 (or any successor form) under the Securities Act or any similar offering in other jurisdictions, or (y) the sale of Capital Stock or other securities, the proceeds of which are contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of, or as Subordinated Shareholder Funding to, the Company.

"*Escrowed Proceeds*" means the proceeds from the offering of any debt securities or other Indebtedness paid into an escrow account with an independent escrow agent on the date of the applicable offering or Incurrence pursuant to escrow arrangements that permit the release of amounts on deposit in such escrow account upon satisfaction of certain conditions or the occurrence of certain events. The term "Escrowed Proceeds" shall include any interest earned on the amounts held in escrow.

"*euro*" means the official currency of the European Union.

"*Euro Equivalent*" means, with respect to any monetary amount in a currency other than euro, at any time of determination thereof by the Company or the Trustee, the amount of euro obtained by converting such currency other than euro involved in such computation into euro at the spot rate for the purchase of euro with the applicable currency other than euro as published in *The Financial Times* in the "Currency Rates" section (or, if *The Financial Times* is no longer published, or if such information is no longer available in *The Financial Times*, such source as may be selected in good faith by the Company) on the date of such determination.

"*Euroclear*" means Euroclear Bank SA/NV, or any successor securities clearing agency.

"*European Government Obligations*" means any security that is (1) a direct obligation of Belgium, the Netherlands, France, Germany or any Permissible Jurisdiction, for the payment of which the full faith and credit of such country is pledged or (2) an obligation of a person controlled or supervised by and acting as an agency or instrumentality of any such country the payment of which is unconditionally Guaranteed as a full faith and credit obligation by such country, which, in either case under the preceding clause (1) or (2), is not callable or redeemable at the option of the issuer thereof.

"*European Union*" means all members of the European Union as of January 1, 2004.

"*Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

"*Excluded Contribution*" means Net Cash Proceeds or property or assets received by the Company as capital contributions to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Company after the Issue Date or from the issuance or sale (other than to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Company or any Subsidiary of the Company for the benefit of its employees to the extent funded by the Company or any Restricted Subsidiary, and other than the Equity Contribution) of Capital Stock (other than Disqualified Stock or Designated Preference Shares) of the Company, in each case, to the extent designated as an Excluded Contribution pursuant to an Officer's Certificate of the Company.

"*fair market value*" may be conclusively established by means of an Officer's Certificate or a resolution of the Board of Directors of the Company setting out such fair market value as determined by such Officer or such Board of Directors in good faith.

"*Governmental Authority*" means any nation, sovereign or government, any state, province, territory or other political subdivision thereof, and any entity or authority exercising executive, legislative, judicial, regulatory, self-regulatory or administrative functions of or pertaining to government, including a central bank or stock exchange.

"*Guarantee*" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, including any such obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into primarily for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, *however*, that the term "Guarantee" will not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"*Guarantor*" means the Company and any Restricted Subsidiary that Guarantees the Notes.

"*Hedging Obligations*" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Hedging Agreement (each, a "Hedging Agreement").

"*Holder*" means each Person in whose name the Notes are registered on the Registrar's books, which shall initially be the respective nominee of Clearstream and Euroclear.

"*IFRS*" means International Financial Reporting Standards (formerly International Accounting Standards) ("IFRS") endorsed from time to time by the European Union or any variation thereof with which the Company or its Restricted Subsidiaries are, or may be, required to comply; *provided* that at any date after the Issue Date the Company may make an irrevocable election to establish that "IFRS" shall mean IFRS as in effect on a date that is on or prior to the date of such election.

"*Incur*" means issue, create, assume, enter into any Guarantee of, incur, extend or otherwise become liable for; *provided*, *however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and the terms "Incurred" and "Incurrence" have meanings correlative to the foregoing and any Indebtedness pursuant to any revolving credit or similar facility shall only be "Incurred" at the time any funds are borrowed thereunder.

"*Indebtedness*" means, with respect to any Person on any date of determination (without duplication):

(1) the principal of indebtedness of such Person for borrowed money;

(2) the principal of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all reimbursement obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments (except to the extent such reimbursement obligations relate to trade payables and such obligations are satisfied within 30 days of Incurrence), in each case only to the extent that the underlying obligation in respect of which the instrument was issued would be treated as Indebtedness;

(4) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables), where the deferred payment is arranged primarily as a means of raising finance, which purchase price is due more than one year after the date of placing such property in service or taking final delivery and title thereto;

(5) Capitalized Lease Obligations of such Person;

(6) the principal component of all obligations, or liquidation preference, of such Person with respect to any Disqualified Stock or, with respect to any Restricted Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);

(7) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided*, *however*, that the amount of such Indebtedness will be the lesser of (a) the fair market value of such asset at

such date of determination (as determined in good faith by the Company) and (b) the amount of such Indebtedness of such other Persons;

(8) Guarantees by such Person of the principal component of Indebtedness of other Persons to the extent Guaranteed by such Person; and

(9) to the extent not otherwise included in this definition, net obligations of such Person under Currency Agreements and Interest Rate Agreements (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The term "Indebtedness" shall not include Subordinated Shareholder Funding or any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the Issue Date or any deposit made in relation thereto, any asset retirement obligations, any prepayments of deposits received from clients or customers in the ordinary course of business, any income tax or other payables, any social security, tax or pension obligations or bonds in relation thereto, or obligations under any Tax Sharing Agreement, or any license, permit or other approval (or Guarantees given in respect of such obligations) Incurred prior to the Issue Date or in the ordinary course of business.

The amount of Indebtedness of any Person at any time in the case of a revolving credit or similar facility shall be the total amounts of funds borrowed and then outstanding. The amount of Indebtedness of any Person at any date shall be determined as set forth above or otherwise provided in the indenture, and (other than with respect to letters of credit or Guarantees or Indebtedness specified in clause (7) or (8) above) shall equal the amount thereof that would appear on a balance sheet of such Person (excluding any notes thereto) prepared on the basis of IFRS.

Notwithstanding the above provisions, in no event shall the following constitute Indebtedness:

(i) Contingent Obligations Incurred in the ordinary course of business and obligations under or in respect of Qualified Receivables Financings;

(ii) in connection with the purchase by the Company or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided*, *however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter; or

(iii) for the avoidance of doubt, any obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes.

"*Independent Financial Advisor*" means an investment banking or accounting firm of international standing or any third party appraiser of international standing; *provided*, *however*, that such firm or appraiser is not an Affiliate of the Company.

"*Initial Investors*" means KKR and any funds or partnerships managed or advised, directly or indirectly, by KKR or an Affiliate thereof, and, solely in their capacity as such, any limited partner of any such partnership or fund.

"*Initial Public Offering*" means an Equity Offering of common stock or other common equity interests of the Company or any Parent Holding Company or any successor of the Company or any Parent Holding Company (the "IPO Entity") following which there is a Public Market and, as a result of which, the shares of common stock or other common equity interests of the IPO Entity in such offering are listed on an internationally recognized exchange or traded on an internationally recognized market.

"*Intercreditor Agreement*" means the Intercreditor Agreement dated on or about the Issue Date, among, *inter alios*, the lenders and agent under the Senior Facilities Agreement, the Trustee as well as certain hedging counterparties, as amended from time to time.

"*Interest Rate Agreement*" means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which such Person is party or a beneficiary.

"*Investment*" means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the form of any direct or indirect advance, loan or other extensions of credit (other than advances or extensions of credit to customers, suppliers, directors, officers or employees of any Person in the ordinary course of business, and excluding any debt or extension of credit represented by a bank deposit other than a time deposit) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or the Incurrence of a Guarantee of any obligation of, or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such other Persons and all other items that are or would be classified as investments on a balance sheet prepared on the basis of IFRS; *provided*, *however*, that endorsements of negotiable instruments and documents in the ordinary course of business will not be deemed to be an Investment. If the Company or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by the Company or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment at such time.

For purposes of "*—Certain Covenants—Limitation on Restricted Payments*:"

(1) "Investment" will include the portion (proportionate to the Company's equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the fair market value of the net assets of such Restricted Subsidiary of the Company at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; *provided*, *however*, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company will be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary in an amount (if positive) equal to (a) the Company's "Investment" in such Subsidiary at the time of such redesignation less (b) the portion (proportionate to the Company's equity interest in such Subsidiary) of the fair market value of the net assets (as conclusively determined by the Board of Directors of the Company in good faith) of such Subsidiary at the time that such Subsidiary is so re-designated a Restricted Subsidiary; and

(2) any property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors of the Company.

The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced (at the Company's option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

"*Investment Grade*" means (i) BBB− or higher by S&P, (ii) Baa3 or higher by Moody's, or (iii) the equivalent of such ratings by S&P or Moody's, or of another Nationally Recognized Statistical Ratings Organization.

"*Investment Grade Securities*" means:

(1) securities issued or directly and fully Guaranteed or insured by the United States or Canadian government or any agency or instrumentality thereof (other than Cash Equivalents);

(2) securities issued or directly and fully guaranteed or insured by a Permissible Jurisdiction or Switzerland, Norway or any agency or instrumentality thereof (other than Cash Equivalents);

(3) debt securities or debt instruments with a rating of "A−" or higher from S&P or "A3" or higher by Moody's or the equivalent of such rating by such rating organization or, if no rating of Moody's or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization, but excluding any debt securities or instruments constituting loans or advances among the Company and its Subsidiaries; and

(4) investments in any fund that invests exclusively in investments of the type described in clauses (1), (2) and (3) above which fund may also hold cash and Cash Equivalents pending investment or distribution.

"*Investment Grade Status*" shall occur when the Notes receive both of the following:

(1) a rating of "BBB−" or higher from S&P; and

(2) a rating of "Baa3" or higher from Moody's;

or the equivalent of such rating by either such rating organization or, if no rating of Moody's or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization.

"*IPO Market Capitalization*" means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity at the time of closing of the Initial Public Offering multiplied by (ii) the price per share at which such shares of common stock or common equity interests are sold in such Initial Public Offering.

"*Issue Date*" means November 15, 2013.

"*KKR*" means Kohlberg, Kravis, Roberts & Co. L.P. and its Affiliates, and any fund, partnership and/or other entities represented, managed, advised, owned or controlled by it or any of them.

"*Lien*" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"*Management Advances*" means loans or advances made to, or Guarantees with respect to loans or advances made to Management Investors:

(1) (a) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business or (b) for purposes of funding any such person's purchase of Capital Stock or Subordinated Shareholder Funding (or similar obligations) of the Company, its Subsidiaries or any Parent Holding Company with (in the case of this sub-clause (b)) the approval of the Board of Directors of the Company;

(2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or

(3) not exceeding €2 million in the aggregate outstanding at any time.

"*Management Investors*" means the officers, directors, employees and other members of the management of or consultants to any Parent Holding Company, the Company or any of their respective Subsidiaries, or spouses, family members or relatives thereof, or any trust, partnership or other entity for the benefit of or the beneficial owner of which (directly or indirectly) is any of the foregoing, or any of their heirs, executors, successors and legal representatives, who at any date beneficially own or have the right to acquire, directly or indirectly, Capital Stock of the Company, any Restricted Subsidiary or any Parent Holding Company.

"*Market Capitalization*" means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity on the date of the declaration of the relevant dividend multiplied by (ii) the arithmetic mean of the closing prices per share of such common stock or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

"*Moody's*" means Moody's Investors Service, Inc. or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"*Nationally Recognized Statistical Rating Organization*" means a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act.

"*Net Available Cash*" from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and net proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

(1) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses Incurred, and all Taxes paid or required to be paid or accrued as a liability under IFRS (after taking into account any available tax credits or deductions and any tax sharing arrangements), as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which by its terms or by applicable law are required to be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders (other than any Parent Holding Company, the Company or any of their respective Subsidiaries) in Subsidiaries or joint ventures as a result of such Asset Disposition; and

(4) the deduction of appropriate amounts required to be provided by the seller as a reserve, on the basis of IFRS, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"*Net Cash Proceeds*," with respect to any issuance or sale of Capital Stock or Subordinated Shareholder Funding, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result of such issuance or sale (after taking into account any available tax credit or deductions and any tax sharing arrangements).

"*Note Documents*" means the Notes (including Additional Notes), the indenture and the Security Documents.

"*Officer*" means, with respect to any Person, (1) the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer, any Managing Director, or the Secretary (a) of such Person or (b) if such Person is owned or managed by a single entity, of such entity, or (2) any other individual designated as an "Officer" for the purposes of the indenture by the Board of Directors of such Person.

"*Officer's Certificate*" means, with respect to any Person, a certificate signed by one Officer of such Person.

"*Opinion of Counsel*" means a written opinion from legal counsel reasonably satisfactory to the Trustee. The counsel may be an employee of or counsel to the Company or its Subsidiaries.

"*Opco*" means Slovenia Broadband S.à r.l..

"*Parent Holding Company*" means any Person of which the Company at any time is or becomes a Subsidiary after the Issue Date and any holding companies established by any Permitted Holder for purposes of holding its investment in any Parent Holding Company.

"*Parent Holding Company Expenses*" means:

(1) costs (including all professional fees and expenses) Incurred by any Parent Holding Company in connection with reporting obligations under or otherwise Incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, the indenture or any other agreement or instrument relating to Indebtedness of the Company or any Restricted Subsidiary, including in respect of any reports filed with respect to the Securities Act, Exchange Act or the respective rules and regulations promulgated thereunder;

(2) customary indemnification obligations of any Parent Holding Company owing to directors, officers, employees or other Persons under its charter or by-laws or pursuant to written agreements with any such Person to the extent relating to the Company and its Subsidiaries;

(3) obligations of any Parent Holding Company in respect of director and officer insurance (including premiums therefor) to the extent relating to the Company and its Subsidiaries;

(4) fees and expenses payable by any Parent Holding Company in connection with the Transactions;

(5) general corporate overhead expenses, including (a) professional fees and expenses and other operational expenses of any Parent Holding Company related to the ownership or operation of the business of the Company or any of its Restricted Subsidiaries or (b) costs and expenses with respect to any litigation or other dispute relating to the Transactions or the ownership, directly or indirectly, by any Parent Holding Company;

(6) other fees, expenses and costs relating directly or indirectly to activities of the Company and its Subsidiaries or any Parent Holding Company or any other Person established for purposes of or in connection with the Transactions or which holds directly or indirectly any Capital Stock or Subordinated Shareholder Funding of the Company, in an amount not to exceed €2 million in any fiscal year; and

(7) expenses Incurred by any Parent Holding Company in connection with any Public Offering or other sale of Capital Stock or Indebtedness:

   (x) where the net proceeds of such offering or sale are intended to be received by or contributed to the Company or a Restricted Subsidiary;

   (y) in a pro-rated amount of such expenses in proportion to the amount of such net proceeds intended to be so received or contributed; or

   (z) otherwise on an interim basis prior to completion of such offering so long as any Parent Holding Company shall cause the amount of such expenses to be repaid to the Company or the relevant Restricted Subsidiary out of the proceeds of such offering promptly if completed.

"*Pari Passu Indebtedness*" means any Indebtedness of the Company or any Guarantor if such Indebtedness or Guarantee ranks equally in right of payment to the Notes or the Notes Guarantees, as the case may be, and, in each case, is secured by a Lien on the Collateral.

"*Paying Agent*" means any Person authorized by the Company to pay the principal of (and premium, if any) or interest on any Note on behalf of the Company.

"*Permissible Jurisdiction*" means Serbia, Bosnia and Herzegovina and Slovenia, as well as any member state of the European Union.

"*Permitted Asset Swap*" means the concurrent purchase and sale or exchange of assets used or useful in a Similar Business or a combination of such assets and cash, Cash Equivalents or Temporary Cash Investments between the Company or any of its Restricted Subsidiaries and another Person; *provided* that any cash or Cash Equivalents received in excess of the value of any cash or Cash Equivalents sold or exchanged must be applied in accordance with the covenant described under "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*."

"*Permitted Collateral Liens*" means (A) Liens on the Collateral (i) that are "Permitted Liens" described in one or more of clauses (2), (3), (4), (5), (6), (8), (9), (11), (17), (18), (19), (20) or (24) of the definition thereof or (ii) that are Liens on bank accounts equally and ratably granted to cash management banks securing cash management obligations, (B) Liens securing Additional Notes (to the extent permitted under clause (C) or (D)), (C) Liens on the Collateral to secure Indebtedness or other obligations of the Company or a Restricted Subsidiary that are permitted to be Incurred under clauses (1), (2) (in the case of (2), to the extent such Guarantee is in respect of Indebtedness otherwise permitted to be secured and specified in this definition of Permitted Collateral Liens), (4)(a), (5)(i) (covering only the shares and assets of the acquired Person the Indebtedness of which is so secured), (5)(ii) (but only if after giving effect to such Incurrence on that date, the Consolidated Secured Leverage Ratio is either (a) less than 4.25 1.0 or (b) not greater than prior to such Incurrence), (6), (7), (11) or (12) (in the case of (12), *provided* that the amount of Indebtedness secured by such Lien on the Collateral shall not exceed 50% of the aggregate Indebtedness incurred under such clause) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*") and any Refinancing Indebtedness in respect of such Indebtedness; *provided*, *however*, that such Lien will not give an entitlement to be repaid with proceeds of enforcement of the Collateral in a manner which is inconsistent with the Intercreditor Agreement and any Additional Intercreditor Agreement; *provided further* that only Liens securing Indebtedness Incurred pursuant to (x) clause (1) or clause (14) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*", not exceeding at the time of incurrence 100% of Consolidated EBITDA, and (y) obligations under clause (6) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness,*" may secure obligations on a basis having priority to the Notes and the Guarantors under the Intercreditor Agreement or Additional Intercreditor Agreement, as the case may be; (D) Liens on the Collateral securing Indebtedness incurred under the first paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*;" *provided* that, in the case of this clause (D), after giving effect to such incurrence on that date, the Consolidated Secured Leverage Ratio is less than 4.25 to 1.0 and (E) Liens on the Collateral that secure Indebtedness on a basis junior to the Notes, *provided* that the holders of such Indebtedness (or their representative) accede to the Intercreditor Agreement or an Additional Intercreditor Agreement. To the extent that Indebtedness relating to an instrument or agreement is permitted to be secured by a Permitted Collateral Lien, other associated obligations under such instrument or agreement not themselves constituting Indebtedness may also be secured by such Permitted Collateral Lien.

"*Permitted Holders*" means, collectively, (1) the Initial Investors and any Affiliate thereof, (2) Senior Management and Related Persons, (3) any Person who is acting as an underwriter in connection with a public or private offering of Capital Stock of any Parent Holding Company or the Company, acting in such capacity and (4) any "group" (as such term is defined under Section 13(d)(3) of the Exchange Act) of which a Permitted Holder (without giving effect to this clause (4)) is a "Permitted Holder" and where such Permitted Holder is the beneficial owner of more than 50% of the Capital Stock beneficially owned by such group. Any person or group whose acquisition of beneficial ownership constitutes (i) a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the indenture or (ii) a Change of Control which is also a Specified Change of Control Event, will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

"*Permitted Investment*" means (in each case, by the Company or any of its Restricted Subsidiaries):

(1) Investments in (a) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary) or the Company or (b) a Person (including the Capital Stock of any such Person) that is engaged in any Similar Business and such Person will, upon the making of such Investment, become a Restricted Subsidiary;

(2) Investments in another Person if such Person is engaged in any Similar Business and as a result of such Investment such other Person is merged, consolidated or otherwise combined with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary;

(3) Investments in cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;

(4) Investments in receivables owing to the Company or any Restricted Subsidiary created or acquired in the ordinary course of business;

(5) Investments in payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(6) Management Advances;

(7) Investments in Capital Stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary, or as a result of foreclosure, perfection or enforcement of any Lien, or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement including upon the bankruptcy or insolvency of a debtor;

(8) Investments made as a result of the receipt of non-cash consideration from a sale or other disposition of property or assets, including an Asset Disposition (but excluding a Permitted Asset Swap), in each case, that was made in compliance with "*—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*;"

(9) Investments in existence on, or made pursuant to legally binding commitments in existence on, the Issue Date;

(10) Currency Agreements, Interest Rate Agreements, Commodity Hedging Agreements and related Hedging Obligations, which transactions or obligations are Incurred in compliance with "*—Certain Covenants—Limitation on Indebtedness*;"

(11) Investments, taken together with all other Investments made pursuant to this clause (11) and at any time outstanding, in an aggregate amount at the time of such Investment not to exceed the greater of €25 million and 3.1% of Total Assets; *provided* that, if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described under "*—Certain Covenants—Limitation on Restricted Payments*," such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (2) of the definition of "Permitted Investments" and not this clause;

(12) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or Liens otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under "*—Certain Covenants—Limitation on Liens*;"

(13) any Investment to the extent made using Capital Stock of the Company (other than Disqualified Stock) or Capital Stock of any Parent Holding Company as consideration;

(14) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Affiliate Transactions*" (except those described in clauses (1), (3), (6), (8), (9) and (12) of that paragraph);

(15) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or licenses or leases of intellectual property, in any case, in the ordinary course of business and in accordance with the indenture;

(16) guarantees, keepwells and similar arrangements not prohibited by the covenant described under "*—Certain Covenants—Limitation on Indebtedness*;" and

(17) Investments in the Notes.

"*Permitted Liens*" means, with respect to any Person:

(1) Liens on assets or property of a Restricted Subsidiary that is not the Issuer or a Guarantor securing Indebtedness of any Restricted Subsidiary that is not the Issuer or a Guarantor;

(2) pledges, deposits or Liens under workmen's compensation laws, unemployment insurance laws, social security laws or similar legislation, or insurance related obligations (including pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements), or in connection with bids, tenders, completion guarantees, contracts (other than for borrowed money) or leases, or to secure utilities, licenses, public or statutory obligations, or to secure surety, indemnity, judgment, appeal or performance bonds, guarantees of government contracts (or other similar bonds, instruments or obligations), or as security for contested taxes or import or customs duties or for the payment of rent, or other obligations of like nature, in each case Incurred in the ordinary course of business;

(3) Liens imposed by law, including carriers', warehousemen's, mechanics', landlords', materialmen's and repairmen's or other like Liens, in each case for sums not yet overdue for a period of more than 60 days or that are bonded or being contested in good faith by appropriate proceedings;

(4) Liens for taxes, assessments or other governmental charges not yet delinquent or which are being contested in good faith by appropriate proceedings; *provided* that appropriate reserves required pursuant to IFRS have been made in respect thereof;

(5) Liens in favor of the issuers of surety, performance or other bonds, guarantees or letters of credit or bankers' acceptances (not issued to support Indebtedness for borrowed money) issued pursuant to the request of and for the account of such Person in the ordinary course of its business, *provided* that such letters of credit do not constitute Indebtedness;

(6) encumbrances, ground leases, easements (including reciprocal easement agreements), survey exceptions, or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of the Company and its Restricted Subsidiaries or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of the Company and its Restricted Subsidiaries;

(7) Liens on assets or property of the Company or any Restricted Subsidiary securing Hedging Obligations permitted under the indenture, or over assets or property of any Restricted Subsidiary which is not required to provide a Guarantee pursuant to the Agreed Security Principles and which Lien is in favor of obligations under the indenture;

(8) leases, licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case entered into in the ordinary course of business;

(9) Liens arising out of judgments, decrees, orders or awards not giving rise to an Event of Default so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree, order or award have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(10) Liens on assets or property of the Company or any Restricted Subsidiary for the purpose of securing Capitalized Lease Obligations or Purchase Money Obligations, or securing the payment of all or a part of the purchase price of, or securing other Indebtedness Incurred to finance or refinance the acquisition, improvement or construction of, assets or property acquired or constructed in the ordinary course of business; *provided* that (a) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be Incurred under the indenture and (b) any such Lien may not extend to any assets or property of the Company or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Indebtedness and any improvements or accessions to such assets and property;

(11) Liens arising by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depositary or financial institution;

(12) Liens arising from Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Company and its Restricted Subsidiaries in the ordinary course of business;

(13) (a) Liens existing on the Issue Date, excluding Liens securing the Senior Facilities Agreement, the Hedging Obligations and the Notes; and (b) Liens with respect to Credit Facilities incurred pursuant to clause (14) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*;" and (c) Liens existing on the Closing Date with respect to the assets of Opco or any Subsidiary thereof;

(14) Liens on property, other assets or shares of stock of a Person at the time such Person becomes a Restricted Subsidiary (or at the time the Company or a Restricted Subsidiary acquires such property, other assets or shares of stock, including any acquisition by means of a merger, consolidation or other business combination transaction with or into the Company or any Restricted Subsidiary); *provided*, *however*, that such Liens are not created, Incurred or assumed in anticipation of or in connection with such other Person becoming a Restricted Subsidiary (or such acquisition of such property, other assets or stock); *provided*, *further*, that such Liens are limited to all or part of the same property, other assets or stock (plus improvements, accession, proceeds or dividends or distributions in connection with the original property, other assets or stock) that secured (or, under the written arrangements under which such Liens arose, could secure) the obligations to which such Liens relate;

(15) Liens on assets or property of any Restricted Subsidiary that is not a Guarantor securing Indebtedness or other obligations of such Restricted Subsidiary or any other Restricted Subsidiary that is not a Guarantor owing to the Company or another Restricted Subsidiary, or Liens by such Restricted Subsidiary in favor of the Company or any Restricted Subsidiary;

(16) Liens (other than Permitted Collateral Liens) securing Refinancing Indebtedness Incurred to refinance Indebtedness that was previously so secured, and permitted to be secured under the indenture; *provided* that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property that is or could be the security for or subject to a Permitted Lien hereunder;

(17) any interest or title of a lessor under any Capitalized Lease Obligation or operating lease;

(18) (a) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any government, statutory or regulatory authority, developer, landlord or other third party on property over which the Company or any Restricted Subsidiary of the Company has easement rights or on any leased property and subordination or similar arrangements relating thereto and (b) any condemnation or eminent domain proceedings affecting any real property;

(19) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of any joint venture or similar arrangement pursuant to any joint venture or similar agreement;

(20) Liens on property or assets under construction (and related rights) in favor of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

(21) Liens on cash accounts securing Indebtedness incurred under clause (10) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" with local financial institutions;

(22) Liens on Escrowed Proceeds for the benefit of the related holders of debt securities or other Indebtedness (or the underwriters or arrangers thereof) or on cash set aside at the time of the Incurrence of any Indebtedness or government securities purchased with such cash, in either case to the extent such cash or government securities prefund the payment of interest on such Indebtedness and are held in an escrow account or similar arrangement to be applied for such purpose;

(23) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities, or liens over cash accounts securing cash pooling arrangements;

(24) Liens arising out of conditional sale, title retention, hire purchase, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;

(25) Liens Incurred with respect to obligations which do not exceed €10 million at any one time outstanding;

(26) Permitted Collateral Liens;

(27) Liens on Capital Stock or other securities or assets of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;

(28) (a) Liens directly or indirectly securing the Notes; and (b) Liens in respect of property and assets securing Indebtedness if the recovery in respect of such Liens is subject to the Intercreditor Agreement or an Additional Intercreditor Agreement, or otherwise is subject to loss-sharing as among the Holders of the Notes and the creditors of such Indebtedness;

(29) Liens on Receivables Assets Incurred in connection with a Qualified Receivables Financing;

(30) Liens securing Indebtedness permitted to be Incurred pursuant to clauses (1) and (14) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*;" and

(31) any cash collateral arrangement securing the obligations of an ancillary lender in respect of ancillary facilities of the Company or its Restricted Subsidiaries.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

"*Preferred Stock*," as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"*Public Debt*" means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities issued in (1) a public offering registered under the Securities Act or (2) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the SEC for public resale.

"*Public Market*" means any time after:

(1) an Equity Offering has been consummated; and

(2) at least 20% of the total issued and outstanding ordinary shares or common equity of the IPO Entity has been distributed to investors other than the Permitted Holders or any other direct or indirect shareholders of the Company as of the Closing Date;

"*Public Offering*" means any offering, including an Initial Public Offering, of shares of common stock or other common equity interests that are listed on an exchange or publicly offered (which shall include an offering pursuant to Rule 144A and/or Regulation S under the Securities Act to professional market investors or similar persons).

"*Purchase Money Obligations*" means any Indebtedness Incurred to finance or refinance the acquisition, leasing, construction or improvement of property (real or personal) or assets (including Capital Stock), and whether acquired through the direct acquisition of such property or assets or the acquisition of the Capital Stock of any Person owning such property or assets, or otherwise.

"*Qualified Receivables Financing*" means any Receivables Financing of a Receivables Subsidiary that meets the following conditions: (1) the Board of Directors of the Company shall have determined in good faith that such Qualified Receivables Financing (including financing terms, covenants, termination events and other provisions) is in the aggregate economically fair and reasonable to the Company and the Receivables Subsidiary, (2) all sales of accounts receivable and related assets to the Receivables Subsidiary are made at fair market value (as determined in good faith by the Company), and (3) the financing terms, covenants, termination events and other provisions thereof shall be on market terms (as determined in good faith by the Company) and may include Standard Securitization Undertakings.

The grant of a security interest in any accounts receivable of the Company or any of its Restricted Subsidiaries (other than a Receivables Subsidiary) to secure Indebtedness under a Credit Facility or Indebtedness in respect of the Notes shall not be deemed a Qualified Receivables Financing.

"*Receivables Assets*" means any assets that are or will be the subject of a Qualified Receivables Financing.

"*Receivables Fees*" means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not a Restricted Subsidiary in connection with, any Receivables Financing.

"*Receivables Financing*" means any transaction or series of transactions that may be entered into by the Company or any of its Subsidiaries pursuant to which the Company or any of its Subsidiaries may sell, convey or otherwise transfer to (a) a Receivables Subsidiary (in the case of a transfer by the Company or any of its Subsidiaries), or (b) any other Person (in the case of a transfer by a Receivables Subsidiary), or may grant a security interest in, any accounts receivable (whether now existing or arising in the future) of the Company or any of its Subsidiaries, and any assets related thereto, including all collateral securing such accounts receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets which are customarily transferred or in respect of which security interest are customarily granted in connection with asset securitization transactions involving accounts receivable and any Hedging Obligations entered into by the Company or any such Subsidiary in connection with such accounts receivable.

"*Receivables Repurchase Obligation*" means any obligation of a seller of receivables in a Qualified Receivables Financing to repurchase receivables arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"*Receivables Subsidiary*" means a Wholly Owned Subsidiary of the Company (or another Person formed for the purposes of engaging in a Qualified Receivables Financing with the Company in which the Company or any Subsidiary of the Company makes an Investment and to which the Company or any Subsidiary of the Company transfers accounts receivable and related assets) which engages in no activities other than in connection with the financing of accounts receivable of the Company and its Subsidiaries, all proceeds thereof and all rights (contractual or other), collateral and other assets relating thereto, and any business or activities incidental or related to such business, and which is designated by the Board of Directors of the Company (as provided below) as a Receivables Subsidiary and:

(1) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (i) is guaranteed by the Company or any other Restricted Subsidiary of the Company (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings), (ii) is subject to terms that are substantially equivalent in effect to a guarantee of any losses on securitized or sold receivables by the Company or any other Restricted Subsidiary of the Company, (iii) is recourse to or obligates the Company or any other Restricted Subsidiary of the Company in any way other than pursuant to Standard Securitization

Undertakings, or (iv) subjects any property or asset of the Company or any other Restricted Subsidiary of the Company, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;

(2) with which neither the Company nor any other Restricted Subsidiary of the Company has any contract, agreement, arrangement or understanding other than on terms which the Company reasonably believes to be no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Company; and

(3) to which neither the Company nor any other Restricted Subsidiary of the Company has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

Any such designation by the Board of Directors of the Company shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of the Company giving effect to such designation and an Officer's Certificate certifying that such designation complied with the foregoing conditions.

"*Refinance*" means refinance, refund, replace, renew, repay, modify, restate, defer, substitute, supplement, reissue, resell, extend or increase (including pursuant to any defeasance or discharge mechanism) and the terms "refinances," "refinanced" and "refinancing" as used for any purpose in the indenture shall have a correlative meaning.

"*Refinancing Indebtedness*" means Indebtedness that is Incurred to refund, refinance, replace, exchange, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) any Indebtedness existing on the date of the indenture or Incurred in compliance with the indenture (including Indebtedness of the Company that refinances Indebtedness of any Restricted Subsidiary and Indebtedness of any Restricted Subsidiary that refinances Indebtedness of the Company or another Restricted Subsidiary) including Indebtedness that refinances Refinancing Indebtedness; *provided*, *however*, that:

(1) if the Indebtedness being refinanced constitutes Subordinated Indebtedness, the Refinancing Indebtedness has a final Stated Maturity at the time such Refinancing Indebtedness is Incurred that is the same as or later than the final Stated Maturity of the Indebtedness being refinanced or, if shorter, one year after the Stated Maturity of the Notes;

(2) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being refinanced (plus, without duplication, any additional Indebtedness Incurred to pay interest or premiums required by the instruments governing such existing Indebtedness and costs, expenses and fees Incurred in connection therewith); and

(3) if the Indebtedness being refinanced is expressly subordinated to the Notes or the Guarantees, such Refinancing Indebtedness is subordinated to the Notes or the Guarantees on terms at least as favorable to the Holders as those contained in the documentation governing the Indebtedness being refinanced,

provided, *however*, that Refinancing Indebtedness shall not include Indebtedness of the Company or a Restricted Subsidiary that refinances Indebtedness of an Unrestricted Subsidiary and *provided, further,* that the provisions of clause (3) above shall not operate to preclude the refinancing of Indebtedness with Indebtedness that is secured with a super priority status (or other preferential security status) if such security is otherwise permitted pursuant to the indenture.

Refinancing Indebtedness in respect of any Credit Facility or any other Indebtedness may be Incurred from time to time after the termination, discharge or repayment of any such Credit Facility or other Indebtedness.

"*Related Person*," with respect to any Permitted Holder, means:

(1) any controlling equityholder or Subsidiary of such Person; or

(2) in the case of an individual, any spouse, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof; or

(3) any trust, corporation, partnership or other Person for which one or more of the Permitted Holders and other Related Persons of any thereof constitute the beneficiaries, stockholders, partners or owners thereof, or Persons beneficially holding in the aggregate a majority (or more) controlling interest therein; or

(4) in the case of the Initial Investors any investment fund or vehicle managed, sponsored or advised by such Person or any successor thereto, or by any Affiliate of such Person or any such successor.

"*Related Taxes*" means:

(1) any Taxes, including sales, use, transfer, rental, ad valorem, value added, stamp, property, consumption, franchise, license, capital, registration, business, customs, net worth, gross receipts, excise, occupancy, intangibles or similar Taxes (other than (x) Taxes measured by income and (y) withholding Taxes), required to be paid (provided such Taxes are in fact paid) by any Parent Holding Company by virtue of its:

  (a) being organized or having Capital Stock outstanding (but not by virtue of owning stock or other equity interests of any corporation or other entity other than, directly or indirectly, the Company or any of the Company's Subsidiaries);

  (b) issuing or holding Subordinated Shareholder Funding;

  (c) being a Parent Holding Company, directly or indirectly, of the Company or any of the Company's Subsidiaries;

  (d) receiving dividends from or other distributions in respect of the Capital Stock of, directly or indirectly, the Company or any of the Company's Subsidiaries; or

  (e) having made any payment in respect of any of the items for which the Company is permitted to make payments to any Parent Holding Company pursuant to "*—Certain Covenants—Limitation on Restricted Payments*;" or

(2) if and for so long as the Company is a member of a group filing a consolidated or combined tax return with any Parent Holding Company or party to a Tax Sharing Agreement, any Taxes measured by income for which such Parent Holding Company is liable up to an amount not to exceed with respect to such Taxes the amount of any such Taxes that the Company and its Subsidiaries would have been required to pay on a separate company basis or on a consolidated basis if the Company and its Subsidiaries had paid tax on a consolidated, combined, group, affiliated or unitary basis on behalf of an affiliated group consisting only of the Company and its Subsidiaries.

"*Restricted Investment*" means any Investment other than a Permitted Investment.

"*Restricted Subsidiary*" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"*Reversion Date*" means, after the Notes have achieved Investment Grade Status, the date, if any, that such Notes shall cease to have such Investment Grade Status.

"*S&P*" means Standard & Poor's Investors Ratings Services or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

"*SEC*" means the U.S. Securities and Exchange Commission or any successor thereto.

"*Secured Indebtedness*" means any Indebtedness secured by a Lien on a basis *pari passu* with or senior to the security in favor of the Notes.

"*Securities Act*" means the U.S. Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

"Security Agent" means UniCredit Bank AG, London Branch. In addition to UniCredit Bank AG, London Branch, UniCredit Bank Serbia JSC Belgrade is currently acting as Serbian security agent under the Intercreditor Agreement and references to the "Security Agent" herein shall include references to such Serbian security agent to the extent that such Serbian security agent is administering the Collateral for the benefit of Holders of the Notes.

"*Security Documents*" means the Intercreditor Agreement and each collateral pledge agreement, security assignment agreement or other document under which Collateral is pledged to secure the Notes.

"*Senior Facilities Agreement*" means the senior facilities agreement dated on or about the Issue Date, between, among others, the Company, UniCredit Bank AG, London Branch as facility agent, UniCredit Bank AG, London Branch as English security agent, UniCredit Bank Serbia JSC Belgrade as Serbian security agent, UniCredit Bank Serbia JSC Belgrade as Payment Agent and Banca IMI S.P.A., London Branch, BNP Paribas Fortis S.A./N.V., Citigroup Global Markets Limited, Credit Suisse AG, London Branch, Findomestic Banka AD Beograd, ING Bank NV, KKR Capital Markets Limited, Raiffeisen Bank International AG, UniCredit Bank Austria AG and UniCredit Bank Serbia JSC Belgrade as arrangers, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

"*Senior Finance Documents*" means the Senior Facilities Agreement and such other documents identified as "Finance Documents" pursuant to the Senior Facilities Agreement.

"*Senior Management*" means the officers, directors, and other current or former members of senior management of the Company or any of its Subsidiaries, who at any date beneficially own or have the right to acquire, directly or indirectly, Capital Stock of the Company or any Parent Holding Company and with an equity investment in excess of €250,000.

"*Significant Subsidiary*" means any Restricted Subsidiary that meets any of the following conditions:

(1) the Company's and its Restricted Subsidiaries' investments in and advances to the Restricted Subsidiary exceed 10% of the total assets of the Company and its Restricted Subsidiaries on a consolidated basis as of the end of the most recently completed fiscal year;

(2) the Company's and its Restricted Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of the Restricted Subsidiary exceeds 10% of the total assets of the Company and its Restricted Subsidiaries on a consolidated basis as of the end of the most recently completed fiscal year; or

(3) the Company's and its Restricted Subsidiaries' equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of the Restricted Subsidiary exceeds 10% of such income of the Company and its Restricted Subsidiaries on a consolidated basis for the most recently completed fiscal year.

"*Similar Business*" means (a) any businesses, services or activities engaged in by the Company, Opco or any of their respective Subsidiaries or any Associates on the Issue Date, (b) providing cable and satellite television, broadband internet and fixed-line and mobile technology services and (c) any businesses, services and activities engaged in by the Company or any of its Subsidiaries or any Associates that are related, complementary, incidental, ancillary or similar to any of the foregoing or are extensions or developments of any thereof.

"*Specified Change of Control Event*" means the occurrence of any event that would constitute a Change of Control pursuant to the definition thereof; *provided* that the Consolidated Leverage Ratio would have been less than (x) 4.00 to 1.0 if the date of such occurrence is prior to the 18 month anniversary of the Closing Date or (y) 3.50 to 1.0, if the date of such occurrence is on or after the 18 month anniversary of the Closing Date, immediately prior to the occurrence of such event and immediately thereafter and giving pro forma effect thereto. Notwithstanding the foregoing, only one Specified Change of Control Event shall be permitted under the indenture after the Closing Date.

"*Standard Securitization Undertakings*" means representations, warranties, covenants, indemnities and guarantees of performance entered into by the Company or any Subsidiary of the Company which the Company has determined in good faith to be customary in a Receivables Financing, including those relating to the servicing of the assets of a Receivables Subsidiary, it being understood that any Receivables Repurchase Obligation shall be deemed to be a Standard Securitization Undertaking.

"*Stated Maturity*" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

"*Subordinated Indebtedness*" means, with respect to any person, any Indebtedness (whether outstanding on the Closing Date or thereafter Incurred) which is expressly subordinated in right of payment to the Notes or its Guarantees pursuant to a written agreement (and for the avoidance of doubt, for the purposes of the indenture Indebtedness shall not be considered subordinated in right of payment solely because it is unsecured, or secured on a junior basis to or entitled to proceeds from security enforcement after, other Indebtedness).

"*Subordinated Shareholder Funding*" means, collectively, (i) any funds provided to the Company by a Parent Holding Company in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, in each case issued to and held by a Parent Holding Company or a Permitted Holder, or (ii) any investment by a Management Investor pursuant to a management equity plan, in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Funding; *provided*, *however*, that such Subordinated Shareholder Funding in each case:

(1) does not mature or require any amortization, redemption or other repayment of principal or any sinking fund payment prior to the first anniversary of the Stated Maturity of the Notes (other than through conversion or exchange of such funding into Capital Stock (other than Disqualified Stock) of the Company or any funding meeting the requirements of this definition);

(2) does not require, prior to the first anniversary of the Stated Maturity of the Notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts;

(3) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the first anniversary of the Stated Maturity of the Notes;

(4) does not provide for or require any security interest or encumbrance over any asset of the Company or any of its Subsidiaries; and

(5) pursuant to its terms is fully subordinated and junior in right of payment to the Notes pursuant to subordination, payment blockage and enforcement limitation terms which are customary in all material respects for similar funding.

"*Subsidiary*" means, with respect to any Person:

(1) any corporation, association, or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof; or

(2) any partnership, joint venture, limited liability company or similar entity of which:

    (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof whether in the form of membership, general, special or limited partnership interests or otherwise; and

    (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

"*Successor Parent Holding Company*" with respect to any Person means any other Person with more than 50% of the total voting power of the Voting Stock of which is, at the time the first Person becomes a Subsidiary of such other Person, "beneficially owned" (as defined below) by one or more Persons that "beneficially owned" (as defined below) more than 50% of the total voting power of the Voting Stock of the first Person immediately prior to the first Person becoming a Subsidiary of such other Person. For purposes hereof, "beneficially own" has the meaning correlative to the term "beneficial owner," as such term is defined in Rules 13d-3 and 13d-5 under the Exchange Act (as in effect on the Issue Date).

"*Target Group*" means Opco and its subsidiaries (including for the avoidance of doubt, Serbia Broadband-Srpske Kablovske mreže d.o.o. Beograd and its respective subsidiaries).

"*Taxes*" means all present and future taxes, levies, imposts, deductions, charges, duties, assessments and withholdings and any charges of a similar nature (including interest, penalties and other liabilities with respect thereto) that are imposed or levied by any government or other taxing authority.

"*Tax Sharing Agreement*" means any fiscal unity arising under relevant tax laws, and any tax sharing or profit and loss pooling or similar agreement with customary or arm's-length terms entered into with any Parent Holding Company or Unrestricted Subsidiary, as the same may be amended, supplemented, waived or otherwise modified from time to time in accordance with the terms thereof and of the indenture.

"*Temporary Cash Investments*" means any of the following:

(1) any investment in

 (a) direct obligations of, or obligations Guaranteed by, (i) the United States of America or Canada, (ii) any Permissible Jurisdiction, (iii) Switzerland or Norway, (iv) any country in whose currency funds are being held specifically pending application in the making of an investment or capital expenditure by the Company or a Restricted Subsidiary in that country with such funds or (v) any agency or instrumentality of any such country or member state; or

 (b) direct obligations of any country recognized by the United States of America rated at least "A" by S&P or "A-1" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(2) overnight bank deposits, and investments in time deposit accounts, certificates of deposit, bankers' acceptances and money market deposits (or, with respect to foreign banks, similar instruments) maturing not more than one year after the date of acquisition thereof issued by:

 (a) any lender under the Senior Facilities Agreement;

 (b) any institution authorized to operate as a bank in any of the countries or member states referred to in subclause (1)(a) above; or

 (c) any bank or trust company organized under the laws of any such country or member state or any political subdivision thereof,

 in each case, having capital and surplus aggregating in excess of €250 million (or the foreign currency equivalent thereof) and whose long-term debt is rated at least "A" by S&P or "A-2" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) or (2) above entered into with a Person meeting the qualifications described in clause (2) above;

(4) Investments in commercial paper, maturing not more than 270 days after the date of acquisition, issued by a Person (other than the Company or any of its Subsidiaries), with a rating at the time as of which any Investment therein is made of "P-2" (or higher) according to Moody's or "A-2" (or higher) according to S&P (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(5) Investments in securities maturing not more than one year after the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United States of America, Canada, any Permissible Jurisdiction or Switzerland, Norway or by any political subdivision or taxing authority of any such state, commonwealth, territory, country or member state, and rated at least "BBB" by S&P or "Baa3" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);

(6) bills of exchange issued in the United States, Canada, a Permissible Jurisdiction, Switzerland, Norway or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent);

(7) any money market deposit accounts issued or offered by a commercial bank organized under the laws of a country that is a member of the Organization for Economic Co-operation and Development, in each case, having capital and surplus in excess of €250 million (or the foreign currency equivalent thereof) or whose long term debt is rated at least "A" by S&P or "A2" by Moody's (or, in either case, the equivalent of such rating by such organization or, if no rating of

S&P or Moody's then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

(8) investment funds investing 95% of their assets in securities of the type described in clauses (1) through (7) above (which funds may also hold reasonable amounts of cash pending investment and/or distribution); and

(9) investments in money market funds complying with the risk limiting conditions of Rule 2a-7 (or any successor rule) of the SEC under the U.S. Investment Company Act of 1940, as amended.

"*Total Assets*" means the consolidated total assets of Opco and its Restricted Subsidiaries in accordance with IFRS as shown on the most recent consolidated balance sheet of Opco.

"*Transactions*" means the consummation of the formation and capitalization of the Company and its Subsidiaries, the Acquisition, the issuance of the Notes, the entry into the indenture and the Senior Facilities Agreement, any repayment or discharge of existing indebtedness of the Target Group, the closing out or replacement of Hedging Obligations pursuant to the foregoing, all other associated transactions taken in relation to any of the foregoing (including, but not limited to, the merger of Adria Bidco d.o.o. Beograd with Serbia Broadband-Srpske Kablovske mreže d.o.o. Beograd, and the transfer of Adria Cable B.V. to the Issuer), and the payment or incurrence of any fees, expense or charges associated with any of the foregoing.

"*Trust Indenture Act*" means the U.S. Trust Indenture Act of 1939, as amended.

"*U.S. GAAP*" means generally accepted accounting principles in the United States of America as in effect from time to time.

"*Uniform Commercial Code*" means the New York Uniform Commercial Code.

"*Unrestricted Subsidiary*" means:

(1) any Subsidiary of the Company that at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors of the Company in the manner provided below); and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of the Company may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger, consolidation or other business combination transaction, or Investment therein but not including the Company or the Issuer) to be an Unrestricted Subsidiary only if:

(1) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of, or own or hold any Lien on any property of, the Company or any other Subsidiary of the Company which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary; and

(2) such designation and the Investment of the Company in such Subsidiary complies with "*—Certain Covenants—Limitation on Restricted Payments*."

Any such designation by the Board of Directors of the Company shall be evidenced to the Trustee by filing with the Trustee a resolution of the Board of Directors of the Company giving effect to such designation and an Officer's Certificate certifying that such designation complies with the foregoing conditions.

The Board of Directors of the Company may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided*, that immediately after giving effect to such designation (1) no Default or Event of Default would result therefrom and (2)(x) the Company could Incur at least €1.00 of additional Indebtedness pursuant to the first paragraph of the "*Limitation on Indebtedness*" covenant or (y) the Consolidated Leverage Ratio would not be greater than it was immediately prior to giving effect to such designation, in each case, on a pro forma basis taking into account such designation. Any such designation by the Board of Directors of the Company shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of such Board of Directors giving effect to such designation or an Officer's Certificate certifying that such designation complied with the foregoing provisions.

"*Voting Stock*" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors.

"*Wholly Owned Subsidiary*" means a Restricted Subsidiary of the Company, all of the Voting Stock of which (other than directors' qualifying shares or shares required by any applicable law or regulation to be held by a Person other than the Company or another Wholly Owned Subsidiary) is owned by the Company or another Wholly Owned Subsidiary.

BOOK-ENTRY, DELIVERY AND FORM

General

The Notes sold to qualified institutional buyers ("QIBs") in reliance on Rule 144A under the Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "Rule 144A Global Note"). The Notes sold outside the United States in reliance on Regulation S under the Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "Regulation S Global Note" and, together with the Rule 144A Global Note, the "Global Notes"). The Global Notes will be deposited, on the Issue Date, with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of interests in the Rule 144A Global Note ("Rule 144A Book-Entry Interests") and ownership of interests in the Regulation S Global Note (the "Regulation S Book-Entry Interests" and, together with the Rule 144A Book-Entry Interests, the "Book-Entry Interests") will be limited to persons that have accounts with Euroclear and/or Clearstream, or persons who hold interests through such participants. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, Book-Entry Interests will not be issued in definitive certificated form.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in the book-entry form by Euroclear and Clearstream and their participants. The Book-Entry Interests in the Global Notes will be issued only in denominations of €100,000 and in integral multiples of €1,000. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not receive physical delivery of the Notes in certificated form and will not be considered the owners or "holders" of Notes for any purpose.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or the common depositary's nominee), will be considered the sole holders of the Global Notes for all purposes under the Indenture governing the Notes. In addition, participants must rely on the procedures of Euroclear and Clearstream, and indirect participants must rely on the procedures of Euroclear, Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders of Notes under the Indenture.

Neither we, the Trustee nor any of the Agents will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

Redemption of the Global Notes

In the event that any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream, as applicable, will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear and Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). We understand that, under the existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate unless otherwise required by law or applicable stock exchange or depositary requirements; provided, however, that no Book-Entry Interest of less than €100,000 principal amount may be redeemed in part.

Payments on Global Notes

We will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, and interest) to the Paying Agent. The Paying Agent will, in turn, make such payments to the common depositary or its nominee for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their customary procedures. We will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "*Description of the Notes*". If any such deduction or withholding is required to be made, then, to the extent described under "*Description of the Notes*" above, we will pay additional amounts as may be necessary in order for the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding to equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. We expect that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, the Issuer, the Paying Agents, Registrar and the Trustee will treat the registered holders of the Global Notes (i.e. the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest, or Euroclear, Clearstream or any participant or indirect participant;
- payments made by Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to payments made on account of a Book-Entry Interest; or
- Euroclear, Clearstream, or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants as is now the case with securities held for the accounts of subscribers registered in "stock name".

Currency of Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid through Euroclear and/or Clearstream in euro.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised us that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the Book-Entry Interests are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream rules and will be settled in immediately available funds. If a holder of Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in jurisdictions that require physical delivery of securities or to pledge such Notes, such holder of Notes must transfer its interests in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the procedures set out in the Indenture.

The Global Notes will have a legend to the effect set out under "*Transfer Restrictions*". Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under "*Transfer Restrictions*".

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act or any other exemption (if available under the Securities Act).

Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of Rule 144A Book-Entry Interests denominated in the same currency only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Transfer Restrictions*" and in accordance with any applicable securities laws of any other jurisdiction.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

Definitive Registered Notes

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes:

- if Euroclear or Clearstream notifies the Issuer that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by us within 120 days; or
- if the owner of a Book-Entry Interest requests such an exchange in writing delivered through either Euroclear or Clearstream following an Event of Default under the Indenture and enforcement action is being taken in respect thereof.

In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such Note by surrendering it to the registrar or transfer agent. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note will be issued to the transferee in respect of the part transferred and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; provided that no Definitive Registered Note in a denomination less than €100,000 will be issued. We will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Notes.

We will not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (i) the record date for any payment of interest on the Notes, (ii) any date fixed for redemption of the Notes or (iii) the date fixed for selection of the Notes to be redeemed in part. Also, we are not required to register the transfer or exchange of any Notes selected for redemption or which the holder has tendered (and not withdrawn) for repurchase in connection with a change of control offer. In the event of the transfer of any Definitive Registered Note, the Trustee, the transfer agents and the registrar may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the Indenture. We may require a holder to pay any taxes and fees required by law and permitted by the Indenture and the Notes.

If Definitive Registered Notes are issued and a holder thereof claims that such Definitive Registered Note has been lost, destroyed or wrongfully taken, or if such Definitive Registered Note is mutilated and is surrendered to the registrar or at the office of the transfer agent, we will issue and the Trustee (or an authentication agent appointed by it) will authenticate a replacement Definitive Registered Note if the Trustee's and our requirements are met. The Issuer or the Trustee may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both to protect themselves, the Trustee or the paying agents appointed pursuant to the Indenture from any loss which any of them may suffer if a Definitive Registered Note is replaced. The Issuer may charge for any expenses incurred by us in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by the Issuer pursuant to the provisions of the Indenture, the Issuer, in its discretion, may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in the Global Notes only after the transferor first delivers to the Trustee a written certification (in the form provided in the Indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Notes. Please see "*Transfer Restrictions*".

Payment of principal, any repurchase price, premium and interest on Definitive Registered Notes will be payable at the office of the Issuer's paying agent in London.

To the extent permitted by law, the Issuer, the Trustee, the paying agents, the transfer agents and the registrar shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Notes will be evidenced through registration from time to time at the registered office of the registrar, and such registration is a means of evidencing title to the Notes.

The Issuer will not impose any fees or other charges in respect of the Notes; however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream.

Information Concerning Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither we, the Trustee nor the Initial Purchasers are responsible for those operations or procedures.

We understand as follows with respect to Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the 144A Global Notes only through Euroclear or Clearstream participants.

Global Clearance and Settlement Under the Book-Entry System

The Notes represented by the Global Notes are expected to be admitted to the Official List of the Irish Stock Exchange and admitted to trading on the Irish Stock Exchange's Global Exchange market. Transfers of interests in the Global Notes between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of us, the Trustee or the paying agents will have any responsibility for the performance by Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Notes will be made in euro. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

TAX CONSIDERATIONS

European Tax Considerations

European Union Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual, or certain other persons, resident or established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have adopted or agreed to adopt similar measures.

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

Dutch Tax Considerations

This summary solely addresses the principal Dutch tax consequences of the acquisition, ownership and disposal of Notes. It does not purport to describe every aspect of taxation that may be relevant to a particular Holder of Notes (as defined below). Any potential investor should consult his tax adviser for more information about the tax consequences of acquiring, owning and disposing of Notes in his particular circumstances.

Where in this summary English terms and expressions are used to refer to Dutch concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch concepts under Dutch tax law. Where in this summary the terms "the Netherlands" and "Dutch" are used, these refer solely to the European part of the Kingdom of the Netherlands. This summary assumes that the Issuer is organized, and that its business will be conducted, in the manner outlined in this Offering Memorandum. A change to such organizational structure or to the manner in which the Issuer conducts its business may invalidate the contents of this summary, which will not be updated to reflect any such change.

This summary is based on the tax law of the Netherlands (unpublished case law not included) as it stands at the date of this Offering Memorandum. The tax law upon which this summary is based, is subject to changes, perhaps with retroactive effect. Any such change may invalidate the contents of this summary, which will not be updated to reflect such change.

This summary assumes that each transaction with respect to Notes is at arm's length.

Where in this Dutch Tax Considerations paragraph reference is made to a "Holder of Notes", that concept includes, without limitation:

1. an owner of one or more Notes who in addition to the title to such Notes has an economic interest in such Notes;
2. a person who or an entity that holds the entire economic interest in one or more Notes;
3. a person who or an entity that holds an interest in an entity, such as a partnership or a mutual fund, that is transparent for Dutch tax purposes, the assets of which comprise one or more Notes, within the meaning of 1. or 2. above; or
4. a person who is deemed to hold an interest in Notes, as referred to under 1. to 3., pursuant to the attribution rules of article 2.14a, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), with respect to property that has been segregated, for instance in a trust or a foundation.

Withholding tax

All payments under the Notes may be made free from withholding or deduction of or for any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority of or in the Netherlands.

Taxes on income and capital gains

Resident Holders of Notes

The summary set out in this section "*Dutch Tax Considerations—Taxes on income and capital gains—Resident Holders of Notes*" applies only to a Holder of Notes who is a "Dutch Individual" or a "Dutch Corporate Entity".

A Holder of Notes is a "Dutch Individual" if:

- he is an individual; and
- he is resident, or deemed to be resident, in the Netherlands for Dutch income tax purposes, or has elected to be treated as a resident of the Netherlands for Dutch income tax purposes.

A Holder of Notes is a "Dutch Corporate Entity" if:

- it is a corporate entity (lichaam), including an association that is taxable as a corporate entity, that is subject to Dutch corporation tax;
- it is resident, or deemed to be resident, in the Netherlands for Dutch corporation tax purposes;
- it is not an entity that, although in principle subject to Dutch corporation tax, is, in whole or in part, specifically exempt from that tax; and
- it is not an investment institution (beleggingsinstelling) as defined in the Dutch Corporation Tax Act 1969 (Wet op de vennootschapsbelasting 1969).

If a Holder of Notes is not an individual and if it does not satisfy any one or more of these tests, with the exception of the second test, its Dutch tax position is not discussed in this Offering Memorandum.

Dutch Individuals deriving profits or deemed to be deriving profits from an enterprise

Any benefits derived or deemed to be derived from Notes, including any gain realized on the disposal of Notes, by a Dutch Individual that are attributable to an enterprise from which such Dutch Individual derives profits, whether as an entrepreneur (ondernemer) or pursuant to a co-entitlement to the net value of an enterprise, other than as a shareholder, are generally subject to Dutch income tax at progressive rates.

Dutch Individuals deriving benefits from miscellaneous activities

Any benefits derived or deemed to be derived from Notes, including any gain realized on the disposal of Notes, by a Dutch Individual that constitute benefits from miscellaneous activities (*resultaat uit overige werkzaamheden*) are generally subject to Dutch income tax at progressive rates.

Benefits derived from Notes by a Dutch Individual are taxable as benefits from miscellaneous activities if he, or an individual who is a connected person in relation to him as meant by article 3.91, paragraph 2, letter b, or c, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), has a substantial interest (*aanmerkelijk belang*) in the Issuer.

Generally, a person has a substantial interest in the Issuer if such person—either alone or, in the case of an individual, together with his partner (*partner*), if any, or pursuant to article 2.14a, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*)—owns or is deemed to own, directly or indirectly, either a number of shares representing five per cent. or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Issuer, or rights to acquire, directly or indirectly, shares, whether or not already issued, representing five per cent. or more of the total issued and outstanding capital (or the issued and outstanding capital of any class of shares) of the Issuer or profit participating certificates (*winstbewijzen*) relating to five per cent. or more of the annual profits of the Issuer or to five per cent. or more of the liquidation proceeds of the Issuer.

A person who is entitled to the benefits from shares or profit participating certificates (for instance a holder of a right of usufruct) is deemed to be a holder of shares or profit participating certificates, as the case may be, and such person's entitlement to such benefits is considered a share or a profit participating certificate, as the case may be.

Furthermore, a Dutch Individual may, inter alia, derive, or be deemed to derive, benefits from Notes that are taxable as benefits from miscellaneous activities in the following circumstances:

a. if his investment activities go beyond the activities of an active portfolio investor, for instance in the case of use of insider knowledge (*voorkennis*) or comparable forms of special knowledge;

b. if he makes Notes available or is deemed to make Notes available, legally or as a matter of fact, directly or indirectly, to certain parties as meant by articles 3.91 and 3.92 of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*) under circumstances described there; or

c. if he holds Notes, whether directly or indirectly, and any benefits to be derived from such Notes are intended, in whole or in part, as remuneration for activities performed by him or by a person who is a connected person in relation to him as meant by article 3.92b, paragraph 5, of the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*).

Other Dutch Individuals

If a Holder of Notes is a Dutch Individual whose situation has not been discussed before in this section "*Dutch Tax Considerations—Taxes on income and capital gains—Resident Holders of Notes*", benefits from his Notes are taxed annually as a benefit from savings and investments (*voordeel uit sparen en beleggen*). Such benefit is deemed to be 4 per cent. per annum of his "yield basis" (*rendementsgrondslag*), generally to be determined as the fair market value of certain qualifying assets held by the Holder of the Notes, less the fair market value of certain qualifying liabilities at the beginning of the calendar year, to the extent that such yield basis exceeds the "exempt net asset amount" (*heffingvrij vermogen*) for the relevant year. The benefit is taxed at the rate of 30 per cent. The value of his Notes forms part of his yield basis. Actual benefits derived from his Notes, including any gain realised on the disposal of Notes, are not as such subject to Dutch income tax.

Attribution rule

Benefits derived or deemed to be derived from certain miscellaneous activities by, and yield basis for benefits from savings and investments of, a child or a foster child who is under eighteen years of age are attributed to the parent who exercises, or to the parents who exercise, authority over the child, irrespective of the country of residence of the child.

Dutch Corporate Entities

Any benefits derived or deemed to be derived from Notes, including any gain realised on the disposal thereof, that are held by a Dutch Corporate Entity are generally subject to Dutch corporation tax.

Non-resident Holders of Notes

The summary set out in this section "*Dutch Tax Considerations—Taxes on income and capital gains—Non-resident Holders of Notes*" applies only to a Holder of Notes who is a Non-Resident Holder of Notes.

A Holder of Notes will be considered a "Non-Resident Holder of Notes" if he is neither resident, nor deemed to be resident, in the Netherlands for the purposes of Dutch income tax or corporation tax, as the case may be, and who, in the case of an individual, has not elected to be treated as a resident of the Netherlands for Dutch income tax purposes.

Individuals

A Non-Resident Holder of Notes who is an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefits derived or deemed to be derived from Notes, including any payment under Notes and any gain realized on the disposal of Notes, except if

1. he derives profits from an enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder, such enterprise is either being managed in the Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in the Netherlands, and his Notes are attributable to such enterprise; or

2. he derives benefits or is deemed to derive benefits from Notes that are taxable as benefits from miscellaneous activities in the Netherlands (*resultaat uit overige werkzaamheden in Nederland*).

See the section "*Dutch Tax Considerations—Taxes on income and capital gains—Resident Holders of Notes—Dutch Individuals deriving benefits from miscellaneous activities*" for a description of the circumstances under which the benefits derived from Notes may be taxable as benefits from miscellaneous activities, on the understanding that such benefits will be taxable in the Netherlands only if such activities are performed or deemed to be performed in the Netherlands.

Attribution rule

Benefits derived or deemed to be derived from certain miscellaneous activities by a child or a foster child who is under eighteen years of age are attributed to the parent who exercises, or to the parents who exercise, authority over the child, irrespective of the country of residence of the child.

Entities

A Non-Resident Holder of Notes other than an individual will not be subject to any Dutch taxes on income or capital gains in respect of any benefits derived or deemed to be derived from Notes, including any payment under Notes and any gain realized on the disposal of Notes, except if

1. such Non-Resident Holder of Notes derives profits from an enterprise directly, or pursuant to a co-entitlement to the net value of such enterprise, other than as a holder of securities, such enterprise either being managed in the Netherlands or carried on, in whole or in part, through a permanent establishment or a permanent representative in the Netherlands, and its Notes are attributable to such enterprise; or

2. such Non-Resident Holder of Notes has a substantial interest in the Issuer (as described above under Individuals) or a deemed substantial interest in the Issuer and such Non-Resident Holder of Notes holds the substantial interest or deemed substantial interest with the main purpose or one of the main purposes to avoid income tax or dividend tax of another person and the substantial interest or deemed substantial interest does not form part of the assets of an enterprise of the Non-Resident Holder of Notes.

   A deemed substantial interest may be present if shares, profit participating certificates or rights to acquire shares in the Issuer are held by such Non-Resident Holder of Notes or deemed to be held by such Non-Resident Holder of Notes following the application of a non-recognition provision; or

3. such Non-Resident Holder of Notes is a resident of Aruba, Curaçao or Sint Maarten for tax purposes and derives profits from an enterprise carried on, in whole or in part, through a permanent establishment or a permanent representative in Bonaire, Sint Eustatius or Saba, and its Notes are attributable to such enterprise.

General

Subject to the above, a Non-Resident Holder of Notes will not be subject to income taxation in the Netherlands by reason only of the execution (*ondertekening*), delivery (*overhandiging*) and/or enforcement of the documents relating to the issue of Notes or the performance by the Issuer of its obligations under such documents or under the Notes.

Gift and inheritance taxes

If a Holder of Notes disposes of Notes by way of gift, in form or in substance, or if a Holder of Notes who is an individual dies, no Dutch gift tax or Dutch inheritance tax, as applicable, will be due, unless:

(i) the donor is, or the deceased was resident or deemed to be resident in the Netherlands for purposes of Dutch gift tax or Dutch inheritance tax, as applicable; or

(ii) the donor made a gift of Notes, then became a resident or deemed resident of the Netherlands, and died as a resident or deemed resident of the Netherlands within 180 days of the date of the gift.

For purposes of the above, a gift of Notes made under a condition precedent (*opschortende voorwaarde*) is deemed to be made at the time the condition precedent is satisfied.

Other taxes and duties

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, is payable in the Netherlands in respect of or in connection with (i) the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of the Netherlands) of the documents relating to the issue of Notes, (ii) the performance by the Issuer of its obligations under such documents or under the Notes, or (iii) the transfer of Notes, except that Dutch real property transfer tax (*overdrachtsbelasting*) may be due by a Holder of Notes if in satisfaction of all or part of any of its rights under the Notes, it acquires any asset, or an interest in any asset (*economische eigendom*), that qualifies as real property or as a right over real property situated in the Netherlands, for the purposes of Dutch real property transfer tax (*overdrachtsbelasting*).

U.S. Federal Income Taxation

General

To ensure compliance with Internal Revenue Service ("IRS") Circular 230, prospective investors are hereby notified that any discussion of tax matters set forth in this offering memorandum was written in connection with the promotion or marketing of the transactions or matters addressed herein and was not intended or written to be used, and cannot be used by any prospective investor, for the purpose of avoiding tax-related penalties under federal, state or local tax law. Each prospective investor should seek advice based on its particular circumstances from an independent tax advisor.

The following is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of Notes as of the date hereof. This summary deals only with Notes that are held as capital assets by a U.S. Holder (as defined below) who acquires the Notes for cash upon original issuance at their issue price (the first price at which a substantial amount of the Notes is sold to investors for cash (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriter, placement agent or wholesaler)).

A "U.S. Holder" means a beneficial owner of Notes that is for United States federal income tax purposes any of the following:

- an individual citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury Regulations ("Treasury Regulations") to be treated as a United States person.

This summary is based upon provisions of the Code and Treasury Regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below. This summary does not address all aspects of United States federal income tax or all tax considerations that may be relevant to U.S. Holders in light of their particular circumstances. In addition, it does not represent a detailed description of the United States federal income tax consequences applicable to U.S. Holders that are subject to special treatment under the United States federal income tax laws. For example, this summary does not address:

- tax consequences to holders who may be subject to special tax treatment, such as dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, financial institutions, regulated investment companies, real estate investment trusts, investors in partnerships or other pass-through entities for United States federal income tax purposes, tax-exempt entities or insurance companies;
- tax consequences to persons holding the Notes as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;

- tax consequences to U.S. Holders whose "functional currency" is not the U.S. dollar;
- alternative minimum tax od Medicare contribution tax consequences, if any; or
- any state, local or foreign tax consequences.

If an entity treated as a partnership for United States federal income tax purposes holds the Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. U.S. Holders that are partners of a partnership holding the Notes should consult their tax advisors.

U.S. Holders considering the purchase of Notes should consult their own tax advisors concerning the particular United States federal income tax consequences to them of the purchase, ownership and disposition of the Notes, as well as the consequences to them arising under the laws of any other taxing jurisdiction.

Payments of Interest

Subject to the foreign currency rules discussed below, interest on a Note will generally be taxable to a U.S. Holder as ordinary income at the time it is paid or accrued in accordance with the U.S. Holder's method of accounting for United States federal income tax purposes. In addition to interest on the Notes, which includes any foreign tax withheld from the interest payments received, a U.S. Holder will be required to include in income any Additional Amounts paid in respect of any such tax withheld and without reduction for any foreign tax withheld from any such Additional Amounts. U.S. Holders may be entitled to deduct or credit foreign withholding tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of the U.S. Holder's applicable foreign taxes for a particular tax year). Interest income (including any Additional Amounts) generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered passive category income. U.S. Holders will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Notes where they do not meet a minimum holding period requirement during which they are not protected from risk of loss. The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

A U.S. Holder who uses the cash method of accounting for United States federal income tax purposes will be required to include in income the U.S. dollar value of the euro payment received, determined by translating the euros received at the spot rate on the date of receipt regardless of whether the payment is in fact converted to U.S. dollars. A cash basis U.S. Holder will not recognize exchange gain or loss with respect to the receipt of such payment.

A U.S. Holder who uses the accrual method of accounting for United States federal income tax purposes may determine the amount of income recognized with respect to such interest in accordance with either of two methods. Under the first method, the U.S. Holder will be required to include in income for each taxable year the U.S. dollar value of the interest that has accrued during such year, determined by translating such interest at the average rate of exchange for the period or periods during which such interest accrued or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year. Under the second method, the U.S. Holder may elect to translate interest income at the spot rate on:

- the last day of the accrual period,
- the last day of the taxable year if the accrual period straddles the U.S. Holder's taxable year, or
- the date the interest payment is received if such date is within five business days of the end of the accrual period.

This election will apply to all debt obligations a U.S. Holder holds from year to year and cannot be changed without the consent of the IRS. U.S. Holders should consult their own tax advisor as to the advisability of making the above election.

Upon receipt of an interest payment on a Note (including, upon the disposition of a Note, the receipt of proceeds which include amounts attributable to accrued interest previously included in income), U.S. Holders will recognize U.S. source ordinary income or loss in an amount equal to the difference, if any, between the U.S. dollar value of such payment (determined by translating the euros received at the spot rate on the date of receipt) and the U.S. dollar value of the interest income the U.S. Holder previously included in income with respect to such payment.

Sale, Exchange, Redemption, Retirement or Other Disposition of Notes

Upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange, redemption, retirement or other taxable disposition (less an amount equal to any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis will generally be its cost for that Note. If a Note was purchased with euros, a U.S. Holder's cost generally will be the U.S. dollar value of the euros paid for such Note determined at the spot rate on the date of such purchase (or, in the case of a cash basis or electing accrual basis taxpayer, the settlement date of the purchase, if the Note is treated as traded on an established securities market for United States federal income tax purposes). If a Note is sold, exchanged, redeemed, retired or otherwise disposed of in a taxable transaction for euros, the amount realized generally will be the U.S. dollar value of the euros received based on the spot rate in effect on the date of such sale, exchange, redemption, retirement or other taxable disposition (or, in the case of a cash basis or electing accrual basis taxpayer, the settlement date of the sale, exchange, redemption, retirement or other disposition, if the Note is treated as traded on an established securities market for United States federal income tax purposes). The election available to accrual basis U.S. Holders with respect to Notes traded on an established securities market must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS. Subject to the foreign currency rules discussed below, any gain or loss realized by a U.S. Holder generally will be capital gain or loss and will be treated as long-term capital gain or loss if the U.S. Holder has held the Note for more than one year at the time of sale, exchange, redemption, retirement or other taxable disposition of the Note. Capital gains of non-corporate U.S. Holders (including individuals) derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realized by U.S. Holders on the sale, exchange, redemption, retirement or other taxable disposition of a Note generally would be treated as U.S. source gain or loss.

Upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, a U.S. Holder may recognize exchange gain or loss with respect to the principal amount of the Note. Exchange gain or loss will be treated as ordinary income or loss and generally will be U.S. source gain or loss. For these purposes, the principal amount of the Note is a U.S. Holder's purchase price for the Note calculated in euros on the date of purchase, and the amount of exchange gain or loss recognized is equal to the difference between (i) the U.S. dollar value of the principal amount determined on the date of the sale, exchange, redemption, retirement or other taxable disposition of the Note and (ii) the U.S. dollar value of the principal amount determined on the date the U.S. Holder purchased the Note (or, possibly, in the case of a cash basis or electing accrual basis taxpayer, the settlement dates of such purchase and taxable disposition, if the Note is treated as traded on an established securities market for U.S. federal income tax purposes). The amount of exchange gain or loss on the disposition of the Note (with respect to both principal and accrued interest) will be limited to the amount of overall gain or loss realized on the disposition of the Note.

Exchange Gain or Loss with Respect to Euros

A U.S. Holder's tax basis in the euros received as interest on a Note will be the U.S. dollar value thereof at the spot rate in effect on the date the euros are received. Upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, if the Notes are traded on an established securities market, a cash basis U.S. Holder (or, upon election, an accrual basis U.S. Holder) will have a basis in the euros received equal to the U.S. dollar value thereof at the spot rate in effect on the settlement date of such sale, exchange, redemption, retirement or disposition (that is, the same date that the euros are valued for purposes of determining the amount realized on the Note). In all other cases, the U.S. Holder's basis in the euros received will equal the U.S. dollar value of the euros, based on the spot rate in effect on the date of receipt.

Any gain or loss recognized by a U.S. Holder on a sale, exchange or other disposition of the euros will be ordinary income or loss and generally will be U.S. source gain or loss.

Reportable Transactions

Treasury Regulations meant to require the reporting of certain tax shelter transactions could be interpreted to cover transactions generally not regarded as tax shelters, including certain foreign currency transactions. Under the Treasury Regulations, certain transactions are required to be reported to the IRS, including, in certain circumstances, a sale, exchange, retirement or other taxable disposition of a foreign currency note (or foreign currency received in respect of a foreign currency note) to the extent that such sale, exchange, retirement or other taxable disposition results in a tax loss in excess of a threshold amount. U.S. Holders should consult their own tax advisors to determine the tax return obligations, if any, with respect to an investment in the Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Backup Withholding and Information Reporting

Generally, information reporting requirements may apply to payments of principal and interest on a Note or the proceeds from the sale of a Note unless a U.S. Holder is an exempt recipient and, when required, demonstrates this fact. Additionally, if a U.S. Holder that is not an exempt recipient fails to provide its accurate taxpayer identification number, or in the case of interest payments fails either to report in full dividend and interest income or to make certain certifications, such U.S. Holder may be subject to backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS.

Certain U.S. Holders are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions), by attaching a completed IRS Form 8938, Statement of Specified Foreign Financial Assets, to their tax return for each year in which they hold an interest in the Notes. You are urged to consult your own tax advisors regarding information reporting requirements relating to your ownership and disposition of the Notes.

LIMITATIONS ON VALIDITY AND ENFORCEABILITY OF THE NOTES GUARANTEES AND THE SECURITY INTERESTS

Set out below is a summary of certain limitations on the enforceability of the Notes Guarantees and the security interests in some of the jurisdictions in which Notes Guarantees or Collateral are being provided. It is a summary only, and bankruptcy or insolvency proceedings or similar events could be initiated in any of these jurisdictions as well as in any jurisdiction of organization of a future guarantor of the Notes. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdiction's law should apply to a given situation and could adversely affect your ability to enforce your rights and to collect payment in full under the Notes, the Notes Guarantees and the security interests in the Collateral. Also set forth below is a brief description of certain aspects of insolvency law in the Bosnia and Herzegovina, Serbia and Slovenia.

European Union

The Guarantors in Luxembourg, Slovenia and the Netherlands are organized under the laws of Member States of the European Union.

Pursuant to Council Regulation (EC) no. 1346/2000 of May 29, 2000, on insolvency proceedings, as amended (the "E.U. Insolvency Regulation"), which applies within the European Union, other than Denmark, the courts of the Member State in which a company's "centre of main interests" (as that term is used in Article 3(1) of the E.U. Insolvency Regulation) is situated have jurisdiction to open main insolvency proceedings. The determination of where a company has its "centre of main interests" is a question of fact on which the courts of the different Member States may have differing and even conflicting views.

Although there is a presumption under Article 3(1) of the E.U. Insolvency Regulation that a company has its "centre of main interests" in the Member State in which it has its registered office in the absence of proof to the contrary, Preamble 13 of the E.U. Insolvency Regulation states that the "centre of main interests" of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and "is therefore ascertainable by third parties". The courts have taken into consideration a number of factors in determining the "centre of main interests" of a company, including in particular where board meetings are held, the location where the company conducts the majority of its business or has its head office and the location where the majority of the company's creditors are established. A company's "centre of main interests" may change from time to time but is determined for the purposes of deciding which courts have competent jurisdiction to open insolvency proceedings at the time of the filing of the insolvency petition.

The E.U. Insolvency Regulation applies to insolvency proceedings which are collective insolvency proceedings of the types referred to in Annex A to the E.U. Insolvency Regulation.

If the "centre of main interests" of a company is in one Member State (other than Denmark) under Article 3(2) of the E.U. Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open territorial insolvency proceedings against that company only if such company has an "establishment" in the territory of such other Member State. An "establishment" is defined to mean a place of operations where the company carries on non-transitory economic activity with human means and goods. The effects of those insolvency proceedings opened in that other Member State are restricted to the assets of the company situated in such other Member State.

Where main proceedings have been opened in the Member State in which the company has its centre of main interests, any proceedings opened subsequently in another Member State in which the company has an establishment (secondary proceedings) are limited to "winding up proceedings" listed in Annex B of the E.U. Insolvency Regulation. Where main proceedings in the Member State in which the company has its centre of main interests have not yet been opened, territorial insolvency proceedings can be opened in another Member State where the company has an establishment only where either (a) insolvency proceedings cannot be opened in the Member State in which the company's centre of main interests is situated under that Member State's law; or (b) the territorial insolvency proceedings are opened at the request of a creditor which is domiciled, habitually resident or has its registered office in the other Member State or whose claim arises from the operation of the establishment.

The courts of all Member States (other than Denmark) must recognize the judgment of the court opening the main proceedings, which will be given the same effect in the other Member States so long as no secondary proceedings have been opened there. The liquidator appointed by a court in a Member State which has jurisdiction to open main proceedings (because the company's centre of main interests is there) may exercise the powers conferred on him by the law of that Member State in another Member State (such as to remove assets of the company from that other Member State) subject to certain limitations so long as no insolvency proceedings have been opened in that other Member State or any preservation measure taken to the contrary further to a request to open insolvency proceedings in that other Member State where the company has assets.

The Netherlands

Under Dutch law, the obligations of the Issuer and the Guarantors which are incorporated under Dutch law (the Dutch Guarantors) may be affected by (a) the standards of reasonableness and fairness (*maatstaven van redelijkheid en billijkheid*); (b) force majeure (*niet-toerekenbare tekortkoming*) and unforeseen circumstances (*onvoorziene omstandigheden*); and (c) the other general defenses available to debtors under Dutch law in respect of the validity, binding effect and enforceability of the Notes. Other general defenses include claims that a security interest should be avoided because it was entered into through undue influence (*misbruik van omstandigheden*), fraud *(bedrog*), duress (*bedreiging*) or error (*dwaling*). Other impeding factors include dissolution of contract (*ontbinding*) and set-off (*verrekening*).

The validity and enforceability of the obligations of the Issuer and the Dutch Guarantors under the Notes may be successfully contested by a Dutch company (or its administrator (*bewindvoerder*) in suspension of payments or its receiver (*curator*) in bankruptcy) on the basis of an *ultra vires* claim, which will be successful if both (i) the obligations of the company do not fall within the scope of the objects clause as set out in the company's articles of association (*doeloverschrijding*) and (ii) the company's counterparty knew or ought to have known (without inquiry) of this fact. In determining whether a transaction is in furtherance of the objects and purposes of a Dutch company, a court will consider (i) the text of the objects clause in the company's articles of association and (ii) all relevant circumstances including whether the granting of such security interest is in the company's corporate interests (*vennootschappelijk belang*) and to its benefit and whether the company's subsistence is jeopardized by the granting of such security interest. The mere fact that a certain legal act (*rechtshandeling*) is explicitly reflected in a Dutch company's objects clause may not be conclusive evidence that such legal act is not *ultra vires.*

In connection with the removal of the prohibition on financial assistance for Dutch private companies with limited liability as per 1 October 2012, it was mentioned in Dutch Parliament that the granting of security, providing of a guarantee or accepting of liability with a view to the acquisition (or the refinancing thereof) by any party of shares in the company's share capital or the shares of its (direct or indirect) parent company could, depending on the further circumstances, constitute ultra vires. At present, there is no Dutch case law on this subject.

A guarantee granted by a Dutch company and a security interest provided by a Dutch company may be suspended or avoided by the Enterprise Chamber of the Court of Appeal in Amsterdam (*Ondernemingskamer van het Gerechtshof te Amsterdam*) on the motion of the holder or holders of 10% or more of the shares in such company or shares or depositary receipts issued therefor with a nominal value of €225,000 or more or such lesser amount as provided in the company's articles of association. If the company has an issued share capital of at least €22.5 million, such motion may be made by a holder or holders of 1% or more of the shares in such company or, provided those are listed on a qualifying trading venue, shares or depositary receipts issued therefor with a value of €20 million or more or such lesser amount as provided in the company's articles of association. A trade union and other entities entitled thereto in the articles of association of the relevant Dutch company may also submit a motion to the Enterprise Chamber for this purpose. The guarantee or security itself may further be upheld by the Enterprise Chamber, yet actual payment under it may be suspended or avoided.

Under Dutch law, any creditor of the Issuer or a Dutch Guarantor or its receiver (*curator*) may nullify the issuance of the Notes, or any other transaction or legal act entered into by the Issuer or a Dutch Guarantor in connection with the Notes, under certain circumstances, if (i) the issuance of the Notes, any other transaction or legal act entered into by the Issuer or a Dutch Guarantor in connection with the Notes was conducted without prior existing legal obligation to do so (*onverplicht*), (ii) the creditor(s) concerned or, in the case of its/their bankruptcy, any creditor was prejudiced as a consequence of such transactions or legal act (irrespective of whether a creditor's claim arose prior to or after such transactions) and (iii) at the time of the issuance of the Notes, or any other transaction or legal act entered into by the Issuer or a Dutch Guarantor in connection with the Notes was conducted, both the Issuer or the Dutch Guarantors and, unless the transactions were conducted for no consideration (*om niet*), the counterparty knew or should have known that one or more of the entities' creditors (existing or future) would be prejudiced (*actio pauliana*). A receiver (*curator*) may nullify a transaction on behalf of and for the benefit of the joint insolvent debtor's creditors, and the burden of proof of the abovementioned elements of fraudulent conveyance in principle rests on the receiver. Knowledge of prejudice is however presumed by law for certain transactions performed within a "suspect period" of one year prior to an adjudication of bankruptcy. This is applicable for certain transactions only, the most important application being in cases where the obligations of the bankrupt materially exceed those of the other party, the satisfaction of existing obligations of the bankrupt which are not yet due, and acts between the bankrupt and its counterparty when the shares in both are held (indirectly) by the same shareholder or if the bankrupt and its counterparty are part of the same group of companies. The foregoing requirements for invoking fraudulent transfer provisions outside of a bankruptcy apply *mutatis mutandis* when invoking fraudulent transfer provisions during a bankruptcy. In addition, the receiver may challenge a transaction if it was conducted on the basis of a prior existing legal obligation to do so (*verplichte rechtshandeling*), if (i) the transaction was conducted at a time when the counterparty knew that a request for bankruptcy had been filed, or (ii) if such transaction was conducted as a result of deliberation between the debtor and the counterparty with a view to giving preference to the counterparty over the debtor's other creditors. Consequently, the validity of any such transactions conducted by a Dutch legal entity may be challenged and it is possible that such a challenge would be successful.

In the event that any one or more of the Issuer, the Guarantors or any of their subsidiaries experience financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations and the security of the Issuer and the Guarantors.

Insolvency Laws

The Issuer and the Dutch Guarantors are incorporated under Dutch law. Accordingly, where the Issuer and the Dutch Guarantors have their "center of main interests" or an "establishment in the Netherlands", they may be subject to Dutch insolvency proceedings governed by Dutch insolvency laws, subject to certain exceptions as provided for in the EU Insolvency Regulation (no. 1346/2000/EC).

There are two applicable corporate insolvency regimes under Dutch law: (a) suspension of payments (*surseance van betaling*), which is intended to facilitate the reorganization of a debtor's debts and enable the debtor to continue as a going concern, and (b) bankruptcy (*faillissement*), which is primarily designed to liquidate and distribute the debtor's assets to its creditors. Bankruptcy is the most commonly used insolvency regime and may result in the transfer of parts of the company as a going concern. A suspension of payments almost always results in the debtor's bankruptcy. Both insolvency regimes are set forth in the Dutch Bankruptcy Act (*Faillissementswet*).

Only the debtor can make an application for a suspension of payments, and only if it foresees that it will be unable to continue to pay its payable debts. Once the application has been filed, a court will immediately (*dadelijk*) grant a provisional suspension of payments and appoint one or more administrators (*bewindvoerders*). A meeting of creditors is required to decide on the definitive suspension of payments, but it will generally be granted, unless a qualified minority (i.e., more than one-quarter of the amount of claims held by creditors represented at the creditors' meeting or more than one-third of the number of creditors of the amount of claims held by creditors) of the unsecured, non-preferential, creditors declare against it or if there is a valid fear that the debtor will try to prejudice the creditors during a suspension of payments or if there is no prospect that the debtor will be able to satisfy its creditors in the (near) future. A suspension of payments will only affect unsecured, non-preferential creditors.

Under Dutch law, a debtor can be declared bankrupt when it has ceased to pay its debts. Bankruptcy can be requested by a creditor of a claim when there is at least one other creditor. At least one of the claims (of the creditor requesting bankruptcy or the other creditor) needs to be due and payable. The debtor can also request the application of bankruptcy proceedings itself. Furthermore, the Public Prosecution Service (*het Openbaar Ministerie*) can request the application of bankruptcy proceedings for reasons of public interest (*openbaar belang*). In Dutch bankruptcy proceedings, a debtor's assets are generally liquidated and the proceeds distributed to the debtor's creditors according to the relative priority of those creditors' claims and, to the extent certain creditors' claims have equal priority, in proportion to the amount of such claims. Certain parties, such as secured creditors, will benefit from special rights.

Secured creditors, such as pledgees and mortgagees, may enforce their rights separately from suspension of payments or bankruptcy and do not have to contribute to the liquidation costs; however, enforcement of the security interest might be subject to the following: (a) a statutory stay of execution of up to two months extendable by another period of up to two months imposed by court order pursuant to articles 63a of the Dutch Bankruptcy Act (*Faillissementswet*); (b) a receiver (*curator*) can force a secured party to foreclose its security interest within a reasonable time (as determined by the receiver pursuant to Article 58(1) of the Dutch Bankruptcy Act), failing which the receiver will be entitled to sell the relevant rights or assets and distribute the proceeds to the secured party after a deduction of liquidation costs; and (c) excess proceeds of enforcement must be returned to the company's receiver and may not be offset against an unsecured claim of the company's secured creditor.

Unlike Chapter 11 proceedings under U.S. bankruptcy law, where both secured and unsecured creditors are generally barred from seeking to recover on their claims, suspension of payment and bankruptcy proceedings against the Issuer would allow secured creditors (and in case of suspension of payments also preferential creditors (including tax and social security authorities)) to satisfy their claims by proceeding against the assets (that secure their claims) as if there were no bankruptcy or suspension of payments. However, a statutory stay of execution of up to two months, extendable by another period of up to two months, may be declared applicable. Furthermore, certain preferred creditors have a preference by virtue of law. Unlike secured creditors, preferred creditors are not entitled to foreclose on assets of the bankrupt. They do have priority in the distribution of the proceeds of the bankrupt's assets.

Restrictions on the enforcement of security interests may apply. For instance, higher ranking rights must be respected. These may include secured creditors and tax and social security authorities. A statutory stay of execution of security rights and other rights of up to two months, extendable by another period of up to two months, may be imposed. Further, a receiver in bankruptcy can force a secured creditor to enforce its security interest within a reasonable period of time. If such time is not met, the receiver will be entitled to sell the secured assets, if any, and the secured creditor will have a preferred claim in respect of the proceeds, meaning that the secured creditor will have to share in the bankruptcy costs, which may be significant. Excess proceeds of any enforcement must be returned to the bankrupt estate; they may not be set-off against an unsecured claim of the secured creditor. Such set-off may be allowed prior to the bankruptcy, although at that time it may be subject to clawback in the case of fraudulent conveyance or bad faith in obtaining the claim used for set-off.

Any pending executions of judgments against the debtor will be suspended by operation of law when suspension of payments is granted and terminate by operation of law when bankruptcy is declared. In addition, all attachments on the debtor's assets will cease to have effect upon the suspension of payments having become definitive, a composition having been ratified by the court or the declaration of bankruptcy (as the case may be) subject to the ability of the court to set an earlier date for such termination. Litigation pending on the date of the bankruptcy order is automatically stayed.

Both in a definitive suspension of payments and bankruptcy, a composition (*akkoord*) may be offered to creditors. A composition will be binding for all unsecured and non-preferential creditors if it is: (i) approved by a simple majority (*gewone meerderheid*) of the number of creditors represented at the creditors' meeting, representing at least 50% of the amount of the claims that are acknowledged and conditionally admitted, and (ii) subsequently ratified (*gehomologeerd*) by the court. Consequently, Dutch insolvency law could preclude or inhibit the ability of the holders of the Notes to effect a restructuring and could reduce the recovery of a holder of Notes in a Dutch suspension of payments proceeding or bankruptcy. Interest accruing after the date on which a suspension of payments or bankruptcy is granted, cannot be claimed in a composition.

All unsecured, pre-bankruptcy claims will have to be verified in the insolvency proceedings in order to be entitled to vote and, in a bankruptcy liquidation, to be entitled to distributions. "Verification" under Dutch law means, in the case of a suspension of payments, that the treatment of a disputed claim for voting purposes is determined and, in the case of a bankruptcy, the unsecured, pre-bankruptcy claims are submitted to a receiver for verification, and the receiver then makes a determination as to the claim's existence, ranking and value and whether and to what extent it should be admitted in the bankruptcy proceedings (for voting). In the situation of bankruptcy, creditors that wish to dispute the receiver's verification of their claims will be referred to a claim validation proceeding (*renvooiprocedure*) in order to establish the amount and rank of the disputed claim, while in suspension of payments the court will decide how a disputed claim will be treated for voting purposes. These procedures could cause holders of Notes to recover less than the principal amount of their Notes or less than they could recover in a U.S. liquidation proceeding. The *renvooi* proceedings could also cause payments to the holders of Notes to be delayed. Interest on the Notes accruing after the bankruptcy order date cannot be admitted unless secured by a pledge or mortgage, in which case interest will be admitted pro memoria. To the extent that an interest is not covered by the proceeds of the security, the creditor may not derive any rights from the admission. No interest is payable in respect of unsecured claims as of the date of a bankruptcy.

Under Dutch law, it is uncertain as to whether security interests can be granted to a party other than the creditor of the claim which is purported to be secured by such security interests. As a consequence, the Intercreditor Agreement will provide for the creation of parallel debt (Parallel Debt) obligations in favor of the Security Agent mirroring the obligations of the Issuer and the Guarantors towards the holders of the Notes under or in connection with the Indenture (the Principal Obligations). The Dutch law security interests will be granted to the Security Agent as security for the Parallel Debt and will not directly secure the Principal Obligations. The Parallel Debt will be at all times in the same amount and payable at the same time as the Principal Obligations. Any payment in respect of the Principal Obligations shall discharge the corresponding Parallel Debt and any payment in respect of the Parallel Debt shall discharge the corresponding Principal Obligations. In respect of the security interest granted to secure the Parallel Debt, the holders of the Notes will not have direct security and will not be entitled to take enforcement actions in respect of such security except through the Security Agent. As a result, the holders of the Notes bear some risks associated with a possible insolvency or bankruptcy of the Security Agent. In addition, the Parallel Debt concept has not been tested under Dutch law and, to the extent that the security interests in the collateral created to secure the Parallel Debt are successfully challenged by other parties, holders of the Notes will not (directly) receive any proceeds from an enforcement of the security interests in the collateral.

Slovenia

Certain Slovenian companies and insolvency law considerations

The granting of up-stream or cross-stream guarantees and security under Slovenian law is limited.

According to the Slovenian Companies Act (*Zakon o gospodarskih družbah—ZGD-1*—Companies Act), as amended, joint stock companies are prohibited from providing funds to anyone for the purpose of acquiring the companies' shares and from guaranteeing or otherwise securing the repayment of such funds. While the statutory restrictions of financial assistance expressly refer only to joint-stock companies and the acquisition of their shares, it is possible that a court would also apply these rules to the acquisition of shares of a direct or indirect parent of the relevant joint-stock company or for limited liability companies. Given the prohibition on financial assistance, it is not certain if a Slovenian joint-stock company may provide upstream or cross-stream guarantees. In the case of a joint-stock company, where the financial assistance prohibition does not apply, the amount of the guarantee should in any event not exceed whatever amounts the company receives in consideration for providing the guarantee.

Guarantees and other types of security granted by a company for purposes other than the acquisition of its own shares are not covered by the financial assistance rules and instead must be analyzed in light of the capital maintenance provisions of the Companies Act, which apply to limited liability companies and joint-stock companies. Pursuant to these rules, a shareholder is only entitled to participate in a company's distributable profit but has no rights with respect to the company's assets except in the case of the winding-up of the company. Thus, any payment by a company to a shareholder, including any other transfer of economic benefits, that is not profit participation is generally prohibited.

As the grant by a company of a guarantee or other type of security for the benefit of one of its shareholders to secure an obligation of such shareholder towards a third party or to secure the obligation of another company forming part of the same group gives rise to a material benefit to the shareholder, the grant of such guarantee or security is subject to the capital maintenance rules and thus permitted only if certain legal requirements are met.

First, a limited liability company may not pay any portion of its share capital and tied-up reserves to shareholders, either directly or indirectly. This means that the grant of a guarantee or other security by a company for the benefit of a shareholder is permitted only to the extent that the amount covered by the guarantee or security does not endanger the company's share capital and tied-up reserves. To the extent the amount in question does endanger the company's share capital and tied-up reserves, the guarantee or other security is permitted only if the grant of the security is commercially justified based on arm's length principles. This is the case if the benefits to the company outweigh the risks involved and the grant does not affect the company's liquidity, e.g., if adequate security for the potential liability is provided to the company or there are other benefits to the company. Under no circumstances, however, must a company grant a guarantee or other type of security if doing so could reasonably be expected to affect its liquidity or lead to its insolvency (e.g., because the beneficiary of the guarantee has a particularly low degree of creditworthiness)—even if the company receives a monetary equivalent from the shareholder, as in such case the grant of the guarantee or other security is never commercially justified.

If a company grants a guarantee or other type of security to a shareholder in contravention of the capital maintenance rules, the shareholder must pay back the received benefit. If the shareholder was acting *bona fide*, the repayment may only be requested if it is needed for repayment of a company's debt to its creditors. The liable shareholder may not be set free of its repayment obligations. The prescription period for the repayment starts to lapse with the day when the unjustified payment was made.

In addition, any violation of the capital maintenance rules exposes the directors or managers of the Slovenian Guarantor to personal and criminal liability. In addition, the guarantee could itself be held null and void.

Insolvency law

For Slovenian law purposes, insolvency is defined as a situation where a debtor is unable to settle its obligations as they fall due for a certain period of time. Unless proven otherwise, a debtor is deemed insolvent if:

- the debtor is more than two months late in paying one or more of its obligations that together exceed 20% of all of its obligations, as shown in the debtor's latest published annual report; or
- the monies standing to the credit of the debtor's bank account are not sufficient to pay the whole amount enforceable under a writ of execution (*sklep o izvršbi*) or to pay the enforcement draft (*izvršnica*), and such status continues for 60 consecutive days or for more than 60 days within a period of 90 days, and still exists on the day preceding the filing of the bankruptcy petition; or
- the debtor does not have a bank account with a Slovenian bank or in the 60 days following the finality of the writ of execution has not settled its obligations, or
- after the final confirmation of a compulsory settlement or simplified compulsory settlement over the debtor, if the debtor is more than two months late with the payment of its obligations under the (simplified) compulsory settlement or with the payment of obligations towards secured creditors that arose before the (simplified) compulsory settlement proceedings commenced or with any other financial restructuring measures stipulated in the financial restructuring plan; or
- the value of the debtor's obligations exceeds the value of its assets; or
- the debtor's current year loss together with any loss brought forward from previous years is equal to, or greater than, half of its subscribed capital, and that loss cannot be covered by the profit brought forward or reserves.

Further, the debtor is deemed insolvent (and is not allowed to prove otherwise) if it is over three months late in paying its employees their minimum salaries or taxes and contributions that are paid together with salaries, and that delay still exists on the day preceding submission of a petition for the filing of the bankruptcy petition.

Under Slovenian law, the following types of insolvency proceedings may be opened against a company having its center of main interest in Slovenia within the meaning of the EU Insolvency Regulation:

- bankruptcy proceeding (*stečaj*). The opening of these types of proceedings may be requested by the company, any personally liable shareholder of the company, any of its creditors, or the Public Guarantee and Maintenance Fund of the Republic of Slovenia (this fund provides protection of rights of those workers whose employment was terminated due to employer insolvency). During bankruptcy proceedings, the bankrupt company is administered by a bankruptcy administrator.
- compulsory settlement proceeding (*prisilna poravnava*). The opening of these types of proceedings may be requested only by the company or a personally liable shareholder of the company and not by the company's creditors. The purpose of the compulsory settlement procedure is to enable a debtor that became insolvent to financially restructure, providing for its liquidity and solvency, and to

ensure the creditors receive more favorable payment conditions for their claims than in the case of bankruptcy proceedings.

In relation to secondary proceedings within the meaning of the EU Insolvency Regulation, if an entity has an establishment in Slovenia, the only insolvency proceedings that may be opened are bankruptcy proceedings (*stečaj*).

In the event of a liquidation of a Slovenian Guarantor following bankruptcy, the liability of the Slovenian Guarantor in respect to the Notes will only rank after the cost of the liquidation proceedings (including any debt incurred for the purpose of such liquidation) and any debts of the relevant entity that enjoy a more senior or preferential status under the Slovenian law. Preferential debts may include, among others:

- remuneration owed to employees for the last three months preceding the insolvency proceeding,
- compensation (damages) for work related accidents and occupational diseases,
- redundancy payments for workers dismissed prior to the commencement of insolvency proceedings,
- taxes and social security contributions related to the remuneration (for the period of the last three months) and redundancy payments as well as social security contributions for a period of one year prior to the opening of the insolvency proceeding.

Assets over which a security interest has been granted will, in principle, not be available for distribution to unsecured and un-preferred creditors, unless a surplus is realized.

Certain legal actions of a debtor in an insolvency procedure can be challenged in court if they were concluded or carried out during the twelve-month-period prior to the submission of a petition for beginning of the insolvency procedure.

A legal action of an insolvent debtor may be challenged if such action results in either a decrease in the net value of assets of the debtor, so that the pool of assets available to other creditors is reduced, or a person for the benefit of whom the act has been executed, having obtained more favorable payment conditions for a claim against the debtor in bankruptcy, and a person for the benefit of which the act was executed, at the time when such act was executed, was aware of, or should have been aware of, the fact that the debtor was insolvent.

If the other person did not provide any exchange (consideration) or if the value of such exchange was small, such legal action can be challenged if it was concluded during a period of 36 months prior to the filing of the motion for the commencement of insolvency proceedings and even if the other person was not aware of or did not need to be aware of the fact that the debtor was insolvent.

In general, the opening of insolvency proceedings by a Slovenian court does not result in the automatic termination of contracts; however the insolvency administrator may choose to terminate certain contracts as to avoid the worsening of the financial condition of the company. Any power of attorney terminates upon initiation of bankruptcy proceedings.

Insolvency proceedings may therefore have a material adverse effect on the relevant Slovenian Guarantor's business and assets and the Slovenian Guarantor's respective obligations with respect to the notes.

Certain Slovenian collateral law considerations

According to the Slovenian Private International Law and Procedure Act, Slovenian courts will apply the *lex rei sitae*, which is the law of the place where the assets or subject matter of the pledge or security interest are situated.

Therefore, the creation, perfection and enforcement of security interests over assets such as registered shares in Slovenian companies, tangible assets located in Slovenia, receivables/claims governed by Slovenian law and having debtors located in Slovenia, bank accounts held in Slovenia, etc. will be subject to Slovenian law.

Under Slovenian law, it is uncertain as to whether security interests can be granted to a party other than the creditor of the claim that is purported to be secured by such security interests. As a consequence, the Intercreditor Agreement will provide for the creation of parallel debt (Parallel Debt) obligations in favor of the Security Agent mirroring the obligations of the Issuer and the Guarantors towards the holders of the Notes under or in connection with the Indenture (the Principal Obligations). The Slovenian law security interests will be granted to the Security Agent as security for the Parallel Debt and will not directly secure the Principal Obligations. The Parallel Debt will be at all times in the same amount and payable at the same time as the Principal Obligations. Any payment in respect of the Principal Obligations shall discharge the corresponding Parallel Debt and any payment in respect of the Parallel Debt shall discharge the corresponding Principal Obligations. In respect of the security interest granted to secure the Parallel Debt, the holders of the Notes will not have direct security and will not be entitled to take enforcement actions in respect of such security except through the Security Agent.

In addition, the Parallel Debt construct has not been tested under Slovenian law and, to the extent that the security interests in the collateral created to secure the Parallel Debt are successfully challenged by other parties, holders of the Notes will not (directly) receive any proceeds from an enforcement of the security interests in the collateral.

Enforcement proceedings

Under Slovenian law, depending on the type of security certain perfection requirements must be satisfied in order for a security to become enforceable against third parties. If these perfection requirements are not satisfied a holder of security interest may experience difficulties enforcing its rights with respect to the collateral against third parties, including administrators in insolvency proceedings or other creditors that claim a security interest in the same collateral.

- In the case of a pledge over the shares of a limited liability company, the agreement must be drawn up in the form of a notarial deed and registration of the security interest in the court register of the relevant Slovenian company is required. If a secured claim is not settled at maturity, the shares may be sold through (i) a court enforced sale or (ii) an out-of-court sale. If the security agreement is concluded between commercial entities, it is presumed that the parties agreed on an out-of-court sale; in all other cases, the parties must conclude an agreement on an out-of-court sale in writing.
- In case of a pledge over the shares of a joint stock company, the security interest must be entered in the central register maintained by the KDD (Slovene Central Securities Clearing Corporation).
- In case of a security over receivables, the pledgor must notify the debtor of the pledged receivable. Upon receipt of the notification, the debtor of the pledged receivable may only validly pay to the pledgee and the pledgee is not required to initiate a procedure against the pledger, but can demand and enforce the payment directly against the debtor of the pledged receivable. In case of a pecuniary claim, the creditor must, at the request of the pledger, deposit the collected amount with the court.

Court enforcement proceedings are regulated by the Slovenian Enforcement and Securing of Civil Claims Act (*Zakon o izvršbi in zavarovanju—ZIZ*—Enforcement Act). According to the Enforcement Act, enforcement procedures may be commenced only upon obtaining a valid enforcement title which may be in the form of either (i) an enforceable court decision, (ii) a court settlement, (iii) an enforceable notarial deed, or (iv) another enforceable decision or instrument that is an enforceable title according to the law, a ratified and published international treaty or a legal act of the European Union that is directly applicable in the Republic of Slovenia. Therefore, if an agreement is drawn up in the form of a directly enforceable notarial deed (with all documents and attachments in certified Slovenian translations), the enforcement procedure may be commenced without any further litigation.

The enforcement procedure starts with the creditor filing a proposal for enforcement. In this proposal, the creditor must provide information about the legal title upon which the enforcement is based, the debtor's obligation, the enforcement measure or the relevant debtor's assets that are targeted by the procedure (objects of enforcement). There is no deadline for the court to decide on the enforcement proposal. In practice, in most cases the court reaches a decision within about two weeks. As long as there is a valid enforcement title, courts will generally grant the enforcement. The debtor and any third party with a right to the object of enforcement that prevents enforcement may file an objection against a decision granting enforcement.

Any costs associated with an enforcement procedure (court fees, bailiff fees, etc.) are initially borne by the person filing a proposal for enforcement, however, after the sale of a security interest, any distribution proceeds are first used to reimburse the costs and expenses of the enforcement procedure.

The Enforcement Act regulates in detail the enforcement procedures with respect to different types of assets (e.g., enforcement over real-estate, receivables, movables and similar) as well as the procedures with respect to different types of claims (e.g., monetary claims, claims regarding the handing over of a real-estate or movables and similar).

The means of enforcement of monetary claims under the Enforcement Act are:

- enforcement by seizing movables, appraisal of their value, sale of the movables and repayment of a creditor from the money acquired through the sale of the movables;
- enforcement by seizing a monetary claim of a debtor and transferring the monetary claim to a creditor;
- enforcement by blocking a debtor's assets on bank accounts and transferring the blocked assets to a creditor after the required conditions are met;
- enforcement by seizing a debtor's claim to have certain (im)movables handed over to it, transferring this claim to the creditor and sale of the object;
- enforcement by seizing and monetizing other assets or material rights of a debtor (e.g., a patent, right to usage and similar);
- enforcement over securities; and
- enforcement over real estate with a registration of the enforcement into the real estate register, appraisal of the value of the real estate, sale of the real estate and repayment of a creditor from the money acquired through the sale of the real estate.

Serbia

Serbian company and foreign exchange law related considerations

According to the Serbian Companies Act, neither limited liability companies nor joint stock companies may provide funds for the acquisition of their own shares or provide security for the repayment of such funds. The company may not, directly or indirectly, provide financial support of any kind to its shareholders, employees or third parties for acquisition of shares in the company, and in particular may not grant loans, guarantees, sureties, security instruments and similar benefits. A legal transaction contrary to this regulation is null and void.

According to the Serbian Companies Act, in case of insolvency (*stečaj*), claims arising from shareholder loans, to the extent they are not secured, are subordinated to the claims of all other creditors. *Ex lege* subordination contemplated in Article 181 of the Serbian Companies Act extends not only to the loans granted by direct shareholders but also to the loans granted by affiliates of direct shareholders.

According to the Serbian Law on Foreign Exchange Operations, a Serbian company may not provide a guarantee or security in respect of the obligations of a non-Serbian borrower, unless that non-Serbian borrower is directly majority owned by the Serbian guarantor and provided that certain requirements are met, including registration and the guarantor receiving some form of collateral for the guarantee.

Insolvency law

Under the Serbian Insolvency Law, insolvency proceedings can (but do not have to) be opened if at least one of the following conditions is met:

- Actual insolvency. The debtor is unable to pay its debts within 45 days of the date they become due or has completely ceased all payments for a consecutive period of 30 days; permanent insolvency is presumed if the petition for the opening of insolvency procedures was filed by a creditor who was unable to obtain satisfaction of his monetary claims by any of the means of enforcement in a judicial or tax enforcement proceeding conducted in the Republic of Serbia.
- Pending insolvency. It is apparent that the debtor will not be able to pay its debts as they become due.
- Over-indebtedness. The liabilities of the debtor exceed its assets.
- Failure to comply with the adopted reorganization plan or if the reorganization plan was put into effect in a fraudulent or unlawful manner.

The opening of insolvency proceedings (*stečaj*) may be requested by any of the debtor's creditors, the debtor itself or the insolvency administrator. During the insolvency proceedings, the estate (assets) of a company, including the funds for the company's debts, is administered by the insolvency administrator.

The insolvency proceedings may be conducted as bankruptcy proceedings or as reorganization proceedings. In bankruptcy proceedings, creditors are satisfied through the sale of the debtor's assets, or the sale of the debtor as a legal entity. In reorganization proceedings, creditors are satisfied by redefining relations between the debtor and the creditor or in another manner provided for in the plan.

The claims are satisfied in the following order:

- expenses associated with the insolvency proceedings, which are settled from the insolvency estate as a matter of priority;
- the costs of the insolvency estate;
- the claims of insolvency creditors, which are satisfied according to their rank

Insolvency claims are ranked as follows:

- First-ranking claims comprise (i) unpaid net salaries of employees and former employees in the amount of the yearly minimum wage for the year prior to the opening of insolvency together with interest from the due date to the date of the opening of insolvency and (ii) unpaid contributions for pension and disability insurance for two years prior to the opening of insolvency as well as (iii) claims arising from contracts with companies the subject of which are unpaid contributions for pension and disability insurances for two years before the opening of insolvency;
- Second ranking claims comprise all public revenue claims that have become due over the last three months prior to the opening of insolvency, except pension and disability insurance contributions for employees;
- Third ranking claims comprise claims of other insolvency creditors.

Claims of creditors which, prior to the opening of insolvency proceedings, have agreed that their claims will be settled only after the full settlement of claims of one or more creditors, will be settled only after settlement in full of the third ranking claims with accompanying interest(s).

Assets over which security interests have been granted are generally not available for distribution to unsecured and non-preferred creditors, unless a surplus is realized from the sale of such assets, provided that such security interests were created at least 60 days prior to the opening of insolvency proceedings.

Legal transactions and other actions entered into or taken before the opening of the insolvency proceedings that interfere with the principle of the equal settlement of insolvency creditors or are damaging the creditors, as well as transactions and actions putting some creditors in a more favorable position over the others ("favoring creditors") may be contested by the insolvency administrator:

- Any action taken within six months before the filing of a petition aimed at initiating insolvency proceedings with respect to a debtor may be contested if the debtor was insolvent at the time of the transaction, and the creditor knew or should have known of its insolvency.
- Any action benefiting one creditor which he was not entitled to request, or was entitled to request but not in the manner and at the time when it was provided, may be contested if it was carried out within twelve months before filing the petition to open insolvency.

Any action directly damaging the debtor's creditors may be contested if:

- it was entered into within six months before filing for insolvency, if the insolvency debtor was insolvent at the time and the counterpart knew of its insolvency;
- the transaction was concluded after the filing of the petition aimed at initiating insolvency proceedings, if the insolvency debtor's counterpart knew or should have known that the insolvency debtor was insolvent or that the filing for the opening the insolvency had been made;
- the debtor's action results in a waiver of some of its rights or if the failure of the debtor to act results in the inability to exercise that right and the action was taken or failed to have been taken within the last six months before the filing of the petition to open the insolvency proceeding.

Any action, entered into or taken within five years before the filing of the petition for initiating insolvency proceedings or after that, with the intent to damage one or more creditors, may be contested if the insolvent debtor's counterpart knew of the insolvent debtor's intent. Knowledge of the debtor's intent is presumed if the insolvent debtor's counterpart knew that there was a threat of the insolvent debtor's insolvency and that the action would damage the insolvency creditors.

The opening of insolvency proceedings by a Serbian court has certain consequences. For example, insolvency creditors may satisfy their claims against the debtor only through insolvency proceedings. Undue claims shall be deemed to become due as of the date of opening of the insolvency. All judicial proceedings against the insolvent debtor and its assets and all administrative proceedings initiated at the request of the insolvent debtor and the administrative and tax proceedings with respect to establishing the pecuniary obligations of the insolvent debtor are suspended and are resumed only after the fulfillment of certain conditions. No enforcement proceedings may be conducted against the debtor or its assets for the purpose of settling the claims, except for the enforcement of liabilities of the insolvency estate and expenses of the insolvency proceeding. The initiation of insolvency proceedings does not result in the automatic termination of contracts; but the insolvency administrator may choose to terminate certain contracts to avoid the worsening of the financial condition of the company.

Enforcement procedures in relation to (share) pledges

The enforcement procedure is initiated by the pledgee upon a continuing "*enforcement event*", i.e., a failure of the debtor to fulfill the underlying obligation, in accordance with the pledge agreement. The enforcement proceedings may be commenced in court or out of court (in accordance with the terms and conditions imposed by the law) and in both cases the sale could be performed through a public auction or through direct sale at the market price. The enforcement title is the relevant excerpt from the competent Pledge Registry.

Bosnia and Herzegovina

Telemach BH is a company organized in the Federation of Bosnia and Herzegovina ("FBiH"), which is an entity of Bosnia and Herzegovina. Accordingly, the following discussion is limited to the relevant laws and regulations applicable in FBiH.

Pursuant to the Law on Foreign Currency Dealings of FBiH, there are no legal obstacles that would prevent companies from providing cross-border guarantees or other types of security. However, any such guarantee or other security must be registered with the Ministry of Finance of FBiH. The registration must be made within 15 days from the decision on the issuance of the guarantee by the company's governing body if the underlying transaction is concluded between two non-resident entities, or within 15 days from the execution of the underlying transaction documents if concluded between a resident and a non-resident entity.

If the underlying transaction is concluded between two non-residents, periodic reports on the status of the guarantee must be provided to the Ministry of Finance of FBiH.

In addition, any company based in FBiH that issues a guarantee to a non-resident must obtain a security instrument that hedges the counterparty risk inherent in the guarantee. The Law on Foreign Currency Dealings of FBiH does not contain any further details regarding this hedge, including what type of hedge should be obtained.

Limitation on issuance of guarantees for acquisition

According to the Law on Business Companies of FBiH, a joint stock company is prohibited from providing guarantees for loans that will be used for the acquisition of its own shares. This provision directly relates only to joint stock companies; however, the law also states that the provision equally applies to limited liability companies, except where a matter is expressly regulated differently. Accordingly, legal scholars take the position that the above-mentioned financial assistance rules also apply to limited liability companies.

The scope of this prohibition of financial assistance is not entirely clear when it comes to its application to a company's indirect shareholders or to the acquisition of shares of one of the company's shareholder. While it is unlikely that the prohibition would be extended in this manner, there is limited precedent for this type of transaction, and therefore a risk remains that courts could take a different position and would follow a more extensive interpretation. To avoid this risk, it is advisable to include appropriate limitation language in any such guarantee, i.e., language in order to clarify that a guarantee will not be used as a guarantee for any sort of acquisition of shares in the guarantor.

Other noteworthy procedural points regarding guarantees/securities

Depending on the type of guarantee or security, there may be additional formal requirements. In the case of mortgages, e.g., the agreement must be executed in the form of a notary deed before a local notary, in the local language and governed by the laws of Bosnia and Herzegovina, and the mortgage must be registered with the competent land book in order to be effective. To secure priority for a pledge, a registration with the Pledges Registry, which is maintained by the Ministry of Justice of Bosnia and Herzegovina, should be performed and the pledge agreement must be executed in written form. Furthermore, it is possible to create a pledge over all of a company's current and future movable (tangible and non-tangible) assets, provided that the subject of pledge is at least determinable.

In addition, it should be noted that the Parallel Debt concept has not been extensively tested under the laws of Bosnia and Herzegovina, therefore any rights arising from such concept may be subject to different interpretations by the competent courts.

Enforcement proceedings

Enforcement proceedings are regulated by the Enforcement Proceedings Act and are defined as the procedure pursuant to which the courts enforce claims based on enforceable deeds, most commonly for the purpose of debt settlement on behalf of creditors holding the same, by monetizing the debtor's assets up to the amount proven to be adequate by the creditor.

According to the Law on Enforcement Proceedings, enforcement procedures over property in Bosnia and Herzegovina may be commenced only upon obtaining a valid enforcement title which may be in the form of either (i) an enforceable deed or (ii) an authentic deed.

The following documents are recognized by the Enforcement Proceedings Act as valid enforceable deeds, provided they were issued in Bosnia and Herzegovina:

- enforceable court decisions;
- enforceable court settlements;
- enforceable administrative decisions for monetary obligations;
- enforceable administrative settlements for monetary obligations;
- enforceable notarial deeds; and
- other documents defined by the law as enforceable deeds.

The following documents are recognized by the Enforcement Proceedings Act as valid authentic deeds:

- bills of exchange with protest;
- cheques with protest and reverse account; and
- utility invoices and records from the account of such utilities.

The Enforcement Proceedings Act regulates in detail the procedures for enforcement with respect to different types of assets (e.g., enforcement over real estate, receivables, movables and similar) as well as enforcement with respect to different types of claims (e.g., monetary claims, claims regarding handing over of real-estate or movables and similar).

Overview of the procedure

The procedure starts with a creditor filing an enforcement motion or the court starting the procedure on its own initiative. The enforcement motion must include information about the enforcement title and the relevant debtor's assets that are targeted by the procedure. Upon filing the enforcement motion the court has eight days to decide on the motion. If the court chooses to recognizes the enforcement creditor's motion, the court issues an official decision (which may be issued either in the form of a separate document or by issuing a stamp on the enforcement motion with the relevant prescribed elements). The court's enforcement resolution may be appealed in certain circumstances enumerated in the law. The enforcement creditor and the enforcement debtor may object to the court's decision within 15 days from its receipt. If one of the parties files an objection, the other party has three days to submit its response. Upon receipt of the response or the expiration of the three-day-period without a response being submitted, the court may decide on the matter or schedule a hearing. The court decides whether the objection is granted or denied or whether it is refused as untimely, incomplete or inadmissible. If the court accepts the objection it dismisses the enforcement completely or partially and revokes the enforcement actions that have previously been conducted.

The enforcement proceedings are designed to be efficient. As a result,

- a failure by one or both parties to attend a hearing does not influence the proceedings;
- if a debtor evades the receipt of procedural documents or submissions, the court is entitled to display the relevant documents on the notice board of the court building and consider them delivered upon the expiry of the relevant deadline;
- objections and appeals do not suspend the enforcement proceedings, however, the settlement of debt, if pending, is postponed until the court decides on it. However, there is an exception in case of enforcement titles over the debtor's monetary proceeds i.e. enforcement over the transaction accounts of the debtor, that are not affected by objection or appeal; and
- no legal remedies exist against conclusions that are adopted by the court as procedural decisions aiming to provide more information to the deciding judge.

Costs of the procedure

According to the Enforcement Proceedings Act, a creditor who applies for enforcement must pay the estimated costs required for the enforcement proceedings in advance and do so within a certain period determined by the court. The court must dismiss the enforcement proceedings if the costs are not paid within that period. If an enforcement act depends on the costs being paid in advance and the payment is not made before that date, the relevant enforcement act may not be carried out. If enforcement proceedings are initiated by the court on its own initiative, the costs must be paid in advance out of the court funds. The enforcement debtor must compensate the creditor for the costs incurred by it that are necessary to carry out the enforcement and the enforcement creditor must compensate the debtor for any costs it has caused unnecessarily.

Enforcement procedures in relation to pledges

The enforcement procedure is initiated by the pledgee upon a breach of the pledge agreement by the pledgor. The pledgee must present the pledge contract and the certificate of registration to the competent court. The certificate of registration is the enforcement title, provided that the contents of the registration fully correspond to the contents of the pledge agreement. Upon filing the enforcement motion the court has eight days to decide on the motion. In its enforcement motion the creditor must request either that the judicial executor deducts the security and allows its sale by the pledgee or that the judicial executor seizes the security from the debtor and sells it. If the creditor submits a motion proposing the latter, the judicial executor is required to seize and sell the guarantee within eight days from the issuance of the court's decision.

Certain insolvency law considerations

The Law on Insolvency Proceedings defines insolvency proceedings as proceedings conducted for the purpose of collectively settling all of a debtor's obligations by monetizing the debtor's assets and distributing the proceeds among the creditors. There are two main reasons for initiating insolvency proceedings—insolvency and threatened insolvency. In general, a debtor is insolvent if it is unable to settle its due obligations for a period of 30 consecutive days.

Insolvency proceedings are initiated upon the written petition of an authorized person. Authorized persons include the debtor and all creditors who have a legally recognized interest in the conduct of the proceedings. The creditor is required to demonstrate, by attaching appropriate documentation, that its claim and the inability of the debtor to make payments is probable. Only the insolvency debtor is entitled to initiate insolvency proceedings due to threatened insolvency.

Insolvency proceedings are generally conducted in two phases, a preliminary phase and the insolvency proceedings themselves. The preliminary procedure is conducted by the insolvency court, which can also appoint an interim insolvency trustee. The main purpose of the preliminary procedure is to determine whether the conditions for opening insolvency proceedings are satisfied, i.e., the insolvency of the debtor, whether there is a sufficient basis for the petition, whether there are sufficient funds to cover the costs of the insolvency proceedings and whether the current operations can be maintained. The insolvency proceedings, once opened, are conducted by the insolvency trustee appointed by the court and insolvency judge. An alternative to these two-step proceedings is the direct bankruptcy, in case the valid decision on enforcement issued by a court has not been implemented for a period of 60 days.

The main effect of the opening of insolvency proceedings is the termination of court and arbitral proceedings that relate to the insolvency estate, and the proportional payment of creditors upon realization of the assets, in accordance with their payment rank. Creditors with a separate satisfaction right (mortgagees, pledgees, creditors to which the debtor transferred rights as security, creditors with retention rights) have payment priority in insolvency proceedings, and have the right for separate settlement from the object of the separate satisfaction right.

In addition, the opening of insolvency proceedings has the following effects, among others:

- The debtor's right (and the right of its boards, authorized clerks, representatives and powers of attorney) to administer and dispose of the property that belongs to the insolvency is transferred to the insolvency trustee,
- The disposal of assets of the insolvency estate by the insolvency debtor has no legal effect, except in the case of disposals to which general rules of legitimate expectations on land registers or other appropriate public registers apply.
- If the debtor is in a legal relationship with a third party (e.g., a co-ownership, joint ownership or partnership), the dissolution of the legal entity is accomplished outside of the insolvency proceedings.
- Rights on property that is part of the insolvency estate cannot be legally obtained even if such rights are not based on disposals by the debtor or an execution or a lien for the benefit of an creditor.

In regard to the guarantees, there may be restrictions in light of solvency rules, i.e., certain guarantees issued within a certain period preceding the opening of the insolvency proceedings may be challenged if they can be considered as unusual security or settlement, as follows:

- guarantees given six months prior to the submission of the motion for the opening of the insolvency proceedings, if at that time the debtor was insolvent or the creditor knew of such insolvency or acted with gross negligence,
- guarantees given after the submission of the motion for the opening of the insolvency proceedings if the creditor knew of the debtor's insolvency or the motion for the opening of the insolvency proceedings at the time or did not know due to gross negligence,
- guarantees given in the last month preceding the motion for the opening of the insolvency proceedings or after the submission thereof, and
- guarantees given during the third or the second month preceding the submission of the motion for the opening of the insolvency proceedings if the debtor was insolvent at such time.

If the creditor is a related party, the awareness of the debtor's insolvency is assumed. In addition, with respect to loans granted by shareholders, the Law on Insolvency Procedures provides that claims that relate to the repayment of loans that were extended for the purpose of replacing capital or any equivalent claims are subordinated to all other claims during the insolvency proceedings. Capital-replacing loans are defined as loans that are granted at a critical time for the company, when the company's shareholders could reasonably be expected to contribute their own money to the company, rather than grant loans. This also includes other legally binding transactions that are economically equivalent to the granting of a loan.

Additionally, it states that a legally binding transaction granting security for the claim of a company's shareholder for repayment of a loan that replaces capital, or for some other similar claim, is voidable if the transaction took place out in the five years immediately preceding the opening of insolvency proceedings or after the petition.

A legally binding transaction that has satisfied the claim of a company's shareholder for repayment of a loan shall be voidable if the transaction took place during the year immediately preceding the opening of proceedings or after the petition. Please note that the law does not further specify which claims would be considered equivalent except as it mentioned that such claims are claims that from economical perspective are equivalent to the loans. In practice, this is often considered to be a shareholder loan, however, it is also unclear whether the loans which fall under this provision are only those given by the direct shareholder or also include shareholders by indirect shareholders. However, the courts' practice in this regard is not well-established. In addition, it is unclear what would be considered as a critical time for the company.

Luxembourg

Luxembourg insolvency considerations

Pursuant to Luxembourg insolvency laws, your ability to receive payment under the Notes may be more limited than would be the case under U.S. bankruptcy laws. Under Luxembourg law, the following types of proceedings (together referred to as insolvency proceedings) may be initiated against a company incorporated in Luxembourg having its center of main interests (within the meaning of the E.U. Insolvency Regulation) or an establishment in Luxembourg (in the latter case assuming that the centre of main interests is located in a jurisdiction where the E.U. Insolvency Regulation is applicable):

- bankruptcy proceedings ("*faillite*"), the opening of which may be requested by the company, by any of its creditors or by the courts *ex officio*. Following such a request, the Luxembourg courts having jurisdiction may open bankruptcy proceedings if a Luxembourg company: (i) is in a state of cessation of payments ("*cessation des paiements*") and (ii) has lost its commercial creditworthiness ("*ébranlement de crédit*"). The main effect of such proceedings is the sale of the assets and allocation of the proceeds of such sale between creditors taking into account their rank of privilege, as well as the suspension of all measures of enforcement against the company, except, subject to certain limited exceptions, for enforcement by secured creditors and the payment of the secured creditors in accordance with their rank upon realization of the assets. In addition, the managers or directors of a Luxembourg company that ceases its payments (i.e. is unable to pay its debts as they fall due with normal means of payment) must within a month of them having become aware of the company's cessation of payments, file a petition for bankruptcy (*faillite*) with the court clerk of the district court of the company's registered office. If the managers or directors fail to comply with such provision they may be held (i) liable towards the company or any third parties on the basis of principles of managers' / directors' liability for any loss suffered and (ii) criminally liable for simple bankruptcy (*banqueroute simple*) in accordance with article 574 of the Luxembourg commercial code.
- controlled management proceedings ("*gestion contrôlée*"), the opening of which may only be requested by the company and not by its creditors and under which a Luxembourg court may order the provisional stay of enforcement of claims except for secured creditors (please see the below applicable provision of the Luxembourg law dated August 5, 2005 concerning financial collateral arrangements, as amended (the "Financial Collateral Law 2005"); or
- composition proceedings ("*concordat préventif de faillite*"), the opening of which may only be requested by the company (subject to obtaining the consent of the majority of its creditors) and not by its creditors directly. The Luxembourg court's decision to admit a company to composition proceedings triggers a provisional stay on enforcement of claims by creditors except for secured creditors (please see the below applicable provisions of the Financial Collateral Law 2005).
- In addition to these proceedings, your ability to receive payment on the Notes may be affected by a decision of a Luxembourg court to grant a stay on payments ("*sursis de paiement*") or to put a Luxembourg company into judicial liquidation ("*liquidation judiciaire*"). Judicial liquidation proceedings may be opened at the request of the public prosecutor against companies pursuing an activity violating criminal laws or that are in serious breach or violation of the Luxembourg commercial code or of the Luxembourg law of August 10, 1915 on commercial companies, as amended (the "Law 1915"). The management of such liquidation proceedings will generally follow similar rules as those applicable to Luxembourg bankruptcy proceedings.

Liability of any of the Luxembourg Guarantors in respect of the relevant Notes will, in the event of a liquidation of the company following bankruptcy or judicial liquidation proceedings, only rank after the cost of liquidation (including any debt incurred for the purpose of such liquidation) and any claims that are preferred under Luxembourg law. Preferential claims under Luxembourg law include, among others:

- remuneration owed to employees (last six months' wages amounting to a maximum of six times the minimum social salary);

- employees' contributions to social security;
- certain amounts owed to the Luxembourg Revenue;
- employer's contribution to social security;
- landlord, pledgor not under the Financial Collateral Law 2005; and
- value-added tax and other taxes and duties owed to Luxembourg Customs and Excise.

Assets over which a security interest has been granted will in principle not be available for distribution to unsecured and unpreferred creditors (except after enforcement and to the extent a surplus is realized).

Favorable rules apply in relation to security interests of claims or financial instruments securing monetary claims (or claims for the delivery of financial instruments) pursuant to the Financial Collateral Law 2005. Article 20 of the Financial Collateral Law 2005 provides that Luxembourg law financial collateral arrangements (pledges, security assignments and repo agreements) over claims and financial instruments, as well as valuation and enforcement measures agreed upon by the parties are valid and enforceable even if entered into during the pre-bankruptcy preference period (*période suspecte*) against third parties, commissioners, receivers, liquidators and other similar persons notwithstanding the insolvency proceedings (save in the case of fraud).

Article 24 of the Financial Collateral Law 2005 provides that foreign law security interests over claims or financial instruments granted by a Luxembourg pledgor will be valid and enforceable as a matter of Luxembourg law notwithstanding any Luxembourg insolvency proceedings, if such foreign law security interests are similar in nature to a Luxembourg security interest falling within the scope of the Financial Collateral Law 2005. If article 24 applies, Luxembourg preference period rules are disapplied (save the case of fraud).

Article 21(2) of the Financial Collateral Law 2005 provides that where a financial collateral arrangement has been entered into after the opening of liquidation proceedings or the coming into force of reorganization measures or the entry into force of such measures, such arrangement is enforceable against third parties, administrators, insolvency receivers, liquidators and other similar persons if the collateral taker proves that it was unaware of the fact that such proceedings had been opened or that such measures had been taken or that it could not reasonably be aware of such proceedings, measures or arrangement.

Impact of Luxembourg insolvency proceedings on transactions

During such insolvency proceedings, all enforcement measures by unsecured creditors are suspended. Other than as described above, the ability of certain secured creditors to enforce their security interest may also be limited, in particular in the event of controlled management proceedings expressly providing that the rights of secured creditors are frozen until a final decision has been taken by a Luxembourg court as to the petition for controlled management, and may be affected thereafter by a reorganization order given by the court. A reorganization order requires the prior approval by more than 50% of the creditors representing more than 50% of any of the relevant Luxembourg Guarantor's liabilities in order to take effect.

Furthermore, you should note that declarations of default and subsequent acceleration (such as acceleration upon the occurrence of an event of default) may not be enforceable during controlled management proceedings. However, during such controlled management proceedings a notice of default may still be served.

Luxembourg insolvency laws may also affect transactions entered into or payments made by any of the relevant Luxembourg Guarantors during the preference period (*période suspecte*) which is a maximum of six months plus ten days preceding the judgment declaring bankruptcy, except that in certain specific situations the court may set the start of the suspect period at an earlier date. In particular:

- pursuant to article 445 of the Luxembourg code of commerce (*Code de Commerce*), specified transactions (such as, in particular, the granting of a security interest for antecedent debts save in respect of financial collateral arrangements within the meaning of the Financial Collateral Law 2005; payment of debts which have not fallen due, whether payment is made in cash or by way of assignment, sale, set-off or by any other means; the payment of debts which have fallen due by any means other than in cash or by bill of exchange; the sale of assets without consideration or with substantially inadequate consideration) entered into during the preference period (or the ten days preceding it) must be set aside or declared null and void, if so requested by the insolvency receiver;

- pursuant to article 446 of the Luxembourg code of commerce, payments made for matured debts as well as other transactions concluded for consideration during the preference period are subject to cancellation by the court upon proceedings instituted by the insolvency receiver if they were concluded with the knowledge of the bankrupt party's cessation of payments; and
- pursuant to article 448 of the Luxembourg code of commerce and article 1167 of the Luxembourg civil code (*action paulienne*), the insolvency receiver (acting on behalf of the creditors) has the right to challenge any fraudulent payments and transactions, including the granting of security with an intent to defraud, made prior to the bankruptcy, without any time limit.

In principle, a bankruptcy order rendered by a Luxembourg court does not result in the automatic termination of contracts except for employment agreements and powers of attorney. The contracts, therefore, subsist after the bankruptcy order. However, the bankruptcy receiver may choose to terminate certain contracts so as to avoid worsening the financial situation of the company. As of the date of adjudication of bankruptcy, no interest on any unsecured claim will accrue vis-à-vis the bankruptcy estate. Insolvency proceedings may hence have a material adverse effect on any of the relevant Luxembourg Guarantors' business and assets and the Luxembourg Guarantors' respective obligations under the Notes.

Finally, international aspects of Luxembourg bankruptcy, controlled management or composition proceedings may be subject to the E.U. Insolvency Regulation. In particular, rights in rem over assets located in another jurisdiction where the E.U. Insolvency Regulation will not be affected by the opening of insolvency proceedings, without prejudice however to the applicability of rules relating to the voidness, voidability or unenforceability of legal acts detrimental to all the creditors (subject to the application of article 24 of the Financial Collateral Law 2005 as described above and article 13 of the E.U. Insolvency Regulation).

Luxembourg law collateral considerations

Under Luxembourg law, contracts are in principle formed by the mere agreement (*consentement*) between the parties thereto. However, additional steps are required to enforce security interests against third parties.

If there are assets located or deemed to be located in Luxembourg, the security interests over such assets will be governed by Luxembourg law and must be created, perfected and enforced in accordance with Luxembourg law. The Financial Collateral Law 2005 governs the creation, validity, perfection and enforcement of pledges over securities, bank account balances and receivables located or deemed to be located in Luxembourg.

Security interests such as pledges, and transfer of ownership as a security, granted on financial instruments and claims are governed by the Financial Collateral Law 2005. Pursuant to such law, pledge is effected, not by transfer of title, but by a transfer of possession of the pledged assets to the pledgor or to a third party acting as depository for the pledgor and the pledgor's preference rights over the pledged assets only remain in existence as long as the pledgor or the depository remains in possession of such assets.

A physical transfer of possession not being possible for intangibles such as monetary claims, the Financial Collateral Law 2005 provides for a fictitious transfer of possession which is effected by mechanisms which depend on the nature of the intangibles involved. In case of registered shares, the dispossession is achieved by the entry of the security interest in the share register of the relevant Luxembourg company and/or notification to the issuer. In case of claims, dispossession is effected as against the debtor and any third parties by the execution of the relevant pledge agreement. Nonetheless, the debtor of a pledged claim may validly discharge its obligation by performance rendered to the pledgor as long as it has no knowledge of the pledge. Dispossession of cash collateral is achieved by the security interest thereon being notified by the debtor and the acceptance thereof by the debtor of such claims.

Absent perfection, the holder of the security interest may have difficulty enforcing his/its rights in the collateral with regard to third parties, including a trustee in bankruptcy and other creditors who claim a security interest in the same collateral. Finally, since the ranking of pledges is determined by the date on which they became enforceable against third parties, a security interest created on a later date over the same collateral, but which come into force for third parties earlier (by way of registration in the appropriate register or by notification) has priority.

Luxembourg guarantee considerations

The Luxembourg law of August 10, 1915 on commercial companies, as amended (the "Law 1915") does not provide for rules governing the ability of a Luxembourg company to guarantee the indebtedness of another entity of the same group. A company may give a guarantee provided the giving of the guarantee is covered by the company's corporate purpose, corporate benefit and is in the best interest of the company. Although no statutory definition of corporate benefit (*intérêt social*) exists under Luxembourg law, corporate benefit is widely interpreted and includes any transactions from which the company derives a direct or indirect economic or commercial benefit in return (such as an economic or commercial benefit) and whether the benefit is proportionate to the burden of the assistance. It is generally held that within a group of companies, the corporate interest of each individual corporate entity can include, to a certain extent, the interest of the group, and that the existence of a group interest can in certain cases result in the guarantee being held enforceable even where corporate benefit is not established. In this way, reciprocal assistance from one group company to another does not necessarily conflict with the interest of the assisting company. However, this assistance must be temporary, in proportion to the real financial means of the assisting company (i.e., limited to an aggregate amount not exceeding the assisting company's own funds (*capitaux propres*)), the company must receive some benefit or there must be a balance between the respective commitments of all the affiliates and the companies involved must form part of a genuine group operating under a common strategy aimed at a common objective. As a result, the guarantees/security interests granted by a Luxembourg company may be subject to limitations in order to ensure their enforceability. Further, a guarantee or security interest that substantially exceeds the guarantor's or security provider's ability to meet its obligations to the beneficiary of the guarantee/security provider and to its other creditors, or from which the Luxembourg company derives no or very limited personal benefit in return, or where no direct or indirect consideration is granted to the company in exchange, would expose its directors or managers to personal liability. In addition to any criminal and civil liability incurred by the manager of the Luxembourg company, in extreme circumstances the guarantee or security interest could itself be held unenforceable, if it is held that it is contrary to public policy (ordre public), in the case of facts consisting of a misuse of corporate assets. Any guarantee granted in connection with the Notes by Luxembourg companies may be limited to a certain percentage of, among others, the relevant company's net worth. The Indenture will provide for general limitation language to the effect that each guarantee granted therein and each security interest granted as well as any other obligation, liability or indemnification under a security document will be limited to the maximum amount that can be guaranteed/secured by the relevant guarantor/security provider with respect to the aggregate obligations and exposure of the guarantor/security provider without rendering the relevant guarantee/security interest voidable or otherwise ineffective under Luxembourg and other applicable law. If one or more of these laws and defenses are applicable, a Guarantor may have no liability or decreased liability under its guarantee or the security documents to which it is a party.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement (the "Purchase Agreement") dated November 7, 2013, each Initial Purchaser has severally agreed to purchase, together with all other Initial Purchasers, and the Issuer has agreed to sell to each Initial Purchaser, Notes in an aggregate principal amount of €475,000,000.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, among other conditions, the delivery of certain legal opinions by counsel.

The Initial Purchasers propose to offer the Notes to purchasers at the price to investors indicated on the cover page of this offering memorandum. After the initial offering of the Notes, the Initial Purchasers may from time to time vary the offering price and other selling terms without notice. Sales of the Notes by the Initial Purchasers in the United States may be made through affiliates of the Initial Purchasers. The offering of the Notes by the Initial Purchasers is subject to receipt and acceptance and subject to the Initial Purchasers' right to reject any order in whole or in part.

The Issuer has agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and will contribute to payments which the Initial Purchasers may be required to make in respect of any such liabilities. The Issuer will pay the Initial Purchasers a commission and pay certain expenses of the Offering. The Issuer has agreed, subject to certain limited exceptions, not to offer, sell, contract to sell or otherwise dispose of, except as provided under the Purchase Agreement, any securities of, or guaranteed by, the Issuer or any of the Guarantors that are substantially similar to the Notes during the period from the date of the Purchase Agreement through and including the date that is 90 days after the date of the Purchase Agreement, without the prior written consent of the representatives of the Initial Purchasers.

No action has been or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes and the Notes Guarantees, or the possession, circulation or distribution of this offering memorandum or any other material relating to us or the Notes in any jurisdiction where action for that purpose is required. Accordingly, the Notes and the Notes Guarantees may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

This offering memorandum does not constitute an offer to purchase or a solicitation of an offer to sell in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this offering memorandum comes are advised to inform themselves about, and to observe, any restrictions relating to the offering of the Notes, the distribution of this offering memorandum and resales of the Notes. See "*Transfer Restrictions*".

The Notes are new issues of securities with no established trading market. The Issuer has been advised by the Initial Purchasers that the Initial Purchasers intend to make a market in the Notes but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes. See "*Risk Factors—Risks Related to the Notes and the Notes Guarantees—There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited*."

The Initial Purchasers may engage in over-allotment, stabilizing transactions and covering transactions in accordance with Regulation M under the US Exchange Act. Over-allotment involves sales in excess of the offering size, which creates a short position for the relevant Initial Purchaser. Stabilizing transactions permit bidders to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions.

A stabilizing manager is not required to engage in these activities, and may end these activities at any time. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes. These stabilizing transactions and covering transactions may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions.

In connection with the offering, the Initial Purchasers may purchase and sell Notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater number of Notes than they are required to purchase in the Offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Notes while the Offering is in progress.

These activities by the Initial Purchasers, as well as other purchases by the initial purchasers for their own accounts, may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Initial Purchasers at any time. These transactions may be effected in the over-the-counter market or otherwise.

Persons who purchase Notes from the Initial Purchasers may be required to pay stamp duty, taxes, and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page hereof.

The Notes (including the Notes Guarantees) have not been and will not be registered under the Securities Act, and may not be offered or sold except (i) to QIBs in offers and sales that occur within the United States, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; and (ii) in offers and sales that occur outside the United States, in reliance on Regulation S, and in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. Accordingly, each Initial Purchaser has represented and agreed that it has not offered or sold, and will not offer or sell, any of the Notes (including the Notes Guarantees) as part of its allocation at any time other than to QIBs in the United States in accordance with Rule 144A or outside of the United States in accordance with Regulation S. Transfer of the Notes (including the Notes Guarantees) will be restricted and each purchaser of the Notes (including the Notes Guarantees) in the United States will be required to make certain acknowledgements, representations and agreements, as described under "*Transfer Restrictions*".

Each Initial Purchaser has represented, warranted and agreed that it:

- has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and
- has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Any offer or sale in the United States will be made by affiliates of the Initial Purchasers who are broker-dealers registered under the U.S. Securities Exchange Act of 1934, as amended.

The Issuer expects that delivery of the Notes will be made to investors on or about the date specified on the cover page of this Offering Memorandum, which is six business days following the date of this Offering Memorandum (such settlement being referred to as "T+ 6"). Under Rule 15(c)6-1 under the Exchange Act, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing will be required, by virtue of the fact that the Notes will initially settle six business days following the date of pricing of the Notes, to specify an alternative settlement cycle at the time of such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the day of pricing or the next two business days should consult their own advisors.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Issuer and its affiliates, for which they received or will receive customary fees and expenses. In addition, the proceeds of the Offering will be used to repay the Existing Senior Facilities Agreement, for which each of BNP Paribas, UniCredit Bank AG, ING Bank N.V., Raiffeisen Bank International AG and Banca IMI S.p.A. or their respective affiliates are lenders. Also, each of the Initial Purchasers or their respective affiliates are lenders under the Revolving Credit Facility, and the Initial Purchasers and their affiliates may act as counterparties in hedging arrangements for the Issuer in relation to the Revolving Credit Facility and such entities would receive customary fees for their services in such capacities.

Funds advised by KKR that will indirectly own a stake in the Issuer are affiliates of KKR Capital Markets Limited, which is acting as an Initial Purchaser in connection with the Offering. KKR Capital Markets Limited may therefore be deemed to be our affiliate and have a conflict of interest with us.

In the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and instruments of ours or our affiliates. If the Initial Purchasers or their affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, the Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the notes offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Certain members of management are expected to purchase a limited amount of Notes in connection with the Offering.

TRANSFER RESTRICTIONS

The following restrictions will apply to the Notes. You are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of any of the Notes.

United States of America

None of the Notes have been registered under the Securities Act, and the Notes may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Notes are only being offered and sold (A) to qualified institutional buyers in compliance with Rule 144A and (B) outside the U.S. in accordance with Regulation S.

Each purchaser of Notes will be deemed to have acknowledged, represented and agreed with us and the initial purchasers as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) It is purchasing the Notes for its own account or for an account with respect to which it exercises sole investment discretion and that it and any such account is either (A) a qualified institutional buyer, and is aware that the sale to it is being made in reliance on Rule 144A or (B) outside the U.S.

(2) It acknowledges that the Notes are being offered for resale in a transaction not involving a public offering in the U.S. (within the meaning of the Securities Act) and have not been registered under the Securities Act or any other securities laws and may not be reoffered, resold, pledged or otherwise transferred within the U.S.

(3) It shall not offer, resell, pledge or otherwise transfer the Notes except (A) to the Issuer or any of its subsidiaries, (B) inside the U.S. to a qualified institutional buyer in a transaction complying with Rule 144A, (C) outside the U.S. in an offshore transaction in compliance with Regulation S under the Securities Act, (D) pursuant to an exemption from the registration requirements of the Securities Act (if available), (E) in accordance with another exemption from the registration requirements of the Securities Act or (F) pursuant to an effective registration under the Securities Act. It acknowledges that no representation is made as to the availability of the exemption provided by Rule 144 for resale of the Notes.

(4) It agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes.

(5) It is relying on the information contained in this offering memorandum in making its investment decision with respect to the Notes. It acknowledges that neither we nor the initial purchasers have made any representation to it with respect to us or the offering or sale of any Notes, other than the information contained in this offering memorandum which has been delivered to it and upon which it is relying in making its investment decision with respect to the Notes. It has had access to such financial and other information concerning us and the Notes as it has deemed necessary in connection with its decision to purchase the Notes, including an opportunity to ask questions of and request information from us and the initial purchasers.

(6) It acknowledges that prior to any proposed transfer of Notes in certificated form or of beneficial interests in a Global Note (in each case other than pursuant to an effective registration statement), the holder of Notes or the holder of beneficial interests in a Global Note, as the case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the Indenture.

(7) It understands that all of the Notes will bear a legend to the following effect unless otherwise agreed by us and the holder thereof:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "*SECURITIES ACT*") OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH

TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "*QUALIFIED INSTITUTIONAL BUYER*" (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT) OR (B) IT IS ACQUIRING THIS NOTE IN AN "*OFFSHORE TRANSACTION*" PURSUANT TO RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT[, AND IN THE CASE OF RULE 144A NOTES: (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTES, PRIOR TO THE DATE (THE "*RESALE RESTRICTION TERMINATION DATE*") THAT IS ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THE NOTES (OR ANY PREDECESSOR OF THE NOTES) ONLY (A) TO THE ISSUER, THE GUARANTORS OR ANY SUBSIDIARY THEREOF (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE NOTES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE U.S. SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "*QUALIFIED INSTITUTIONAL BUYER*" AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE U.S. SECURITIES ACT, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE REVERSE OF THIS NOTE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE; AND AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "*UNITED STATES*" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE U.S. SECURITIES ACT.]"

(8) It acknowledges that the Trustee will not be required to accept for registration of transfer any Notes acquired by it, except upon presentation of evidence satisfactory to us and the Trustee that the restrictions set forth herein have been complied with.

(9) It acknowledges that we, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify us and the initial purchasers. If it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

(10) It agrees to indemnify and hold us, the Trustee, the initial purchasers and their respective affiliates harmless from and against any cost, damage or loss incurred by any of them as a result of any of the foregoing representations and agreements being or becoming false.

(11) It acknowledges that any purported acquisition or transfer of the Notes or beneficial interest therein to an acquirer or transferee that does not comply with the requirements of the above provisions shall be null and void *ab initio*.

Each purchaser and subsequent transferee of a Note will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire and hold the Notes (A) constitutes assets of any employee benefit plan as defined in and subject to Title I of the U.S. Employee Retirement Income Security Act, as amended ("ERISA"), (B) includes any plan, individual retirement account or other arrangement that is subject to Section 4975 of the Code, (C) has provisions that under any federal, state, local non-U.S. or other laws or regulations are similar to the applicable provisions (including the fiduciary responsibility or prohibited transaction provisions) of ERISA or the Code (collectively, "Similar Law"), or (D) is any entity whose underlying assets include "plan assets" of any such plan, account or arrangement described in (A), (B) or (C) of this paragraph, or (ii) the purchase and holding of the Notes by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of any other federal, state, local non-U.S. Plan, a non-exempt violation under any applicable Similar Law.

European Economic Area

This offering memorandum has been prepared on the basis that the offer and sale of the Notes will be made pursuant to an exemption under the Prospectus Directive as implemented in member states of the European Economic Area ("EEA"), from the requirement to produce and publish a prospectus which is compliant with the Prospectus Directive, as so implemented, for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA or any of its member states (each a "Relevant Member State") of the Notes which are the subject of the placement referred to in this offering memorandum must only do so in circumstances in which no obligation arises for the Issuer or any of the initial purchasers to produce and publish a prospectus which is compliant with the Prospectus Directive, including Article 3 thereof, as so implemented for such offer. For EEA jurisdictions that have not implemented the Prospectus Directive, all offers of the Notes must be in compliance with the laws of such jurisdictions. Neither the Issuer nor the initial purchasers have authorized, nor do they authorize, the making of any offer of the Notes through any financial intermediary, other than offers made by the initial purchasers, which constitute a final placement of the Notes.

In relation to each Relevant Member State, each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of the Notes which are the subject of this Offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

(1) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(2) to fewer than 100 natural or legal persons or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive subject to obtaining the prior consent of the initial purchasers nominated by the Issuer for any such offer; or

(3) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of the Notes shall result in a requirement for the publication by the Issuer or the initial purchasers of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as such expression may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. For the purposes of this provision, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Each subscriber for or purchaser of the Notes in the Offering located within a Relevant Member State will be deemed to have represented, acknowledged and agreed that: (i) it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive; and (ii) in the case of any shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (A) the shares acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than "qualified investors" (as defined in the Prospectus Directive), or in circumstances in which the prior consent of the representatives has been given to the offer or resale; or (B) where shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those shares to it is not treated under the Prospectus Directive as having been made to such persons. The Issuer, the initial purchasers and their affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the initial purchasers of such fact in writing may, with the consent of the initial purchasers, be permitted to subscribe for or purchase the Notes in the Offering.

United Kingdom

This offering memorandum is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (iii) high net worth entities falling within Article 49(2)(a) to (d) of the Order, or (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or "FSMA"), and other persons to whom it may lawfully be communicated, falling within Article 29(2) of the Order (all such persons together being referred to as "relevant persons"). Accordingly, by accepting delivery of this offering memorandum, the recipient warrants and acknowledges that it is such a relevant person. The Notes are available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. No part of this offering memorandum should be published, reproduced, distributed or otherwise made available in whole or in part to any other person without the prior written consent of the Issuer. The Notes are not being offered or sold to any person in the United Kingdom, except in circumstances which will not result in an offer of securities to the public in the United Kingdom within the meaning of Part VI of the FSMA.

Each of the initial purchasers, severally and not jointly, has represented and warranted to us that:

(1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

(2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Luxembourg

The Notes may not be offered or sold to the public within the territory of the Grand Duchy of Luxembourg unless:

(a) a prospectus has been duly approved by the *Commission de Surveillance du Secteur Financier* (the "CSSF") pursuant to part II of the Luxembourg law dated July 10, 2005 on prospectuses for securities, as amended (the "Luxembourg Prospectus Law"), implementing the Prospectus Directive, if Luxembourg is the home Member State as defined under the Luxembourg Prospectus Law; or

(b) if Luxembourg is not the home Member State, the CSSF has been provided by the competent authority in the home Member State with a certificate of approval attesting that a prospectus in relation to the Notes has been drawn up in accordance with the Prospectus Directive and with a copy of the said prospectus; or

(c) the offer of the Notes benefits from an exemption from or constitutes a transaction not subject to, the requirement to publish a prospectus pursuant to the Luxembourg Prospectus Law.

The Netherlands

Each Initial Purchaser has represented, warranted and agreed that it has not offered, sold, transferred or delivered and will not offer, sell, transfer or deliver any Notes in the Netherlands other than to legal entities which are qualified investors (within the meaning of the Prospectus Directive).

LEGAL MATTERS

Various legal matters will be passed upon for us by Kirkland & Ellis International LLP and Simpson, Thacher & Bartlett LLP, London, as to matters of U.S. federal and New York state law. Certain legal matters will be passed upon for the Initial Purchasers by Latham & Watkins (London) LLP and Linklaters LLP, as to matters of U.S. federal and New York state law.

INDEPENDENT AUDITORS

The consolidated financial statements of SBB Serbia as of and for the years ended December 31, 2011 and 2012, respectively, included in this offering memorandum have been audited by KPMG d.o.o. Beograd, independent auditors, as stated in the report appearing herein. The consolidated financial statements of Telemach Slovenia as of and for the years ended December 31, 2011 and 2012, respectively, included in this offering memorandum have been audited by KPMG Slovenia, d.o.o., independent auditors, as stated in the report appearing herein. The audit report as of and for the year ended December 31, 2012 contains an emphasis of matter paragraph which states that the independent auditor draws attention to note 9.7 of the annual report (Events after the Statement of Financial Position) providing information about the merger of Telemach d.o.o. with Broadband Kabel d.o.o. in 2013. Upon merger, Broadband Kabel d.o.o. was renamed into Telemach d.o.o. The consolidated financial statements of Telemach BH as of and for the years ended December 31, 2011 and 2012, respectively, included in this offering memorandum have been audited by KPMG B-H d.o.o. za reviziju, independent auditors, as stated in the report appearing herein.

With respect to the unaudited interim financial information of the Slovenia Broadband Luxembourg and its subsidiaries for the period ended 30 June 2013 included herein, KPMG d.o.o. Beograd, the independent auditor has reported that they applied limited procedures in accordance with IAS 34 for a review of such information. However, their separate report included herein, states that they did not audit and do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. The review report covering the June 30, 2013 consolidated financial statements contains a paragraph entitled "Other Matters" that states that the independent auditor draws attention to the fact that they have not audited or reviewed the accompanying condensed consolidated statement of financial position of the Group as at December 31, 2012 and as at January 1, 2012, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months period ended June 30, 2012, or any of the related notes and accordingly, they do not express an opinion on them.

ENFORCEABILITY OF JUDGMENTS

The Issuer is a Dutch company. The Guarantors are entities organized under the laws of the Netherlands, Luxembourg, Bosnia and Herzegovina and Slovenia. All the respective directors and executive officers of the Issuer and the Guarantors reside outside of the United States. All the assets of the Issuer and the Guarantors and their respective directors and officers are located outside the United States. Although the Issuer and the Guarantors have agreed, in accordance with the terms of the Indenture, to accept service of process in the United States through agents designated for such purpose, it may not be possible for holders of the Notes to (a) effect service of process upon the Issuer, the Guarantors or their respective directors or officers, or (b) enforce judgments of courts of the United States predicated upon the civil liability of such entities or persons under the U.S. securities laws and state securities laws or other laws against any such entities or persons in the courts of a foreign jurisdiction.

The Netherlands

The Issuer and the Dutch Guarantors are incorporated under Dutch law and have their registered seat in the Netherlands. None of the directors of the Issuer and the Dutch Guarantors reside in the United States and a substantial amount of the Issuer's and Dutch Guarantors' assets are located outside of the United States. Civil liabilities based on the securities laws of the United States may not be enforceable in the Netherlands, either in an original action or in an action to enforce a judgment obtained in U.S. courts.

The United States and the Netherlands currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Consequently, a final judgment for payment given by any court in the United States, whether or not predicated solely upon U.S. securities laws, would not be enforceable in the Netherlands. In order to obtain a judgment which is enforceable in the Netherlands, the claim must be re-litigated before a competent Dutch court. A Dutch court will, under current practice, generally grant the same judgment without re-litigation on the merits (i) if that judgment results from legal proceedings compatible with Dutch notions of due process, (ii) if that judgment does not contravene public policy (*openbare orde*) of the Netherlands and (iii) if the jurisdiction of the relevant federal or state court in the United States has been based on internationally accepted principles of private international law. Subject to the foregoing and provided that service of process occurs in accordance with applicable treaties, investors may be able to enforce judgments in civil and commercial matters obtained from U.S. federal or state courts in the Netherlands. However, no assurance can be given that such judgments will be enforceable. In addition, it is doubtful whether a Dutch court would accept jurisdiction and impose civil liability in an original action commenced in the Netherlands and predicated solely upon U.S. federal securities laws.

Slovenia

The United States and Slovenia are not currently party to a treaty for the reciprocal recognition and enforcement of judgments, other than arbitral awards rendered in accordance with the New York Convention. Therefore, an enforceable judgment for the payment of monies rendered by a U.S. federal or state court based on civil liability would not be directly enforceable in Slovenia. However, a valid and legally binding judgment from a court of competent jurisdiction in the United States may be recognized and enforced by a court of competent jurisdiction in Slovenia, subject to compliance with the enforcement procedures set forth in Articles 94 et seq. of the Slovenian Private International Law and Procedure Act (*Zakon o mednarodnem zasebnem pravu in postopku*). Following such recognition, judgments of non-Slovenian courts have the same status and legal effect as those issued by Slovenian courts.

The Slovenian courts will recognize a U.S. judgment if the judgment is legally binding in the United States and provided that all of the following conditions are met:

- the matter does not fall within the exclusive jurisdiction of a Slovenian court;
- the jurisdiction of the U.S. court was not based solely on the citizenship of the plaintiff, the property of the defendant in the United States or personal service of the claim to the defendant;
- a Slovenian court has not issued a legally binding decision on the same matter and no other foreign court decision has been recognized in Slovenia (*res iudicata*);
- the recognition of the U.S. judgment would not contravene the public policy of Slovenia (*ordre public*);

- reciprocity is established (reciprocity is presumed unless proven otherwise; additionally, absence of reciprocity is irrelevant when recognition or enforcement of a decision by a foreign court is sought by a Slovenian citizen); and
- there were no procedural irregularities in the proceedings before the U.S. court that prevented the party against which the judgment was issued to take part in the procedure (no breach of due process rights).

Subject to the above conditions, Slovenian courts will not review the merits of the foreign judgment. Slovenian courts also do not review whether the foreign court has acted in accordance with its own procedural laws—any such issues have to be resolved through an appeal process in that foreign jurisdiction.

The request for recognition of a U.S. judgment must include the original judgment or a certified copy, a certificate of finality of the judgment, and a certified translation of the judgment.

If, upon recognition of a U.S. judgment in Slovenia, an opposing party does not pay its debt voluntarily, a request for enforcement of the judgment must be made. This request must include a certificate of enforceability of the judgment under the applicable U.S. law.

The international competence of courts and the recognition and enforcement of judgments of competent courts of a EU Member State (other than Slovenia) are governed by Council Regulation (EC) No. 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. In accordance with this regulation, if a court or competent authority so requires in connection with the recognition and the enforcement of a foreign judgment, a translation of the relevant documents must be produced and the translation must be certified by a person qualified to do so in one of the member states. A judgment may not be recognized if its recognition is manifestly contrary to public policy in the Member State in which recognition is sought; where it was given in default of appearance, if the defendant was not served with the document which instituted the proceedings or with an equivalent document in sufficient time and in such a way as to enable him to arrange for his defense, unless the defendant failed to commence proceedings to challenge the judgment when it was possible for him to do so; if it is irreconcilable with a judgment given in a dispute between the same parties in the Member State in which recognition is sought; if it is irreconcilable with an earlier judgment given in another Member State or in a third state involving the same cause of action and between the same parties, provided that the earlier judgment fulfills the conditions necessary for its recognition in the Member State addressed. Under no circumstances may a foreign judgment be reviewed as to its substance.

In the event of any proceedings being brought in a Slovenian court in respect of a monetary obligation expressed to be payable in a currency other than euro, a Slovenian court would have power to give judgment expressed as an order to pay a currency other than euro. However, enforcement of the judgment against any party in Slovenia would generally be available only in euro and for such purposes all claims or debts would be converted into euro.

Serbia

The enforceability of judgments of U.S. courts in Serbia is doubtful. Serbia is not a party to any multilateral or bilateral treaty pursuant to which the judgments of U.S. courts would be recognized and enforced, and it appears that there are no cases that have established the principle of "factual reciprocity". Therefore, the Serbian principles of conflict laws will apply directly.

Under these principles, judgments of non-Serbian courts generally have the same status and legal effect as judgments of Serbian courts, but only if they are recognized by a Serbian court. Therefore, the enforcement of a foreign court's decision is subject to its prior recognition by the courts of the Republic of Serbia.

Such recognition may be refused in accordance with the provisions of the Serbian Law on Conflict of Laws in the following cases:

- the party against whom recognition of a judgment is sought has not been properly served with the summons, or was otherwise prevented from exercising its procedural rights;
- the matter in which the foreign court decision has been rendered is within the exclusive jurisdiction of the court or any other state authority of the Republic of Serbia;

- the matter has already been decided by the court or any other authority in Serbia or the procedure for recognition of another foreign court decision with respect to the same matter has been initiated in Serbia;
- the recognition or enforcement of a foreign court decision is in contravention of the public order of the Republic of Serbia;
- there is no reciprocity (the potential factual reciprocity issue can be checked in Serbia by contacting the Ministry of Justice, which is the competent authority authorized to provide the court with the official opinions on the reciprocity in the matter of recognition of the foreign court decisions, and obtaining its official opinion may require several months); or
- the applicant fails to provide evidence confirming that the foreign court decision has become final according to the applicable laws of the country in which the court decision has been rendered.

From a procedural perspective, a foreign court judgment may be recognized (and further enforced) in Serbia as part of a separate recognition procedure or as a preliminary question in the regular enforcement proceedings.

Serbia is not a party to any multilateral or bilateral treaty pursuant to which the judgments of U.K. courts would be recognized and enforced. However, U.K. court judgments can be recognized and enforced pursuant to the general rules given above. Factual reciprocity between Serbia and the U.K. must be officially confirmed with the competent authority on a case-by-case basis.

The party seeking the recognition/enforcement must submit to the court:

- the request for recognition/enforcement;
- a confirmation by the foreign court that the foreign court's judgment is final (i.e., the judgment cannot be appealed anymore) and enforceable between the parties under the law of the country in which the decision has been enacted;
- the original court decision or its verified copy; and
- a verified Serbian translation of the judgment.

Bosnia and Herzegovina

In Bosnia and Herzegovina, it is possible to enforce foreign court judgments, provided that the relevant decisions have previously been officially recognized by the competent court(s) in Bosnia and Herzegovina. Once the foreign court judgment has been recognized, it has the same legal status as a judgment of a court in Bosnia and Herzegovina. As a rule, the recognizing court does not examine the merits of a foreign judgment. Once recognized, the foreign judgment can be enforced on the basis of the national enforcement procedures in the same manner as a judgment of a court in Bosnia and Herzegovina.

The courts of Bosnia and Herzegovina will recognize a foreign court judgment if such judgment satisfies the following conditions:

- the foreign judgment is legally valid and enforceable in the state where it was rendered; in this connection, the person requesting the recognition must submit a confirmation from the competent foreign body on the enforceability of the judgment;
- the party against which the foreign judgment was rendered was able to participate in the proceedings; if the party was unable to participate due to procedural irregularities, the judgment will not be recognized; the party will be deemed to have been unable to participate in the proceedings if the notification, lawsuit or resolution by which the proceedings were initiated were not personally delivered, or the personal delivery was not even attempted, unless the party engaged in the discussion of the merits of the proceedings;
- the subject matter of the foreign judgment does not fall within the exclusive competence of a court or other body in Bosnia and Herzegovina;
- the competent court in Bosnia and Herzegovina has not already adopted an enforceable judgment on the subject matter of the foreign judgment and/or the competent court in Bosnia and Herzegovina has not already recognized another foreign judgment for the same subject matter;

- the foreign judgment is not contrary to the constitution of Bosnia and Herzegovina and its basic principles, as well as the constitution of the Federation of Bosnia and Herzegovina and the constitution of the Republika Srpska, respectively, and their respective basic principles, and/or to public order; and
- there is reciprocity of recognition of foreign judgments between Bosnia and Herzegovina and the foreign state that rendered the judgment. Reciprocity is presumed until established otherwise; in case the existence of reciprocity is doubtful, the court will request a clarification of the reciprocity from the competent authority. The courts generally request factual, rather than legal, reciprocity; however, no clear case law is available regarding the recognition of foreign judgments.

Foreign arbitral awards must also be recognized by the competent court in Bosnia and Herzegovina before they can be enforced in Bosnia and Herzegovina. Once recognized, a foreign arbitral award has the same legal status as a court judgment of a court in Bosnia and Herzegovina or a domestic arbitral award and can be enforced in the same manner as a domestic court judgment or domestic arbitral award. As a rule, the recognizing court does not examine the merits of the foreign arbitral award.

A foreign arbitral award can be recognized if the following conditions are met:

- the subject matter of the foreign arbitral award is not exempt from arbitration under the laws of Bosnia and Herzegovina;
- the subject matter of the foreign arbitral award does not fall in the exclusive jurisdiction of courts or other bodies in Bosnia and Herzegovina;
- the foreign arbitral award is not contrary to the constitutions of Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina or the Republika Srpska or their basic principles, respectively, and/or to public order;
- there is reciprocity of recognition of arbitral awards between Bosnia and Herzegovina and the country of origin of the foreign arbitral award, which reciprocity is presumed until established otherwise; in case the existence of reciprocity is doubtful, the court will request a clarification of the reciprocity from the competent authority; the courts generally request factual, rather than legal, reciprocity; however, no clear case law is available regarding the recognition of foreign arbitral awards;
- the parties have concluded a written arbitration agreement and such agreement is valid and binding;
- the party against which the arbitral award was rendered was properly informed of the appointment of the arbitral tribunal and of the arbitration proceedings and it was not otherwise disabled from using its procedural rights;
- the composition of the arbitral tribunal and the arbitration proceedings were conducted according to the provisions of the arbitration agreement;
- the arbitral tribunal did not exceed its authority determined by the arbitration agreement;
- the foreign arbitral award is final and enforceable and has not been nullified or suspended by the competent body of the state in which it was adopted, or of the state based on whose law it was adopted; and
- the foreign arbitral award is not ambiguous or contradictory.

Bosnia and Herzegovina is a state party to the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards of 1958, however, it is only applicable to the recognition and enforcement of arbitral awards made in another contracting states, and to disputes arising out of legal relationships that are considered commercial under the law of Bosnia and Herzegovina, whether contractual or not. Bosnia and Herzegovina is also a state party to the 1961 European Convention on International Commercial Arbitration.

Luxembourg

Each Luxembourg Guarantor is incorporated under the laws of Luxembourg and all of the managers and executive officers of the Luxembourg Guarantors are non-residents of the United States. Furthermore, a substantial portion of the assets of each of the Luxembourg Guarantors is located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the relevant Luxembourg Guarantors, or to enforce against any of them judgments of U.S. courts predicated upon the civil liability provisions of U.S. federal or state securities laws.

We have been advised by our Luxembourg counsel that the United States and Luxembourg are not currently bound by a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards rendered in civil and commercial matters. According to such counsel, an enforceable judgment for the payment of monies rendered by any U.S. Federal or state court based on civil liability, whether or not predicated solely upon the U.S. securities laws, would not directly be enforceable in Luxembourg. However, a party who received such favorable judgment in a U.S. court may initiate enforcement proceedings in Luxembourg (exequatur) by requesting enforcement of the U.S. judgment by the District Court (*Tribunal d'Arrondissement*) pursuant to Section 678 of the New Luxembourg Code of Civil Procedure. The District Court will authorize the enforcement in Luxembourg of the U.S. judgment if it is satisfied that all of the following conditions are met:

- the U.S. judgment is final and enforceable ("*exequatur*") in the United States;
- the U.S. court awarding the judgment has jurisdiction to adjudicate the respective matter under applicable U.S. Federal or state jurisdictions rules, and the jurisdiction of the U.S. court is recognized by Luxembourg private international and local law;
- the U.S. court has applied the substantive law as designated by Luxembourg conflict of laws rules;
- the U.S. judgment does not contravene international public policy or order as understood under the laws of Luxembourg;
- the U.S. court has acted in accordance with its own procedural laws;
- the U.S. judgment was granted following proceedings where the counterparty had the opportunity to appear, and if it appeared, to present a defense; and
- the U.S. judgment was not granted pursuant to an evasion of Luxembourg law ("*fraude à la loi luxembourgeoise*").

Subject to the above conditions, Luxembourg courts tend not to review the merits of a foreign judgment, although there is no statutory prohibition.

We have also been advised by our Luxembourg counsel that if an original action is brought in Luxembourg, Luxembourg courts may refuse to apply the designated law (i) if the choice of such law was not made bona fide and (ii) if its application contravenes Luxembourg public policy or is manifestly incompatible with Luxembourg international policy rules. In an action brought in Luxembourg on the basis of U.S. federal or state securities laws, Luxembourg courts may not have the requisite power to grant the remedies sought. Also, an exequatur may be refused in respect of punitive damages.

Further, in the event of any proceedings being brought in a Luxembourg court in respect of a monetary obligation expressed to be payable in a currency other than Euro, a Luxembourg court would have power to give judgment expressed as an order to pay a currency other than Euro. However, enforcement of the judgment against any party in Luxembourg would be available only in Euro and for such purposes all claims or debts would be converted into Euro.

WHERE YOU CAN FIND OTHER INFORMATION

Each purchaser of the Notes from the initial purchasers will be furnished with a copy of this offering memorandum and any related amendments or supplements to this offering memorandum. Each person receiving this offering memorandum and any related amendments or supplements to the offering memorandum acknowledges that:

(7) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(8) such person has not relied on the initial purchasers or any person affiliated with the initial purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(9) except as provided pursuant to (1) above, no person has been authorized to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by us or the initial purchasers.

For so long as any of the Notes are "restricted securities" within the meaning of the Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act, nor exempt from the reporting requirements under Rule 12g3-2(b) of the Exchange Act, provide to the holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act. Any such request should be directed to the Issuer, Fred. Roeskestraat 123, 1076 EE Amsterdam, The Netherlands.

We are not currently subject to the periodic reporting and other information requirements of the Exchange Act. However, pursuant to the Indenture governing the Notes and so long as the Notes are outstanding, we will furnish periodic information to holders of the Notes. See "*Description of the Notes—Certain Covenants—Reports*."

For so long as the Notes are listed on the Official List of the Irish Stock Exchange for trading on the Global Exchange Market and the rules of that exchange so require, copies of the Issuer's organizational documents, the Indenture and our most recent consolidated financial statements published by us may be inspected and obtained at the office of the listing agent in Ireland. See "*Listing and General Information*".

LISTING AND GENERAL INFORMATION

Listing

Application will be made to list the Notes on the Official List of the Irish Stock Exchange for trading on the Global Exchange Market in accordance with the rules of that exchange. Prior to the listing, a legal notice relating to the issuance of the Notes and our certified organizational documents will be deposited with the listing agent in Ireland, where such documents may be examined and copies obtained free of charge. For so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, all notices to holders of the Notes, including any notice of any additional redemption, change of control or any change in the rate of interest payable on the Notes will be published in a newspaper having a general circulation in Ireland (which is expected to be the *Irish Times*) or on the official website of the Irish Stock Exchange.

For so long as the Notes are listed on the Official List of the Irish Stock Exchange for trading on the Global Exchange Market and the rules of that exchange require, copies of the following documents may be inspected and obtained at the specified office of the listing agent in Ireland during normal business hours on any weekday:

- the organizational documents of the Issuer;
- the Issuer's most recent audited consolidated financial statements, and any interim financial statements published by us; and
- the Indenture relating to the Notes (which includes the form of the Notes).

The Issuer has appointed Walkers Listing and Support Services Limited as Irish listing agent, Elavon Financial Services Limited, UK Branch as principal paying agent and transfer agent and Elavon Financial Services Limited as registrar. We reserve the right to change these appointments and, for so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, we will publish notice of such change of appointment in a newspaper having a general circulation in Ireland (which is expected to be the *Irish Times*) or on the official website of the Irish Stock Exchange.

Application may be made to the Irish Stock Exchange to have the Notes removed from listing on the Official List of the Irish Stock Exchange for trading on the Global Exchange Market, including if necessary to avoid any new withholding taxes in connection with the listing.

So long as the Notes are listed on the Official List of the Irish Stock Exchange for trading on the Global Exchange Market, the Notes will be freely transferable and negotiable in accordance with the rules of the Irish Stock Exchange.

Clearing Information

The Notes sold pursuant to Regulation S and the Notes sold pursuant to Rule 144A have been accepted for clearance through the facilities of Euroclear and Clearstream under common codes 099229438 and 099229381, respectively. The ISIN for the Notes sold pursuant to Regulation S is XS0992294388 and the ISIN for the Notes sold pursuant to Rule 144A is XS0992293810.

Incorporation of the Issuer

The Issuer is a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands. The Issuer has conducted no operations or other material activities. The Issuer is registered with the trade register of the chambers of commerce under the number 58916318. The Issuer's registered office address is Fred. Roeskestraat 123, 1076 EE Amsterdam, the Netherlands.

Incorporation of the Guarantors

Slovenia Broadband is a Luxembourg private limited liability company (*société à responsabilité limitée*), registered with the Luxembourg Register of Commerce and Companies under number B145.882, having its registered office at 5, rue Guillaume Kroll, L-1882 Luxembourg, and having a share capital of EUR 200,000.

BBB is a Luxembourg private limited liability company (*société à responsabilité limitée*), registered with the Luxembourg Register of Commerce and Companies under number B153.262, having its registered office at 5, rue Guillaume Kroll, L-1882 Luxembourg, and having a share capital of EUR 23,493,645.24.

Corporate Authority

The Issuer has obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the Notes.

Persons Responsible

The Issuer accepts responsibility for the information contained in this offering memorandum. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

Absence of Significant Changes

There has been no material adverse change in our prospects since June 30, 2013. There has been no material adverse change in our financial or trading position since June 30, 2013.

Absence of Litigation

We are not involved (and have not been involved in the 12 months preceding the date of this offering memorandum) in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) that may have or have had in the recent past, significant effects on our financial position or profitability.

Periodic Reporting Under the Exchange Act

The Issuer is not currently subject to the periodic reporting and other information requirements of the Exchange Act.

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Financial Statements

As of December 31, 2011

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Independent Auditor's Report

To the Shareholder of Telemach d.o.o., Ljubljana

We have audited the accompanying consolidated financial statements of the company Telemach d.o.o., Ljubljana and its subsidiaries (Telemach Group), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated income statement and statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of die entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Telemach Group as at 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Helena Kobal, B.Sc, Ec.	Jason Stachurski, B.Sc, Ec.
Certified Auditor	*Certified Auditor*
	Partner
Ljubljana, 10 April 2012	KPMG Slovenija, d.o.o.
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2. Statement of Financial Position as at 31 December 2011

In €	Notes	31 December 2011	31 December 2010
ASSETS		132,152,995	120,792,114
NON-CURRENT FIXED ASSETS		113,347,800	106,733,220
Property, plant and equipment	8.1.1.	55,332,735	51,910,202
1. Land and building		4,879,138	5,529,624
a) Land		203,167	203,167
b) Building		4,675,971	5,326,457
2. Other PPE		48,493,357	44,076,921
3. Tangible fixed assets in progress		1,960,240	2,303,657
Investment property	8.1.2.	682,989	732,657
Intangible fixed assets	8.1.3.	54,293,228	49,696,210
1. Goodwill		32,769,628	32,769,628
2. Other intangible assets		21,523,600	16,926,582
Long-term deferred costs and accrued revenues	8.1.4.	2,708,821	2,965,953
Non-current financial investments	8.1.5.	303,221	310,221
1. Non-current loans		34,416	41,416
a) Non-current loans to others		34,416	41,416
2. Other investments		268,805	268,805
Deferred tax assets	8.1.11.	26,806	1,117,977
CURRENT ASSETS		18,805,195	14,058,894
Inventories	8.1.6.	2,675,991	2,457,929
1. Materials		2,675,991	2,457,929
Short-term operating receivables	8.1.7.	12,895,298	9,838,148
1. Short-term operating receivables against Group enterprises		43,800	44,988
2. Short-term operating receivables against customers		10,424,477	6,786,852
3. Short-term operating receivables against other parties		859,256	1,820,101
4. Other current assets		1,567,765	1,186,207
Cash and cash equivalents	8.1.8.	3,233,906	1,762,817

Accounting policies and notes represent a constituent part of financial statements and should be considered simultaneously.

2. Statement of Financial Position as at 31 December 2011 (Continued)

In €	Notes	31 December 2011	31 December 2010
LIABILITIES		**132,152,995**	**120,792,114**
CAPITAL		**28,175,212**	**23,078,875**
Called-up capital		13,022,283	13,022,283
Capital reserves		11,252,287	11,252,287
Retained net profit or loss		−4,018,422	−10,442,014
1. Net profit or loss brought forward		−9,591,441	−14,384,687
2. Net profit or loss for the financial year		5,573,019	3,942,673
Minority shareholding		7,919,064	9,246,319
Majority shareholding		20,256,148	13,832,556
NON-CURRENT LIABILITIES		**80,976,608**	**82,322,745**
Provisions and long-term accruals and deferred income	8.1.9.	4,248,611	1,042,041
1. Provisions for pensions and similar obligations		171,775	178,861
2. Other provisions		910,191	775,167
3. Long-term accruals and deferred income		3,166,645	88,013
Non-current financial liabilities	8.1.10.	76,187,130	80,920,919
1. Non-current financial liabilities to Group enterprises		24,606,335	23,510,919
2. Non-current financial liabilities to banks		50,700,000	57,410,000
3. Other non-current financial liabilities		880,795	0
Deferred tax liabilities	8.1.11.	540,867	359,785
SHORT-TERM LIABILITIES		**23,001,175**	**15,390,494**
Short-term financial liabilities	8.1.12.	10,051,493	6,227,239
1. Short-term financial liabilities to banks		8,710,000	5,420,000
2. Other short-term financial liabilities		1,341,493	807,239
Short-term operating liabilities	8.1.13.	12,949,682	9,163,255
1. Short-term operating liabilities to suppliers		3,369,579	3,816,824
2. Other short-term operating liabilities		4,888,864	2,027,786
3. Deferred revenues and accrued cost		4,691,239	3,318,645

Accounting policies and notes represent a constituent part of financial statements and should be considered simultaneously.

3. Consolidated Income Statement for the period from 1 January 2011-31 December 2011

In €	Notes	2011	2010
NET SALES REVENUES	8.2.1.	56,893,435	49,512,681
OTHER OPERATING REVENUES	8.2.2.	193,569	221,382
COST OF GOODS, MATERIALS AND SERVICES	8.2.3.	21,431,042	19,779,512
a) Cost of purchase of goods and materials sold and cost of materials used		1,581,778	1,405,036
b) Cost of services		19,849,264	18,374,476
LABOUR COSTS	8.2.4.	5,776,510	5,167,577
a) Cost of wages and salaries		4,373,789	3,920,273
b) Social security contributions		702,459	641,329
c) Other labour costs		700,262	605,975
DEPRECIATION	8.2.5.	16,050,707	14,251,595
a) Depreciation of intangible long-term fixed assets		3,924,263	3,831,452
b) Depreciation of tangible fixed assets		12,126,444	10,420,143
OTHER OPERATING EXPENSES	8.2.6.	1,404,237	1,994,231
OPERATING PROFIT OR LOSS		**12,424,508**	**8,541,148**
FINANCIAL REVENUES	8.2.7.	447,432	160,920
FINANCIAL EXPENSES	8.2.8.	5,599,571	6,109,471
NET OPERATING PROFIT OR LOSS		**7,272,369**	**2,592,597**
TAXES		1,429,802	−1,650,829
a) Income tax		157,549	91,604
b) Deferred tax	8.2.9.	1,272,253	−1,742,433
NET PROFIT OR LOSS before adjustments		**5,842,567**	**4,243,426**
Minority owners share		**269,548**	**300,753**
Net profit or loss associated to the majority owners		**5,573,019**	**3,942,673**

3.2. Statement of other comprehensive income for the period 1 Jan 2011 to 31 Dec 2011

In €	1 Januar 2011	31 December 2011
NET PROFIT OR LOSS FOT THE FINANCIAL YEAR	5,842,567	4,243,426
OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	0	0
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	**5,842,567**	**4,243,426**
Total comprehensive income, attributable to the owners of the controlling company	5,573,019	3,942,673
Total comprehensive income, attributable to the non-controlling share	269,548	300,753

Accounting policies and notes represent a constituent part of financial statements and should be considered simultaneously.

4. Consolidated Cash Flow Statement for the period from 1 January to 31 December 2011

In €	2011	2010
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Net profit and loss cash flow for the business period		
b) Adjustments:	5,573,019	3,942,673
depreciation of tangible fixed assets	12,126,444	10,420,143
depreciation of intangible fixed assets	3,924,263	3,831,452
interest expenses	5,599,571	6,109,471
corporate tax	1,429,802	− 1,650,829
	28,653,099	**22,652,910**
change in operating receivables	− 2,675,592	− 2,138,532
change in deferred costs and accrued revenues	− 124,426	606,410
change in inventories	− 218,062	− 423,698
change in operating liabilities	2,413,833	− 494,921
change in accrued costs and deferred revenues and provisions	3.669.075	2,406,735
	31.717.927	**22,608,903**
payments of interests	− 4.764.447	− 4,581,804
payment of corporate tax	− 157.549	− 841,659
Net cash flows from operating activities	**26.795.931**	**17,185,440**
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for acquisition of real estate, machines and equipment	25.587	28,177
Payments for acquisition of financial assets	0	900
Expenses for acquisition of real estate, machines and equipment	− 15.572.575	− 16,655,695
Expenses for acquisition of intangible fixed assets	− 8.52 1.282	− 425,332
Expenses for purchase of subsidiaries and associated companies	− 214.521	− 253,567
Net financial outflows for investing activities	− 24.282.791	− 17,305,517
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from non-current financial assets	7.000	7,000
Receipts from non-current financial liabilities	2.880.796	1,000,000
Receipts from short-term financial liabilities	841.837	800,000
Receipts from short-term financial claims	648.316	0
Expenses for repayment of short-term financial liabilities	− 5.420.000	− 1,763,188
Net cash inflows from financing activities	**− 1.042.051**	**43,812**
NET CASH FLOWS FOR THE FINANCIAL YEAR	1,471,089	− 76,265
Initial cash balance	1,762,817	1,839,082
Final cash balance	3,233,906	1,762,817

Accounting policies and notes represent a constituent part of financial statements and should be considered simultaneously.

5. Statement of Changes in Equity

	Called-Up capital	Capital reserves	Retained profit or loss	Minority shareholding	Total capital
1 January 2011	**13,022,283**	**11,252,287**	**−10,442,014**	**9,246,319**	**23,078,875**
All-encompassing return					
Net profit or loss	0	0	5,573,019	269,549	5,842,568
Other all-encompassing return	0	0	0	0	0
Total all-encompassing return	0	0	5,573,019	269,549	5,842,568
Transactions with owners					
Write-off of dated liabilities for dividends*	0	0	4,214	7,100	11,314
Effect of purchase of subsidiaries	0	0	846,359	−1,603,904	−757,545
Total transactions with owners	0	0	850,573	−1,596,804	−746,231
31 December 2011	**13,022,283**	**11,252,287**	**−4,018,422**	**7,919,064**	**28,175,212**

* with the company Telemach Tabor d. d.

	Called-Up capital	Capital reserves	Retained profit or loss	Minority shareholding	Total capital
1 January 2010	**13,022,283**	**11,252,287**	**−14,505,501**	**9,230,184**	**18,999,253**
All-encompassing return					
Net profit or loss	0	0	3,942,673	300,753	4,243,426
Other all-encompassing return	0	0	0	0	0
Total all-encompassing return	0	0	3,942,673	300,753	4,243,426
Transactions with owners					
Write-off of dated liabilities for dividends*	0	0	58,732	32,306	91,038
Effect of purchase of subsidiaries	0	0	62,082	−316,924	−254,842
Total transactions with owners	0	0	120,814	−284,618	−163,804
31 December 2010	**13,022,283**	**11,252,287**	**−10,442,014**	**9,246,319**	**23,078,875**

Accounting policies and notes represent a constituent part of financial statements and should be considered simultaneously.

6. Accounting policies and notes

Reporting company

Telemach d. o. o. (hereinafter referred to as "the Company") is a company with its head office in Republic of Slovenia. The address of the registered office is in Ljubljani, Cesta Ljubljanske brigade 21.

Consolidated accounts of the Group for the year concluded on 31 December 2011 include those of the Company and its subsidiary companies (hereinafter referred to as "the Group").

Declaration of conformity

The consolidated Financial Statements of the company Telemach for 2011 have been prepared in accordance with the Companies Act, the provisions of the International Financial Reporting Standards (IFRS) as adopted by the European Union, and explanatory notes adopted by the International Accounting Standard Board (IASB).

The Management Board of the controlling company Telemach d.o.o. adopted the consolidated financial statements of the Group on 2 April 2012.

Measurement basis

The consolidated Financial Statements has been prepared in accordance with the historical value except where it is explicitly stated otherwise.

Functional and presentation currency

The attached consolidated Financial Statements is constructed in EUR, that is, in the Group's functional currency. All accounting information presented in EUR is rounded to whole units.

Use of estimates and assessments

When composing the Financial Statements, management has to issue estimates, assessments, and assumptions that affect the use of accounting policies and the statement of values for assets, liabilities, revenues and expenses. The actual results may be different from these estimations.

Estimates, and the provided assumptions, need to be under continuous review. Corrections of accounting estimates are recognised for the period in which the estimation is corrected and all following years that are affected by the correction.

Data on important uncertainty assessments and decisive appraisals that the management prepared during the process of executing accounting policies, which have the greatest influence on financial statement amounts, is described in the following explanations:

- Notes no. 8.1.9 and 8.1.15—reservations and contingent liabilities
- Note no. 8.1.14—financial instruments
- Note no. 8.1.11—the use of tax loses

Important accounting policies

The accounting policies defined below were consistently applied by the companies in the Group for all periods, which are presented in the enclosed consolidated accounts.

Basis for consolidation

All Financial Statements of companies included in the consolidation have been included in the Balance Sheet and Income Statement of the Group for the purposes of the consolidation of Financial Statements.

Further on in the consolidation procedure, the amounts of turnover of all companies in the Group have been excluded (among the parent company and the subsidiary companies and between subsidiary companies) and all mutual claims and liabilities among companies in the Group. The balances from transactions made in the framework of the Group of companies and the resulting outwards unrealised profits are not observed in the consolidated Financial Statements. Losses resulting from transactions within the Group of companies that have not been accrued are also not observed in the statement, unless cost cannot be recovered.

The provisions of standards are directly applied in observation and valuation of items except in valuation of items where standards give the company the opportunity to choose between different methods for valuation—here the Group used the policies described in the following points.

6.1 Investments in subsidiaries and associated companies

Subsidiaries are companies controlled by the Company Telemach and its subsidiary companies. Control exists when the company has the power to govern the financial and operating policies of a company so as to obtain benefits from their activities. Financial Statements of subsidiaries are included in the consolidated Financial Statements from the starting date of control until the date of control cessation.

6.2 Foreign currency

Transactions in foreign currency are calculated according to the exchange rate on the day of the transaction. Cash and cash equivalents, and liabilities in foreign currency on the date of the Balance Sheet, are calculated into national currency according to the middle exchange rate of the Bank of Slovenia on that date. Exchange rate differences are recognised in the Income Statement. Non-monetary assets and liabilities in foreign currency measured in originally currency are converted into national currency according to the exchange rate on the date of transaction. Non-monetary assets and liabilities in foreign currency measured at fair value are converted into national currency according to the exchange rate on the day the fair value rate was set.

6.3 Financial instruments

6.3.1 Non-derivative financial instruments

Non-derivative financial instruments include investments in equity and debt securities, operating and other claims, cash and cash equivalents, received and provided loans, and operating and other liabilities.

At the beginning the non-derived financial instruments (instruments that are not recognised at fair value through profit and loss) are recognised at their fair value, increased by costs tied directly to operations—with the exceptions referred to below. After the initiative recognition the non-derived financial instruments are measured according to the following method.

A financial instrument is recognised if the Group becomes a partner of contractual terms of the instrument. Recognition of financial assets is eliminated when the contractual rights of the company on cash flows, elapse, or the company transfers the financial asset to another customer-including the control or all risks and benefits on the assets. Purchase and sale made in the regular, that is, normal way, are charged on the date of the transaction—this is the date when the company resolves to buy or sell an asset. Recognition of financial liabilities is eliminated when the contractual obligations of the company elapse, cease, or are disrupted.

Cash and cash equivalents include money in the cash register, cash in the bank, sight deposits, and short-term deposits tied up for a period of up to three months. Bank overdrafts that can be settled 'on call', and are a composite part of short-term liabilities in the company.

6.4 Intangible fixed assets

6.4.1 Goodwill

Goodwill (or negative goodwill) develops during a merger. Goodwill is valued at purchase price and reduced by a possible loss due to impairment by acquisition. Goodwill is categorised as a cash-generating asset and is not depreciated. Instead goodwill is annually tested for impairment.

Negative goodwill that can occur at takeover is directly recognised in the operating Income Statement.

6.4.2 Other intangible assets

Other intangible assets with a limited useful life are charged at the purchase price, reduced by accumulated depreciation of the value, and any loss due to impairment by acquisition. The recognised assets on the basis of long-term contracts are depreciated for the period of duration of the contract.

6.4.3 Subsequent costs

Subsequent costs connected to intangible fixed assets are only capitalised if the increased future economic benefits arise from the asset, connected with expenditure. All other costs are recognised in the operating profit and loss as expenditure when they occur.

The Group also discloses goodwill, customer base, and other intangible assets, in the intangible assets account.

6.5 Tangible fixed assets

6.5.1 Presentation and measurement

Tangible fixed assets are disclosed at their purchase price, reduced by accumulated amortisation and any loss due to impairment by acquisition.

The purchase price includes costs directly related to the asset purchase. Costs due to the production of an asset include cost of materials, direct labour, and other costs directly recognised as qualifying for intended use, and costs for de-commissioning and removal of a tangible fixed asset, and restoration of the site where the asset was located. Purchased computer programs that have an important contribution to the functional ability of assets are capitalised as part of this asset. Borrowing costs that can be directly attributed to the acquisition, construction or production of the asset in preparation, are recognized as part of the purchase cost of such an asset. For subsequent surveying of real estate, machinery and equipment the purchasing cost model is used.

Parts of the tangible fixed assets that have different useful lives are charged as individual tangible fixed assets. On the day of the transition to the IFRS the segmentation of existing fixed assets is made according to the assessment analysis and deviations.

Profit or loss incurred from a disposal of a tangible fixed asset is determined as the difference between revenue from the disposal of the asset and its book value and disclosed in the Income Statement under "other operating revenues".

6.5.2 Redistribution to investment property

Property built or developed for future use as investment property is protected as tangible fixed assets and accounted at purchase value until the date of construction, or development completion, when the property becomes an investment property. Profit or loss that arises at re-measurement of its fair value is recognised in the operating Income Statement.

6.5.3 Subsequent costs

Subsequent costs connected to tangible fixed assets, increase their purchase price if there is a possibility of future economic benefits connected with a part of this asset, and if the purchase price can be measured accurately. Repair and maintenance costs that are intended for renovation and preservation of economic benefits are recognised as expenditure for the time they are carried out.

6.5.4 Spare parts

Spare parts and equipment for maintenance of smaller assets with a useful life of one year, are considered as supply and recognised as costs in the operating Income Statement. Spare parts and replacement equipment of more important assets with an estimated useful life longer than one year, are recognised as tangible fixed assets.

6. Accounting policies and notes (Continued)

In the Financial Statements for 2011, Telemach Group did not perform revaluation of tangible fixed assets, and account for impairment of assets, as the company believes that the book value of tangible assets exceeds their recoverable amount.

6.6 Depreciation

The company depreciates intangible fixed assets and tangible fixed assets separately according to the straight-line depreciation method.

Land is not depreciated.

The following depreciation rates are applied:

	Rates in %
Intangible fixed assets	
—Software	33.33%
—Subscriber data base	10.00%
Tangible fixed assets	
—Buildings	3.00% - 10.00%
—Network	10.00%
—MTC	20.00% - 25.00%
—Vehicles	20.00% - 25.00%
—Other equipment	20.00% - 33.33%

The remaining value and useful life of tangible fixed assets are revalued at least once a year on the day of the Balance Sheet. Adequate adjustments are made if necessary.

6.7 Investment property

Investment property is property possessed to collect payments, increase the value of a long-term investment, or both. Investment property is disclosed at its purchase value, reduced by accumulated depreciation, and any loss due to impairment by acquisition.

If use of the property is changed to an extent that this needs to be categorised as tangible fixed assets, its fair value becomes a cost for which it needs to be subsequently accounted.

Depreciation is accounted for by straight-line depreciation, with consideration to the useful life of the investment property. Investment property is depreciated by using the 5% annual rate. Land is not depreciated.

6.8 Impairment of assets

6.8.1 Financial assets

A financial asset is impaired if there is objective evidence proving there has been a reduction of estimated future cash flow from this asset due to one or several events.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its book value and the estimated future cash flows, discounted at the original effective interest rate. An impairment loss, in respect of an available-for-sale financial asset, is calculated by reference to its current fair value.

Operating receivables are disclosed at derivative value. Receivables causing a dispute with the debtor and claimed through the court are disclosed as disputed and receivables not expected to be recovered at all, or by a deadline, are recognised as doubtful debt. A value adjustment for these receivables is debited to operating expenses.

Individually significant financial assets are tested for impairment on an individual basis. The remaining assets are assessed collectively in groups that share similar risk exposure characteristics.

The company recognises all impairment losses in operating profit or loss accounts for the period. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to operating profit or loss accounts.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in operating Income Statement.

6.8.2 Non-financial assets

The book value of the company's non-financial assets, inventories, and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives, or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the book value of an asset exceeds its recoverable amount. Impairment losses are recognised in the operating Income Statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use, and its fair value reduced for sale costs. In assessing value in use, estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each Balance Sheet date for any indications that the loss has decreased, or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's book value does not exceed the book value that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised for the asset in prior years. Assets that have a non-specified useful life are not subjected to depreciation, which is why the company must check if impairment of such an asset is needed by comparing its book value with its recoverable amount.

The recoverable amount is estimated for individual assets except if an asset generates cash flows independently from those generated by other assets or groups of assets.

The evaluation of non-financial assets because of impairment loss is made once a year on the day of the Balance Sheet preparation.

6.9 Provisions

Provisions are recognised if the company has present legal or constructive obligations due to a past event that can be reliably estimated, and it is likely that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects the current market assessments of the time value of money, and, if necessary, the risks specific to liabilities.

Non-current provisions are disclosed separately on the account of long-term deferred revenues, non-current pre-calculated costs, long-term provisions connected to donations from budgets, receivables from basic assets, provisions for severance pay, and anniversary bonuses.

In accordance with the country's legislation, collective contracts, and internal rules, the company is bound to pay long service awards to employees and severance payments after they retire—which is why long-term provisions have been created. Other retirement liabilities do not exist.

Provisions are determined in the sum of estimated future severance payments and anniversary bonuses discounted on the day of the Balance Sheet. The calculation was made for each employee by considering severance costs at retirement, and costs for all estimated anniversary bonuses until retirement.

6. Accounting policies and notes (Continued)

6.10 Financial assets

In accordance with IAS 39, after initial recognition, financial investments are categorised into the following groups, with no regard to purpose at acquisition:

- Financial assets measured at fair value through the operating profit or loss
- Financial investments in possession until the maturity of payment
- Loans and receivables
- Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are categorised as available for sale or are not categorised into any of the remaining categories.

6.11 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value; costs associated with the transaction are recognized in profit or loss, namely when they occur. After initial recognition, derivative financial instruments are measured at fair value, and corresponding changes are handled as described below.

- When a derivative financial instrument is designated as a protection against risk in case of exposure to the volatility of cash flows, which can be attributed to a particular risk associated with a recognized asset or liability or highly probable anticipated transactions that can affect profit or loss, the effective portion of changes in the fair value of the derivative financial instrument is recognized in the comprehensive income of the period and is disclosed in reserve to protection against risk in equity. Ineffective portion of changes in fair value of the derivative financial instrument is recognized directly in profit or loss. The group is expected to discontinue accounting protection against risk if the instrument for protection against risk no longer meets the criteria for accounting the protection against risk, if the instrument for protection against risk is sold, terminated or taken advantage of. Cumulative gain or loss, recognized in other comprehensive income, remains demonstrated in the protection against risk in equity reserve until the anticipated transaction does not affect the profit or loss. If the anticipated transaction is no longer expected, the amount in other comprehensive income should be recognized directly in profit or loss. In other cases, the amount recognized in other comprehensive income is transferred to profit or loss for the same period for which the item protected against risk affects profit or loss.
- Effects of other derivative financial instruments, not classified as protection against risk in case of exposure to volatility of cash flows, which cannot be attributed to a particular risk associated with a recognized asset or liability, are recognized in the Income Statement.

The Group uses the following derivative financial instrument:

Interest rate swap and interest rate collar

Interest rates of obtained loans are subject to interest rate changes. The Group protects against these risks by utilizing interest rate swaps and interest rate collars.

In interest rate swaps and interest rate collars fair value at the date of the balance sheet is valued by discounting future cash flows from a variable interest rate (interest received in a swap) and from a fixed interest rate (interest paid in a swap).

Interest rate swaps are not defined as an instrument for protection against the volatility of cash flows of recognized assets or liabilities or an anticipated transaction, therefore, the revaluation is recognized in the Income Statement.

6.12 Receivables

Initially, various receivables are disclosed with sums resulting from appropriate documents, with the assumption that they will be paid. Receivables denominated in foreign currency are calculated at the middle exchange rate of the Bank of Slovenia at the end of the period, and the difference represents revenues and expenses of financing.

Subsequent increases, or reductions of receivables, increase adequate revenues, that is, expenses from operating (or financing), if they occur in the same business year. If they occur later, other revenues or expenses are increased with no regard to the increases or reductions in receivables resulting from operating or financing.

6.13 Supplies of materials

Supplies of raw materials, materials, small tools, and commercial good, are capitalized at historic value, or net realisable value, at whichever has the lower value. The purchase value includes the buying price reduced by discounts, import and other non-refundable purchase charges, and other direct purchase costs.

A value reduction of supplies of raw materials and small tools is accounted as an increase of costs of materials; value reduction of product supply and commercial goods are accounted as an increase of operating expenditures. A normal and an exceeded deficit that burden the company are shown as a lower supply value and an increase of operating expenditure. The value of the surplus is shown in the increase value of supplies and a reduction of operating expenditure.

Supplies of material are accounted for according to the method of first in, first out (FIFO).

6.14 Cash

Cash in national currency is accounted at denominational value. Foreign currencies are calculated into national currency on the date of the receipt at the, then, valid exchange rate. The state of the foreign currency accounts are calculated at the middle exchange rate on the date of the Balance Sheet. The exchange difference comprises revenues or expenditures on financing. Cash also includes sight deposits with banks.

6.15 Financial liabilities

Initially, all types of short-term and non-current liabilities are disclosed with amounts that derive from corresponding documents, assuming that creditors demand repayment.

Non-current liabilities are later increased by imputed yields (interest, other forms of compensation) that are covered by an agreement with the creditor. Calculated interests from non-current liabilities are considered financing expenses. Non-current liabilities are decreased by repaid amounts and eventual different forms of settlements in agreement with the creditor. They are also decreased by the amount that should be repaid in less than a year, which is shown in short-term liabilities.

Non-current liabilities from legal and natural persons abroad are re-calculated into local currency, on the day of their occurrence. The exchange rate difference that occurred up to the day of repayment of such liabilities and the date of the Balance Sheet, respectively, makes up financing expenses and revenues.

Short-term liabilities can subsequently, directly or outside of made payment, increase or decrease by the amount that is covered by an agreement with the creditor. Later increases in short-term liabilities increase corresponding operating (or financing) expenses (costs), if they occur in the same financial year.

6.16 Deferred tax

Deferred tax is intended for covering temporary differences which occur between the book value and the liabilities and tax base, using the Balance Sheet liability method. They are either taxable temporary differences or deductible temporary differences.

Deferred tax receivables are income tax amounts that will be refunded in the future in respect of deductible temporary differences, and the carrying forward of unused tax losses and unused tax credits. Deferred tax receivables for temporary differences are recognized, if it is likely that these temporary differences will be eliminated in the foreseeable future, making taxable profit available, so exploitation of taxable differences will be possible.

Deferred tax liabilities are tax amounts that have to be settled in future in respect of taxable temporary differences. Deferred tax liabilities are fully recognized. Deferred tax receivables and liabilities are not discounted and can be off-set.

The effects of recognizing deferred tax receivables or liabilities are recognized as revenue or expense in the company's Income Statement; except when taxes arise from an event that was recognized directly in equity, or from a business combination.

6.17 Other short-term assets

Other short-term deferred assets include short-term deferred costs (expenses) and accrued revenues. Short-term deferred costs include amounts which, at the moment of their origin, are not charged as costs of the activity that the enterprise undertakes. Accrued revenues appear when payments have not been received and invoices have not been issued, but where the company has justifiably considered these revenues when assessing the operating results.

6.18 Deferred revenues and accrued costs

Accrued costs include costs expected to be incurred; they relate to the accounting period for which the operating results are to be determined. Deferred revenues appear when the enterprise has invoiced, or even received, payments for services it has agreed to render in future. Revenues may also be deferred for short periods when recognition of revenues remains doubtful at the moment of sale.

6.19 Recognition of revenues

Operating revenues comprise of revenues earned from the sale of merchandise and services performed in the accounting period. Operating revenues are recognized when the products are supplied or the services performed, and are accepted by the customer. Financial revenues are only recognized when no significant uncertainty about the amount, or collectability, exists.

Revenues are divided into sales revenues, other operating revenues, and other revenues from financial investments. They are also divided into revenues created in relation to other enterprises in the Group, associates, and other associates and other enterprises.

Lease income from investment property is recognized evenly in revenues for the duration of the lease.

Financial revenues are from investments and are generated in connection with financial investments and receivables. They are divided into financial revenues that are subject to operating profit or loss (interest); and revenues that are subject to operating profit or loss of others (dividends, profit-sharing). Interest receivables are recognized when they are generated, except when uncertainty about their collectability exists. In such cases, the amount is written-off as replacement value. Interest receivables from then on are recognized as based on the interest rate which is used for discounting future cash flows.

Revenues from the sales of the equipment which is sold simultaneously with the subscription contract or the 24-month binding contract are deferred by the time of the binding period.

6.20 Costs

Costs of materials and services are the costs of those materials and services used in the creation of operating results that are considered direct costs; as are other costs that are not of that nature but are considered direct costs.

Depreciation costs present the acquisition costs of intangible fixed assets with final useful life periods and tangible fixed assets, which are transferred from these means over to emerging operating results in individual accounting periods.

Labour costs and refunds of expenses to employees are all forms of repayments the company makes to employees in return for their services which the company considers as labour costs. These earnings may also be related to charges which increase costs. The charges are calculated in accordance with the law, collective labour agreements, the company's general act, or employment agreements.

6. Accounting policies and notes (Continued)

Costs from the sales of the equipment which is sold simultaneously with the subscription contract or the 24-month binding contract are deferred by the time of the binding period.

6.21 Expenses

Expenses are diminutions of economic benefits in an accounting period in the form of decreased assets and/or increased debts; they affect the size of equity through profit or loss.

Expenses are divided among other operating and financial interest expenses as well as other liabilities.

Expenses are recognized, if the diminution of economic benefits in an accounting period relates to a decrease in assets or an increase in debt, and when this decrease can be measured in a reliable manner. Expenses are, therefore, recognized at the same time when a decrease in assets and an increase in debt are recognized.

6.22 Reporting by segments

A segment is a distinguishable component of the company that deals with products or services (business sector) or products and services in a particular economic environment (geographical sector) and is subject to risks and returns which differ from those in other sectors.

The Group does not report by business or geographical sectors, because it believes that sectors do not exist, because it offers a complete solution in the area of telecommunications. Geographical sectors also do not exist, because the Group only focuses on the Slovenian market.

6.23 New standards and explanations that have not yet entered into force

When preparing the financial statements the following amendment adopted by EU was not taken into consideration as it still was not in force on 31 December 2012:

Amendment to IFRS 7, Disclosures—transfers of financial assets (valid for annual financial periods starting on 1 July 2011 or later)

The amendment demands that a group discloses the information that enable the users of their financial statements to:

- better understand the relationship between the transferred financial assets which were not completely derecognised and related liabilities; and
- assess the risk of future group's participation in financial assets which were derecognised.

The amendment defines the "future participation" for the purpose of using disclosures demands.

Considering the nature of its operations and its financial assets, the Group assumes that the amendment to IFRS 7 will not considerably affect the financial statements and disclosures.

7. Risk management

The Group is exposed to the following risk when using financial instruments:

- credit risk,
- liquidity risk,
- market risk.

This point pertains to the Group and its exposure to individual limited risks, its goals, guidelines, and measurement and risk management procedures as well as its handling of equity. Other quantitative disclosures are contained in explanations to Financial Statements below.

The management is fully responsible for the establishment of a risk management framework regarding the Group.

Risk management guidelines are designed with the purpose to define and analyse risks that threaten the Group, which serve as the basis for determining suitable limitations and control, monitoring risks and considering limitations. Risk management guidelines and systems are regularly checked and, as a result,

7. Risk management (Continued)

information on changed market conditions and the Group's activities is regularly forwarded. The Group endeavours to develop a disciplined and constructive environment through education as well as risk management standards and procedures, in which all employees will be aware of their roles and obligations.

Financial risks

Credit risk

Credit risk presents a risk that the Group will suffer a financial loss if a customer or contractor does not fulfil contractual obligations. Credit risk arises in particular from the Group's address to claims on customers.

We have been intensively monitoring the situation of open claims, limitation of exposure to individual buyers, and implementation of a systematic and active process of claim recovery to limit the credit risk visible, particularly as a risk of non-payment for provided services.

We assess there is a low exposure to credit risk due to effective management.

Liquidity risk

Liquidity risk is a risk that the Group will not be able to settle its financial obligations upon their maturity. The Group ensures the greatest possible liquidity by always guaranteeing sufficient liquid assets to settle all its obligations in due time, namely in ordinary as well as high-stress circumstances, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk is managed by coordinating the maturity of receivables and liabilities; and by planning cash flows we can optimise short-term solvency.

A system for efficient planning and managing cash and cash equivalents to control liquidity risk was established. This enables precise regulation of cash flows, detection of deviations in due time, and decision-making on liquidity actions. The measures for monitoring, and planning cash flows, are implemented in all the companies of the Group, and short-term fluctuations in establishing liquidity are balanced with short-term financing within the Group.

In 2011 the liquidity risk in the Group has been low, due to stable regular inflows by buyers, and efficient synchronisation of inflows and outflows.

Market risk

Market risk is a risk that changes in market prices, such as exchange rates, interest rates and equity instruments, will influence the Group's income or the value of financial instruments. The goal of market risk management is to manage and control the exposure to market risk within reasonable limits while at the same time optimising profit. The Group trades with financial instruments and undertakes financial obligations, both with the goal of managing market risks. All these businesses are performed in accordance with the Group's guidelines pertaining to this area.

Currency risk

The Group is subject to currency risk in American dollars when doing business with foreign programme suppliers and foreign material suppliers. As approximately 95% of the operations have been made in EUR and the only long-term loan is denominated in EUR, we asses there is a minimal level of currency risk.

Interest rate risk

Exposure to interest risk results from a non-current loan with a variable interest rate.

By using derivative financial instruments and in order to secure the interest rate risk the Group changed the variable interest rate into the fixed one for two thirds of the syndicated non-current loan.

7. Risk management (Continued)

Capital management

The Management Board has decided on the conservation of capital in order to ensure the trust of investors, creditors and the market as well as a sustained development of the Group. The business and management board monitors the return on capital that the Group defined as net operating income, divided by the shareholders entire capital. The Supervisory Board also monitors the dividend level paid to shareholders. The Group does not implement special measures in capital management.

No changes occurred in the Group's manner of capital management in the reporting year. The Group is not subject to any capital adequacy requirements determined by external bodies.

8. Breakdown of notes to Financial Statements

8.1.1 Property, plant and equipment

In €	Land	Buildings	Equipment	TFA in progress	Total
COST OF PURCHASE					
Balance 31 December 2010	203,167	12,614,929	103,602,321	2,303,657	118,724,074
Purchase	0	10,614	15,905,378	−343,417	15,572,575
Disposals, write-offs	0	0	−318,748	0	−318,748
Sales	0	0	−147,676	0	−147,676
Other	0	0	133,941	0	133,941
Balance 31 December 2011	203,167	12,625,543	119,175,216	1,960,240	133,964,166
VALUE ADJUSTMENT					
Balance 31 December 2010	0	7,288,472	59,525,399	0	66,813,871
Depreciation	0	661,100	11,415,676	0	12,076,776
Disposals, write-offs	0	0	−277,547	0	−277,547
Sales	0	0	−106,158	0	−106,158
Other	0	0	124,489	0	124,489
Balance 31 December 2011	0	7,949,572	70,681,859	0	78,631,431
CARRYING AMOUNT					
Balance 31 December 2010	203,167	5,326,457	44,076,921	2,303,657	51,910,202
Balance 31 December 2011	203,167	4,675,971	48,493,357	1,960,240	55,332,735

Movement of real property, plant and equipment in 2010:

In €	Land	Buildings	Equipment	TFA in progress	Total
COST OF PURCHASE					
Balance 31 December 2009	203,167	12,615,702	87,611,589	2,451,523	102,881,981
Purchase	0	0	16,803,561	−147,866	16,655,695
Disposals, write-offs	0	0	−459,921	0	−459,921
Sales	0	0	−353,682	0	−353,682
Transfer from buildings to equipment	0	−774	774	0	0
Balance 31 December 2010	203,167	12,614,928	103,602,321	2,303,657	118,724,073
VALUE ADJUSTMENT					
Balance 31 December 2009	0	6,595,263	50,559,464	0	57,154,727
Depreciation	0	693,631	9,680,776	0	10,374,407
Disposals, write-offs	0	0	−421,129	0	−421,129
Sales	0	0	−294,135	0	−294,135
Transfer from buildings to equipment	0	−423	423	0	0
Balance 31 December 2010	0	7,288,471	59,525,399	0	66,813,870
CARRYING AMOUNT					
Balance 31 December 2009	203,167	6,020,439	37,052,126	2,451,883	45,727,254
Balance 31 December 2010	203,167	5,326,457	44,076,921	2,303,657	51,910,203

8. Breakdown of notes to Financial Statements (Continued)

In 2011 the Group sold and took financial leaseback on the equipment in the value of 1,743,825.39 € (purchase value 1,905,352.69 € and the accumulated value adjustment of 161,527.30 €).

Other property, plant and equipment are owned by the Group. Movable property in the controlling company is pledged for the repayment of the syndicated non-current loan.

8.1.2 Investment property

In €	Investment property	Total
COST OF PURCHASE		
Balance 31 December 2010	983,293	983,293
Balance 31 December 2011	983,293	983,293
VALUE ADJUSTMENT		
Balance 31 December 2009	250,636	250,636
Depreciation	49,668	49,668
Balance 31 December 2011	300,304	300,304
CARRYING AMOUNT		
Balance 31 December 2010	732,657	732,657
Balance 31 December 2011	682,989	682,989

In €	Investment property	Total
COST OF PURCHASE		
Balance 31 December 2009	983,293	983,293
Balance 31 December 2010	983,293	983,293
VALUE ADJUSTMENT		
Balance 31 December 2009	201,094	201,094
Depreciation	45,736	45,736
Other	3,806	3,806
Balance 31 December 2010	250,636	250,636
CARRYING AMOUNT		
Balance 31 December 2009	782,199	782,199
Balance 31 December 2010	732,657	732,657

Telemach d.o.o. did not manage to rent out the building in 2011. Telemach Pobrežje d.o.o. rents out its building in Cesta XIV divizije 5 to company Narvis d.o.o.. Thus in 2011 we had revenues from investment property in the amount of 4,320 EUR and 85,170 EUR maintenance costs. The Group assess the fair value to be the same as the book value.

8. Breakdown of notes to Financial Statements (Continued)

8.1.3 Intangible fixed assets

In €	Goodwill	Database Customer list	Other intangible fixed assets	Total
COST OF PURCHASE				
Balance 31 December 2010	32,769,628	36,501,168	3,463,082	72,733,878
Purchase, activations	0	0	8,521,282	8,521,282
Disposals, write-offs	0	0	−5,272	−5,272
Balance 31 December 2011	32,769,628	36,501,168	11,979,092	81,249,888
VALUE ADJUSTMENT				
Balance 31 December 2010	0	20,065,484	2,972,184	23,037,668
Depreciation	0	3,650,112	274,151	3,924,263
Disposals, write-offs	0	0	−5,271	−5,271
Balance 31 December 2011	0	23,715,596	3,241,064	26,956,660
CARRYING AMOUNT				
Balance 31 December 2010	32,769,628	16,435,684	490,898	49,696,210
Balance 31 December 2011	32,769,628	12,785,572	8,738,028	54,293,228

Movement of intangible assets in 2010:

In €	Goodwill	Database Customer list	Other intangible fixed assets	Total
COST OF PURCHASE				
Balance 31 December 2009	31,978,379	36,501,168	3,037,802	71,517,349
Purchase, activations	0	0	425,332	425,332
Disposals, write-offs	0	0	−52	−52
Transfer/new companies in the group	791,249	0	0	791,249
Balance 31 December 2010	32,769,628	36,501,168	3,463,082	72,733,878
VALUE ADJUSTMENT				
Balance 31 December 2009	0	16,415,372	2,790,895	19,206,267
Depreciation	0	3,650,112	181,340	3,831,452
Disposals, write-offs	0	0	−51	−51
Balance 31 December 2010	0	20,065,484	2,972,184	23,037,668
CARRYING AMOUNT				
Balance 31 December 2009	32,769,628	20,085,796	246,907	53,102,331
Balance 31 December 2010	32,769,628	16,435,684	490,898	49,696,210

Goodwill

Book value of goodwill per individual cash-generating unit:

In €	31 December 2011	31 December 2010
Telemach	10,966,649	10,966,649
Telemach Velenje d. d.	371,162	371,162
Telemach Murska Sobota d. d.	558,378	558,378
Telemach Rotovž d. d.	7,630,031	7,630,031
Telemach Ljubljanski kabel d. d.	8,751,715	8,751,715
Telemach Tabor d. d. (with associated companies)	4,491,692	4,491,692
Total	**32,769,628**	**32,769,628**

In accordance with the Group's guidelines and IAS 36 "Impairment of assets" we performed an examination of an eventual impairment of said assets on 31 December 2011.

8. Breakdown of notes to Financial Statements (Continued)

The examination is based on value in use as assessed on 15 July 2009 and recalculated to 31 December 2011. Since the book value of the stated unit (including the related goodwill) is lower than the determined value in use, we did not register an impairment of goodwill in 2011.

In assessing the present value of expected free cash flows, the Business Valuation Report for the company Telemach d.o.o was used, which was prepared by a certified business valuator and taking into account the following assumptions:

- Cash flows are mostly based on actual results and a six-year business plan.
- Based on the company analysis of strengths, weaknesses, opportunities and threats, a growth of free cash flow is anticipated at an estimated 2% average per year.
- Long-term rate of return on non-risk investments was estimated at 4%.
- A 7% equity risk premium was used.
- The scope of systematic risk of the equity investment (β) was estimated at 1.05
- Required rate of return on loan capital was estimated at 7.86%.
- Required rate of return on total capital was estimated at 10.2%.

A certified business valuator also calculated the average present value of anticipated free cash flows in accordance with these assumptions and considering two scenarios of business operations (optimistic and pessimistic)—in all three scenarios, the amounts were higher than the book value, therefore, impairment of goodwill was not performed.

Intangible fixed assets, essential for the Group financial statements:

In €	Book value 31 December 2011	Remaining depreciation period in years	Book value 31 December 2010	Remaining depreciation period in years
Database Customer list	12,785,572	4	16,435,684	5

The customer database was shaped on the basis of a valuation by a court appraiser performed on 10 February 2005, who estimated its useful life at 10 years (10% depreciation rate).

In 2009, the customer database was re-evaluated by a certified business valuator for financial reporting purposes of the parent company. The performed valuation confirms that the weakening of the customer data base was not necessary.

Other intangible assets essential for the Group's financial statements are the acquired rights to transmit sports events.

8.1.4 Long-term deferred costs and accrued revenues

Long-term deferred costs and accrued revenues represent costs of an acquired syndicated loan and deferred costs of equipment sales.

	2011	2010
Deferred costs of long-term loan	2,260,055	2,965,953
Deferred costs of equipment sales	448,766	0
Balance 31 December	**2,708,821**	**2,965,953**

Loan costs were deferred over the loan period, using the effective interest rate method.

8. Breakdown of notes to Financial Statements (Continued)

Flow of long-term deferred costs and accrued revenues through the loan period

	2011	2012	2013	2014	2015
Balance 1 January	2,965,953	2,260,055	1,684,726	1,247,596	995,385
Transfer to short-term deferred costs and accrued revenues	705,898	575,329	437,130	252,211	995,385
Balance 31 December	**2,260,055**	**1,684,726**	**1,247,596**	**995,385**	**0**

8.1.5 Non-current financial assets

Non-current loans:

	31 December 2010	Increase	Decrease	31 December 2011
Loans to other individuals	41,416	0	− 7,000	34,416
Total	**41,416**	**0**	**− 7,000**	**34,416**

	31 December 2009	Increase	Decrease	31 December 2010
Loans to other individuals	48,416	0	− 7,000	41,416
Total	**48,416**	**0**	**− 7,000**	**41,416**

Other investment:

	31 December 2010	Increase	Decrease	31 December 2011
Long-term deposits given	268,805	0	0	268,805
Total	**268,805**	**0**	**0**	**268,805**

	31 December 2009	Increase	Decrease	31 December 2010
Long-term deposits given	268,805	0	0	268,805
Total	**268,805**	**0**	**0**	**268,805**

Maturity of non-current loans given and other investment:

	31 December 2011	Maturity	
		from 1 to 2 years	from 2 to 5 years
Loans to other individuals	34,416	14,000	20,416
Long-term deposits given	268,805	0	268,805
Total	**303,221**	**14,000**	**289,221**

8.1.6 Inventory

	Net amount 31 December 2010	Gross amount	Amended value	Net amount 31 December 2011
Materials	2,457,929	2,675,991	0	2,675,991
Total	**2,457,929**	**2,675,991**	**0**	**2,675,991**

The inventory is owned by the Group and is not pledged. It is presented in accordance with its book value, which does not exceed the net market value.

The stocktaking on 30 November 2011 found 16,874 € of surplus and 32,958 € of shortfall.

8. Breakdown of notes to Financial Statements (Continued)

In 2011 the company wrote off 10,929 € worth of inventories—for uselessness, wear and tear and technical inappropriateness.

8.1.7 Short-term operating receivables

	31 December 2011	31 December 2010
Short-term receivables to associated companies	43,800	44,988
Other short-term receivables to customers	10,424,477	6,786,852
Short-term advances and collaterals given	168,694	232,410
Other short-term receivables	690,562	1,587,691
Other short-term assets	1,567,765	1,186,207
Total	**12,895,298**	**9,838,148**

—other short-term receivables to customers	31 December 2011	31 December 2010
Domestic customers	8,935,192	6,596,316
Foreign customers	1,489,285	190,536
Total	**10,424,477**	**6,786,852**

—other short-term receivables	31 December 2011	31 December 2010
Receivables for incoming VAT	594,156	876,904
Other short-term receivables towards state and other institutions	51,094	658,663
Other short-term receivables	45,312	52,585
Total	**690,562**	**1,588,152**

—other short-term assets	31 December 2011	31 December 2010
Short-term deferred car insurance costs	18,597	15,417
Deferred licensing fees	71,217	52,696
Short-term deferred interest	210,345	238,328
Short-term deferred cost of commission for granting long-term loan	705,899	781,069
Short-term deferred marketing costs	30,805	92,497
Short-term deferred equipment costs in instalments	403,916	0
Short-term uninvoiced revenues	46,553	0
Short-term deferred SLBB costs	58,333	0
Other	22,100	6,200
Total	**1,567,765**	**1,186,207**

8.1.8 Cash and cash equivalents

	31 December 2011	31 December 2010
Cash-in-hand	6,188	11,527
Cash in bank accounts	179,011	98,416
Short-term bank deposits	2,262,776	899,923
Short-term bank deposits—SAZAS	785,931	752,951
Total	**3,233,906**	**1,762,817**

All cash in bank accounts is pledged for the repayment of the syndicated non-current loan.

8. Breakdown of notes to Financial Statements (Continued)

8.1.9 Provisions

	Balance 31 December 2010	Additional formation	Drawing	Balance 31 December 2011
Provisions for pensions and similar liabilities	178,861	−557	−6,529	171,775
Provisions for risky contracts	759,487	44,666	−11,684	792,469
Provisions for donations received for assets	15,680	111,120	−9,078	117,722
Long-term accruals and deferred income	0	8,070,000	−5,470,000	2,600,000
Long-term deferred income	88,013	501,172	−22,540	566,645
Total	**1,042,041**	**8,726,401**	**−5,519,831**	**4,248,611**

	Balance 31 December 2009	Additional formation	Drawing	Balance 31 December 2010
Provisions for pensions and similar liabilities	283,489	−122,202	17,574	178,861
Provisions for risky contracts	38,879	759,487	−38,879	759,487
Provisions for donations received for assets	21,655	0	−5,975	15,680
Other provisions	0	88,013	0	88,013
Total	**344,023**	**725,298**	**−27,280**	**1,042,041**

Provisions for pensions and long-service awards were formed on the basis of the actuarial calculation prepared by an authorised actuary.

Predispositions used in the calculation:

- nominal long-term interest rate was estimated to 4.8%;
- expected long-term growth of the long-service award and non-taxable sums in the calculation is estimated in the amount of anticipated long-term inflation of 3% per years, whereby the non-taxable amount considered in severance pay at retirement is 4,063 €, for long-service awards 460 €, 689 €, and 919 € (for 10, 20, 30, and 40 years of work). All sums for severance which are expected to exceed the foreseen limit of non-taxable sums at the estimated growth are additionally increased by 16.1% for contributions in accordance with Slovenian legislation on the day of the provision calculation;
- the estimated mortality of workers is considered in the calculation in accordance with Slovene mortality rates for 2000-2002, separated by gender, whereby replacement of older employees (pensioners) with younger ones, has to be indirectly regarded;
- provisions are calculated merely for employees for indefinite work period as employers have a long-term obligation towards them;
- for all employees to exercise the right to old-age pension when it occurs;
- evaluated future long-term salary growth was estimated at 4.5% per year;
- staff turnover was estimated at 8% for employees up to 35 years old, 4% for employees aged between 35 and 45, 2.5% for employees older than 45 years.

Provisions for risky contracts were formed for the contract between Telemach and SAZAS. Based on the decision by the Slovenian Cable Association Telemach d.o.o. payed 50% between April 2010 and October 2010 of the calculated sum during the year, and formed provisions for risky contracts for the second half of the sum. In accordance with the SCA this sum was transferred to the company's deposit business account.

Long-term accruals and deferred income in the amount of 2,600,000 € present the long-term liability to pay off the acquired rights to transmit sports events in the basketball, football and ice-hockey leagues.

Long-term deferred income refers to customer connection fees and equipment sales.

8. Breakdown of notes to Financial Statements (Continued)

8.1.10 Non-current financial liabilities

- to associated companies

	31 December 2011	Interests	31 December 2010
Broadband kabel d.o.o.	24,606,335	1,095,416	23,510,919
Total	**24,606,335**	**1,095,416**	**23,510,919**

	31 December 2010	Interests	31 December 2009
Broadband kabel d.o.o.	23,510,919	1,095,415	22,415,504
Total	**23,510,919**	**1,095,415**	**22,415,504**

On 15 Jul 2009 the company received a long-term loan from the parent company (Broadband kabel d.o.o.) in the amount of 21,908,311 €. The rate of interest is fixed (5%) and compliant with the rate of interest received from the bank trade-union in an affiliated transaction. Payment terms and the amortisation schedule are not contractually defined—with the exception of the loan repayment deadline (10 years from receiving the funds).

- to banks

A syndicated loan was received from the banks Unicredit Bank Austria, BNP Paribas, ING Bank, WestLB and Natixis. Facility A and Facility B, together with the non-current loan from Broadband kabel, are intended for the repayment of the loan to UPC Slovenia Holding.

Capex facilities are future loans for investments in fixed assets and for financing or refinancing the buyout of the subsidiaries' shares.

The interest rate is dependent on the Leverage (ratio of total net debt on the last day of the period and the EBITDA for the given period), which is defined in the syndicated loan contract.

Thus the interest rates until 10 July 2011 were: 4.75% + monthly EURIBOR for A assets; 5.75% + monthly EURIBOR for B assets; and 4.75% + monthly EURIBOR for Capex assets.

From 11 July 2011 to 15 November 2011 the interest rates were: 4.25% + monthly EURIBOR for A assets; 5.75% + monthly EURIBOR for B assets; and 4.25% + monthly EURIBOR for Capex assets.

8. Breakdown of notes to Financial Statements (Continued)

Since 16 November 2011 the interest rates have been: 4.25% + monthly EURIBOR for A assets; 5.25% + monthly EURIBOR for B assets; and 4.25% + monthly EURIBOR for Capex assets.

Total	31 December 2011	Increase	Transfer to short-term	31 December 2010
UNICREDIT BANK AUSTRIA AG—Facility A	3,722,672	0	−1,585,582	5,308,254
UNICREDIT BANK AUSTRIA AG—Facility B	6,267,123	0	0	6,267,123
UNICREDIT BANK AUSTRIA AG—Capex Facility	601,644	417,809	−233,973	417,808
BNP PARIBAS—Facility A	3,722,672	0	−1,585,582	5,308,254
BNP PARIBAS—Facility B	6,267,123	0	0	6,267,123
BNP PARIBAS—Capex Facility	601,644	417,809	−233,973	417,808
ING BANK B.V.—Facility A	3,722,672	0	−1,585,582	5,308,254
ING BANK B.V.—Facility B	6,267,123	0	0	6,267,123
ING BANK B.V.—Capex Facility	601,644	417,809	−233,973	417,808
WESTLB AG—Facility A	3,722,672	0	−1,585,582	5,308,254
WESTLB AG—Facility B	6,267,123	0	0	6,267,123
WESTLB AG—Capex Facility	601,644	417,809	−233,973	417,808
NATIXIS—Facility A	2,929,313	0	−1,247,673	4,176,986
NATIXIS—Facility B	4,931,507	0	0	4,931,507
NATIXIS—Capex Facility	473,424	328,764	−184,107	328,767
Total	**50,700,000**	**2,000,000**	**−8,710,000**	**57,410,000**

The maturity of the principal repayment:

Facility A	2011	2012	2013	2014	2015	2016
Balance 1 January	30,030,000	25,410,000	17,820,000	10,230,000	2,640,000	0
Acquired loan	0	0	0	0	0	0
Payments	4,620,000	7,590,000	7,590,000	7,590,000	2,640,000	0
Balance 31 December	**25,410,000**	**17,820,000**	**10,230,000**	**2,640,000**	**0**	**0**

Facility B	2011	2012	2013	2014	2015	2016
Balance 1 January	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Acquired loan	0	0	0	0	0	0
Payments	0	0	0	0	0	30,000,000
Balance 31 December	**30,000,000**	**30,000,000**	**30,000,000**	**30,000,000**	**30,000,000**	**0**

Capex facility	2011	2012	2013	2014	2015	2016
Balance 1 January	2,000,000	4,000,000	2,880,000	1,760,000	640,000	0
Acquired loan	2,000,000	0	0	0	0	0
Payments	0	1,120,000	1,120,000	1,120,000	640,000	0
Balance 31 December	**4,000,000**	**2,880,000**	**1,760,000**	**640,000**	**0**	**0**

The maturity of the principal repayment:

	31 December 2011	Acquisition	Transfer to short-term	31 December 2010
Financial lease—equipment	907,106	2,391,533	−1,484,427	0
Financial lease—equipment (interests)	−26,311	−99,394	73,083	0
Total	**880,795**	**2,292,139**	**−1,411,344**	**0**

Among other non-current financial liabilities Telemach d.o.o. lists the equipment in financial lease (their sale and leaseback). The annual interest rate is 5.47%. The total amount of financial leases is

8. Breakdown of notes to Financial Statements (Continued)

1,722,632 €. They are payable monthly. The instalments of financial leases that mature in 2012 are listed under short-term financial liabilities in the amount of 841,837 €.

The liabilities of the financial lease are payable as follows:

	Payment for the lowest rent	Interests	Present value of the lowest rent
Less than one year	907,105	65,268	841,837
More than one and less than five years	907,105	26,310	880,795
More than five years	0	0	0
Total	**1,814,210**	**91,578**	**1,722,632**

The bookkeeping values of all financial liabilities are getting closer to their fair values.

8.1.11 Deferred claims and tax liabilities

	31 December 2011	31 December 2010
Deferred tax assets	26,806	1,117,977
Deferred tax liabilities	−540,867	−359,785
Net deferred tax claims (liabilities)	**−514,061**	**758,192**

	31 December 2011	Net calculation of claims/liabilities	Balance in Statement of Financial Situation 31 December 2011
Deferred tax liabilities	−2,159,140	1,618,273	−540,867
Deferred tax assets	1,645,079	−1,618,273	26,806
Net deferred tax claims (liabilities)	**−514,061**	**0**	**−514,061**

Deferred tax liabilities:

	31 December 2010	Additional formation	Drawing	31 December 2011
Deferred liabilities for modems/set top boxes	1,550,063	899,724	−509,980	1,939,807
Deferred liabilities for depreciation	219,333	0	0	219,333
Total	**1,769,396**	**899,724**	**−509,980**	**2,159,140**

	31 December 2009	Additional formation	Drawing	31 December 2010
Deferred liabilities for modems/set top boxes	826,975	743,975	−20,887	1,550,063
Deferred liabilities for depreciation	219,333	0	0	219,333
Total	**1,046,308**	**743,975**	**−20,887**	**1,769,396**

Deferred tax claims:

	31 December 2010	Additional formation	Drawing	31 December 2011
Deferred assets for anniversary bonuses and severance payments	35,771	−1,302	−115	34,354
Deferred assets for unused relief	29,885	141,370	−117,370	53,885
Deferred assets for tax losses	2,448,994	34,272	−935,002	1,548,264
Deferred assets for deferred income	12,938	−3,819	−543	8,576
Total	**2,527,588**	**170,521**	**−1,053,030**	**1,645,079**

8. Breakdown of notes to Financial Statements (Continued)

	31 December 2009	Additional formation	Drawing	31 December 2010
Deferred assets for anniversary bonuses and severance payments	49,205	1,673	−15,107	35,771
Deferred assets for unused relief	0	29,885	0	29,885
Deferred assets for tax losses	0	2,483,266	−34,272	2,448,994
Deferred assets for deferred income	12,858	8,611	−8,531	12,938
Total	**62,063**	**2,523,435**	**−57,910**	**2,527,588**

The used official tax rate for both years was 20%.

8.1.12 Short-term financial liabilities

Short-term financial liabilities to banks	31 December 2011	Transfer from long-term liabilities	Payments	31 December 2010
UNICREDIT BANK AUSTRIA AG—Facility A	1,585,582	1,585,582	965,137	965,137
UNICREDIT BANK AUSTRIA AG—Capex Facility	233,973	233,973	0	0
UNICREDIT BANK AUSTRIA AG—Revolving	0	0	167,124	167,124
BNP PARIBAS—Facility A	1,585,582	1,585,582	965,137	965,137
BNP PARIBAS—Capex Facility	233,973	233,973	0	0
BNP PARIBAS—Revolving	0	0	167,124	167,124
ING BANK B.V.—Facility A	1,585,582	1,585,582	965,137	965,137
ING BANK B.V.—Capex Facility	233,973	233,973	0	0
ING BANK B.V.—Revolving	0	0	167,123	167,123
WESTLB AG—Facility A	1,585,582	1,585,582	965,137	965,137
WESTLB AG—Capex Facility	233,973	233,973	0	0
WESTLB AG—Revolving	0	0	167,123	167,123
NATIXIS—Facility A	1,247,673	1,247,673	759,452	759,452
NATIXIS—Capex Facility	184,107	184,107	0	0
NATIXIS—Revolving	0	0	131,506	131,506
Total	**8,710,000**	**8,710,000**	**5,420,000**	**5,420,000**

The interest rate and the principal repayment are presented in v 8.1.10.

Other short-term financial liabilities	31 December 2011	31 December 2010
ING Bank B.V.	184,795	454,488
UNICREDIT BANK A.G.	314,861	341,435
Dividends	0	11,316
Financial leases—equipment	841,837	0
Total	**1,341,493**	**807,239**

8. Breakdown of notes to Financial Statements (Continued)

8.1.13 Short-term operating liabilities

	31 December 2011	31 December 2010
Short-term liabilities to suppliers	**3,369,579**	**3,816,824**
Short-term liabilities to domestic suppliers	2,261,828	2,892,949
Short-term liabilities to foreign suppliers	1,107,751	923,875
Short-term liabilities for advances and securities received	**15**	**0**
Short-term liabilities for advances received	15	0
Short-term liabilities to employees	**695,536**	**615,339**
Liabilities for net wages and continued pay	496,423	430,236
Liabilities for contributions from gross wages and continued pay	103,586	89,194
Liabilities for taxes from gross wages and continued pay	55,499	50,070
Other liabilities	40,028	45,839
Liabilities to state and other institutions	**1,036,252**	**1,302,239**
Liabilities for VAT payable	821,302	1,194,149
Liabilities for payer's contributions	61,507	56,143
Corporate income tax liabilities	153,443	51,947
Other short-term liabilities	**3,157,061**	**110,208**
Short-term liabilities to pay off minority shareholders of LK	69,592	69,527
Short-term liabilities to pay off minority shareholders of Velenje	320,382	0
Short-term liabilities to pay off minority shareholders of Murska Sobota	145,870	0
Short-term liabilities to pay off the KKS Slivnica share	8,763	0
Short-term part of the liabilities for sports events rights	2,540,000	0
Other short-term liabilities	72,454	40,681
Other short-term operating liabilities	**4,888,864**	**2,027,786**
Deferred revenues and cost provisions	**4,691,239**	**3,318,645**
Total short-term operating liabilities	**12,949,682**	**9,163,255**

Deferred income and built-in costs	31 December 2011	31 December 2010
Attributed costs of programme contents	715,021	845,225
Attributed costs of SLBB	1,102,500	712,500
Attributed costs of authors' rights (Aipa, Sazas, EBU...)	949,278	369,969
Attributed costs of audit	27,461	49,351
Attributed costs of online transmission, maintenance	169,789	69,589
Attributed costs of postal services	56,206	43,665
Attributed costs of advertising	94,589	17,240
Attributed costs of Telekom	68,304	79,948
Attributed costs of sewerage	260,128	188,832
Attributed costs of students	33,949	29,822
Attributed costs of rented premises	23,930	1,747
Attributed costs of energy	25,235	18,574
Attributed costs of telephone	28,841	30,666
Attributed costs of Adacta	37,872	22,122
Attributed costs of interconnection	183,014	231,870
Attributed costs of counselling	13,400	16,440
Attributed costs of network maintenance	136,743	224,237
Attributed costs of cars	694	428
Other attributed costs	62,335	21,271
Attributed investments	238,452	331,103
Short-term deferred income—equipment	451,074	0
Short-term deferred income—connection fees	12,424	14,046
Total	**4,691,239**	**3,318,645**

8. Breakdown of notes to Financial Statements (Continued)

8.1.14 Financial instruments

Fair values of financial instruments:

	Book value 31 December 2011	Fair value	Book value 31 December 2010	Fair value
Non-current financial liabilities	76,187,130	76,187,130	80,920,919	80,920,919
Short-term financial liabilities	10,051,493	10,051,493	6,227,239	6,227,239
Short-term operating liabilities (minus deferred income and accrued costs)	8,258,443	8,258,443	5,844,610	5,844,610
Total	**94,497,066**	**94,497,066**	**92,992,768**	**92,992,768**
Cash and cash equivalents	3,233,906	3,233,906	1,762,817	1,762,817
Other investments	268,805	268,805	268,805	268,805
Non-current loans given	34,416	34,416	41,416	41,416
Short-term operating receivables (less accrued revenues and advances)	11,327,533	11,327,533	8,651,941	8,651,941
Total	**14,864,660**	**14,864,660**	**10,724,979**	**10,724,979**

Given and received loans are disclosed in accordance with their repayment value. Possible differences between historical and repaid value are disclosed in the Income Statement during the period of repayment of the loan.

The received syndicated loan has a variable interest rate while the loan from the capital owner has a fixed interest rate.

Short-term operating receivables are disclosed at fair value and are impaired in accordance with the company's orientations. Short-term operating liabilities are presented in their original values.

Credit risk:

Financial means in the total amount of 14,864,660 € (31 December 2010: 10,724,979 €) represent the maximum exposure of the Group to the credit risk. Due to the size of the amounts, the Group believes that they do not represent a significant credit risk.

The greatest actual exposures to credit risk are the short-term receivables against the customers (third persons) in the amount of 10,424,477 € (31 December 2010: 6,786,852 €).

Statement of receivables against customers on the day of the report:

	31 December 2011	31 December 2010
Not yet matured	7,698,381	5,663,780
Matured 0 - 30 days	1,192,074	854,624
Matured 31 - 120 days	1,224,588	596,933
Matured 121 - 180 days	198,702	175,428
More than 180 days	1,474,256	759,285
Total	**11,788,001**	**8,050,050**
Minus value correction	−1,363,524	−1,263,198
Receivables against customers	10,424,477	6,786,852

Developments in value adjustments due to impairments with regard to receivables against customers in the year:

	2011	2010
Balance 1 January	−1,248,498	−1,481,918
Newly formed adjustment	−281,112	−98,275
Write-offs and elimination of an adjustment	166,086	316,995
Balance 31 December	**−1,363,524**	**−1,263,198**

8. Breakdown of notes to Financial Statements (Continued)

Greatest exposure to credit risk by customer type (third persons):

Short-term deferred receivables from customers	31 December 2011	31 December 2010
Legal entities	2,597,992	1,502,167
Natural persons	7,826,485	5,284,685
Total	**10,424,477**	**6,786,852**

The greatest single amount receivable represents 8% (31 December 2010: 3%) of all receivables from customers.

Liquidity risk:

	31 December 2011	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
Non-current financial liabilities	76,187,130	76,187,130	0	0	18,300,796	33,279,999	24,606,335
Short-term financial liabilities	10,051,493	10,051,493	5,275,575	4,775,918	0	0	0
Short-term financial liabilities from operations (minus deferred income and accrued costs)	8,258,443	8,258,443	6,958,443	1,300,000	0	0	0
Total	**94,497,066**	**94,497,066**	**12,234,018**	**6,075,918**	**18,300,796**	**33,279,999**	**24,606,335**

	31 December 2010	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
Non-current financial liabilities	80,920,919	80,920,919	0	0	16,300,000	34,620,919	30,000,000
Short-term financial liabilities	6,227,239	6,227,239	6,227,239	0	0	0	0
Short-term financial liabilities from operations (minus deferred income and accrued costs)	5,844,610	5,844,610	5,844,610	0	0	0	0
Total	**92,992,768**	**92,992,768**	**12,071,849**	**0**	**16,300,000**	**34,620,919**	**30,000,000**

Foreign exchange risk:

The Group's important liabilities and assets are not denominated in foreign currencies and it thus considers the foreign exchange risk insignificant.

Interest rate risk:

The exposure to the interest rate risk stems from the received syndicated non-current loan with a variable interest rate.

By using derivative financial instruments and in order to secure the interest rate risk the Group changed the variable interest rate into the a fixed one for two thirds of the syndicated non-current loan.

Sensitivity analysis

A change of the average interest rate of an interest-bearing debt by 100 basic points would have an effect on the Financial Statements in the amount of 1,385,687 € (31 December 2010: 1,532,652 €).

8.1.15 Off-Balance Sheet Record

The Off-Balance Sheet Record lists: letters of credit for acquiring fixed assets (for Cisco equipment) and bid bonds. The cut-off date records one open letter of credit in the Off-Balance Sheet Record in the amount 85,867 USD and two guarantees in the total amount of 77,370 €.

The Group also has pledged rights with the mark of direct maturity for insuring claims in the amount of 73 million EU R for the syndicated loan.

8. Breakdown of notes to Financial Statements (Continued)

8.2.1 Net sales revenues

Revenues from product and services sales on the domestic market

	2011	2010
CATV subscription fee	9,080,007	14,582,476
CATV connections	107,848	134,701
Other revenues from CATV	51,116	44,311
Internet subscription fee	16,063,883	13,677,153
Internet connections	133	52
Other revenues from internet	558,209	498,658
Optical fibre subscription fee	2,000,688	2,666,737
Optical fibre connections	70,485	11,640
Other optical fibre	816,445	280,078
Digital services subscription fee	19,597,400	10,873,875
Digital services connections	167	3,000
Other digital services	185,931	160,856
MMDS subscription fee	1,214,718	999,071
MMDS connections	32,095	132,124
MMDS other	17,322	34,809
VOIP subscription fee	5,228,056	4,176,233
VOIP connections	0	117
VOIP other	192,362	176,639
ADSL	22,133	0
Lease of the signal	378,742	362,454
Leas of the channel	138,764	108,344
Advertising	310,036	8,723
Revenues from leases	134,423	182,576
Revenues from sales of commercial goods and materials on domestic market	502,024	187,043
Other	190,448	211,011
Total	**56,893,435**	**49,512,681**

8.2.2 Other operating revenues

	2011	2010
Revenues from sales of fixed assets	23,044	28,177
Recovered written-off receivables	7,379	6,032
Legal expenses from lawsuits	42,606	40,794
Received penalties and damages	8,151	13,816
Elimination of provisions	7,306	85,017
Revaluated operating revenues	12,123	6,810
Negative goodwill Velenje	40,100	0
Other revenues	52,860	40,736
Total	**193,569**	**221,382**

8.2.3 Costs of goods, materials and services

	2011	2010
Acquisition cost of goods sold	351,821	227,418
Cost of materials	1,229,957	1,177,618
Cost of services	19,849,264	18,374,476
Total	**21,431,042**	**19,779,512**

8. Breakdown of notes to Financial Statements (Continued)

- Cost of materials

	2011	2010
Cost of spare parts and material for maintenance	179,535	215,415
Cost of power used	918,742	813,502
Write-off of low-value assets and packaging	27,061	20,160
Cost of office stationery and technical literature	73,231	86,631
Other costs of material	31,379	41,910
Total	**1,229,948**	**1,177,618**

- **Cost of services**

	2011	2010
Cost of postal services	759,844	664,019
Cost of maintenance services	1,330,477	1,304,611
Cost of rents	3,336,285	3,347,095
Cost of program suppliers	7,783,518	6,111,136
Costs of sub-suppliers' services	291,870	0
Refund of work-related expenses to employees	151,770	116,537
Cost of marketing	1,642,108	1,524,700
Cost of payment transactions and bank services	149,052	139,301
Cost of intellectual performances and personal services	1,411,724	2,288,081
Insurance premiums	60,670	62,955
Cost of telephone	261,310	332,428
Cost of maintenance of office facilities	154,979	121,493
Cost of lease and maintenance of cars	74,974	69,466
Cost of VOIP interconnectivity	2,089,548	1,984,337
Cost of other services	351,135	308,317
Total	**19,849,264**	**18,374,476**

8.2.4 Labour costs

	2011	2010
Employee wages	3,229,544	2,700,818
Employee compensation pay	229,374	453,240
Pension and disability insurance from wages	641,651	537,390
Other contributions from wages	273,220	228,825
Transport to and from work costs	165,166	160,844
Meal allowance	271,646	246,153
Vacation bonus	232,932	183,766
Severance pay and long service awards	6,732	15,212
Employer's contribution from wages, continued pay for pension and disability insurance	385,748	351,993
Other employer's contributions from wages	316,711	289,336
Total	**5,776,510**	**5,167,577**

In the controlling company Telemach, 13 employees received their salaries according to their individual contracts. Based on that, 822,501 € of gross salaries were paid in 2011. In 2012 for 13 employees on individual contracts 577,601 € in gross salaries was paid.

In the dependent company Telemach Rotovž, 2 employees received their salaries based on individual contracts. Based on that, 93,516 € in gross salaries was paid in 2011.

8. Breakdown of notes to Financial Statements (Continued)

The controlling company operates with a one-member board—the director of the company. There are no open items in loans to or from the Board.

	Fixed part	Variable part
Board	107,491	19,500
Procurator	121,483	0
Others	606,879	60,750

The variable part refers to actual payments in 2011 connected with financial years 2011 and 2010.

8.2.5 Depreciation

	2011	2010
Depreciation of intangible fixed assets	3,924,263	3,831,452
Depreciation of buildings	661,100	693,631
Depreciation of equipment and spare parts	11,411,110	9,675,647
Depreciation of investment property	49,668	45,736
Depreciation of low-value assets	4,566	5,129
Total	**16,050,707**	**14,251,595**

8.2.6 Other operating expenses

	2011	2010
Cost of donations	30,810	7,905
Cost of membership fees	35,213	58,063
Scholarships to high-school and university students	6,000	7,200
Fiscal charges irrespective of labour costs or other expenses	105,987	90,721
Forming provisions for severance pays	46,018	627,459
Financial penalties	160	510
Subsequently charged taxes	3,961	751
Damages	5,003	5,491
Write-offs of receivables	278,383	102,779
Environmental taxes for electric and electronic equipment	1,196	1,125
Commission for granting the long-term loan	781,069	889,720
Expenses for ownership transfer	0	137,450
Other expenses	110,437	65,057
Total	**1,404,237**	**1,994,231**

8.2.7 Financial revenues

	2011	2010
Interest revenues	9,435	14,640
Revenues from interest change fair value	255010	0
Foreign exchange gains	76,698	97,044
Other financial revenues	106,289	49,236
Total	**447,432**	**160,920**

8.2.8 Financial expenses

	2011	2010
Foreign exchange losses	112,836	217,816
Interest expenditures	5,486,735	5,891,655
Total	**5,599,571**	**6,109,471**

8. Breakdown of notes to Financial Statements (Continued)

8.2.9 Deferred taxes

	2011	2010
Deferred receivables for deferred revenues	4,363	−80
Deferred liabilities for modems/set top boxes	389,743	715,593
Deferred liabilities for depreciation	0	0
Deferred receivables for long service awards, severance pay	1,084	20,932
Deferred receivables for unused relief	−16,014	−29,885
Deferred receivables for tax losses	893,077	−2,448,993
Total	**1,272,253**	**−1,742,433**

8.3 Additional disclosures

8.3.1 Increasing investment into subsidiaries

In 2011 the Group increased their shares in some of their subsidiaries.

	31 December 2010	Acquistions	Eliminaton	31 December 2011
Telemach Velenje d.d.	2,300,826	328,682	−2,629,508	0
Telemach Murska Sobota d.d	1,352,149	35,728	0	1,387,877
Telemach Rotovž d.d.	12,105,460	150,177	0	12,255,637
Telemach Tabor d.d.	4,643,817	22,090	0	4,665,907
Telemach Pobrežje d.d.	72,593	4,760	0	77,353
Telemach Tezno d.d.	35,789	1,766	0	37,555
Total	**20,510,634**	**543,203**	**−2,629,508**	**18,424,329**

There have been no adjustments to fair value.

8.3.2 Merger by acquisition of the company Telemach Velenje d.d. to the parent company Telemach d. o. o.

With the decision SRG 2011/39107 of the District Court in Ljubljana from 2 November 2011 the company Telemach registered the merger by acquisition of the company Telemach Velenje d. d. to the company Telemach d. o. o., after the notarial record of the contract on the merger by acquisition dated 27 September 2011.

Telemach is the leading Slovenian cable provider of television and telephone services, and broadband internet access. It focuses on ensuring modern, quality, and user-friendly services that bring the digital world closer to users and establish comfortable and easy access. With a broad network based on a combination of optical and co-axial connections and constant investments into technological innovations Telemach ensures high level services to the most wide circle of Slovene domestic and business users.

The company Telemach Velenje d.d. provided telecommunication services in Velenje.

The main reasons for this merger by acquisition are connected with the fact that both companies provided identical business services of cable operators and providers of unified packages for electronic communication, whereby the acquiring company previously purchased all shares, that is, the complete share capital of the acquired company. Therefore a separate organisation scheme of the companies became redundant as all business activities of both companies were running unified and certain tasks of business processes, especially the administrative, technical, and accounting and financing tasks and calculations, were doubled unnecessarily, whereby they do not need to be performed after this merger by acquisition.

In accordance with the above stated the merger created savings in fixed operating costs. The merger also enabled the elimination of separated management processes and the unification of the organisational structure made control of all business processes more efficient. As the acquiring company was 100% owner of the share capital of the acquired company the merger by acquisition did not cause any financial changes in the figures of capital of the acquiring company, because the merger eliminated the status and legal separation of the acquired company, which became redundant with the purchase of all shares of the acquired company.

8. Breakdown of notes to Financial Statements (Continued)

As there were no legitimate reasons for continued independent existence of the acquired company and the implementation of the merger eliminated all unnecessary doubling of departments, functions, and tasks, and thereby provided better overview and savings in operating costs, and better profit and capital for both companies, the merger by acquisition was fully justifiable.

8.3.3 Net profit or loss after capital calculation using consumer prices

	Capital	% of growth	Calculated effect	Reduced profit or loss
Capital—all categories, apart from current profit	23,078,875	2.00	461,578	5,111,552

8.3.4 Events after the date of Financial Statements

No such events were established from the date of the Financial Statements to the day of the preparation of this report, which might influence the truthfulness and fairness of the presented Financial Statements for 2011.

On 15 February 2012 the assembly of Telemach Murska Sobota d.d. adopted the decision about the squeeze-put of minority shareholders. The Murska Sobota District Court recorded the decision in the court register on 2 April 2012 under the number Srg 2012/12896. Telemach d.o.o. intends to acquire Telemach Murska Sobota d.d.

8.3.5 Deals with related entities

8.3.5.1. Mutual transactions in the Statement of Financial Situation

RECEIVABLES	Telemach d.o.o.	TM Murska Sobota d.d.	TM Rotovž d.d.	TM Tabor d.d.	TM Pobrežje d.d.	TM Tezno d.d.	
Telemach d.o.o.	0	4,955	0	0	0	4,609	**9,564**
Broadband kabel d.o.o.	43,800	0	0	0	0	0	**43,800**
Telemach Rotovž d.d.	488,231	0	0	10,699	0	8,483	**507,413**
Telemach Tabor d.d.	288,911	0	67,831	0	1,899	0	**358,641**
Telemach Pobrežje d.d.	88,430	0	14,783	447	0	0	**103,660**
Telemach Tezno d.d.	57,485	0	21,206	197	0	0	**78,888**
	966,857	4,955	103,820	11,343	1,899	13,092	**1,101,966**

LIABILITIES	Telemach d.o.o.	TM Rotovž d.d.	TM Tabor d.d.	TM Pobrežje d.d.	TM Tezno d.d.	
Telemach d.o.o.	0	488,231	288,911	88,430	57,485	**923,057**
Telemach Murska Sobota d.d.	4,955	0	0	0	0	**4,955**
Telemach Rotovž d.d.	0	0	67,831	14,783	21,206	**103,820**
Telemach Tabor d.d.	0	10,699	0	447	197	**11,343**
Telemach Pobrežje d.d.	0	0	1,899	0	0	**1,899**
Telemach Tezno d.d.	4,609	8,483	0	0	0	**13,092**
	9,564	507,413	358,641	103,660	78,888	**1,058,166**

RECEIVABLES—loans	Telemach d.o.o.	TM Murska Scpbota d.d.	TM Rotovž d.d.	TM Tabor d.d.	TM Pobrezje d.d.	
Telemach d.o.o.	0	454,024	7,440,000	200,000	277,000	**8,371,024**
Telemach Tezno d.d.	253,185	0	0	0	0	**253,185**
KKS Slivnica d.o.o.	0	0	75,124	0	0	**75,124**
	253,185	454,024	7,515,124	200,000	277,000	**8,699,333**

8. Breakdown of notes to Financial Statements (Continued)

LIABILITIES—loans	Telemach d.o.o.	TM Tezno d.d.	KKS Stivnica d.o.o.	
Telemach d.o.o.	0	253,185	0	**253,185**
Telemach Murska Sobota d.d.	454,024	0	0	**454,024**
Telemach Rotovž d.d.	7,440,000	0	75,124	**7,515,124**
Telemach Tabor d.d.	200,000	0	0	**200,000**
Telemach Pobrežje d.d.	277,000	0	0	**277,000**
	8,371,024	253,185	75,124	**8,699,333**

8.3.5.2. Mutual transactions in Income Statement

OPERATING REVENUES	Telemach d.o.o.	TM Velenje d.d.	TM Murska Scpbota d.d.	TM Rotovž d.d.	TM Tabor d.d.	TM Pobrezje d.d.	TM Tezno d.d.	
TM Velenje d.d.	0	0	0	0	0	1,123	0	**1,123**
Telemach d.o.o.	0	259,209	336,678	0	0	0	0	**595,887**
TM Rotovž d.d.	2,803,787	0	0	0	94,771	935	41,522	**2,941,015**
TM Tabor d.d.	1,481,207	0	0	646,855	0	0	0	**2,128,062**
TM Pobrežje d.d.	471,874	0	0	137,413	0	0	0	**609,287**
TM Tezno d.d.	373,97	0	0	197,315	0	0	0	**571,285**
	5,130,838	**259,209**	**336,678**	**981,583**	**94,771**	**2,058**	**41,522**	**6,846,659**

SERVICE COSTS	Telemach d.o.o	TM Velenje d.d.	TM Rotovž d.d.	TM Tabor d.d.	TM Pobrežje d.d.	TM Tezno d.d.	
Maintenance service costs	0	1,123	0	0	0	0	**1,123**
Costs of rents	0	0	136,685	646,855	137,413	166,851	**1,087,804**
Costs of programme suppliers	0	0	543	0	0	0	**543**
Costs of intellectual and personal services	595,887	0	2,803,787	1,481,207	471,874	404,434	**5,757,189**
Total	**595,887**	**1,123**	**2,941,015**	**2,128,062**	**609,287**	**571,285**	**6,846,659**

FINANCIAL REVENUES	Broadband kabel d.o.o.	Telemach d.o.o.	TM Velenje d.d.	TM Murska Scpbota d.d.	TM Rotovž d.d.	TM Tabor d.d.	TM Pobrežje d.d.	
Telemach d.o.o.	1,095,426	0	39,042	9,597	187,93	2,071	3,771	**1,337,837**
Telemach Tabor d.d.	0	2,653	0	0	0	0	0	**2,653**
Telemach Tezno d.d.	0	7,137	0	0	0	0	0	**7,137**
KKS Slivnica d.o.o.	0	0	0	0	398	0	0	**398**
	1,095,426	9,79	39,042	9,597	188,328	2,071	3,771	**1,348,025**

FINANCIAL EXPENSES	Broadband kabel d.o.o.	Telemach d.o.o.	TM Tabor d.d.	TM Tezno d.d.	KKS Slivnica d.o.o.	
Broadband kable d.o.o.	0	1,095,416	0	0	0	**1,095,416**
Slovenia Broadband S.A.R.L.	2,790,616	0	0	0	0	**2,790,616**
Telemach d.o.o.	0	0	2,653	7,137	0	**9,790**
Telemach Velenje d.d.	0	39,042	0	0	0	**39,042**
Telemach Murska Sobota d.d.	0	9,597	0	0	0	**9,597**
Telemach Rotovž d.d.	0	187,93	0	0	398	**188,328**
Telemach Tabor d.d.	0	2,071	0	0	0	**2,071**
Telemach Pobrežje d.d.	0	3,771	0	0	0	**3,771**
	2,790,616	**1,337,827**	**2,653**	**7,137**	**398**	**4,138,641**

8. Breakdown of notes to Financial Statements (Continued)

8.3.6 Management's statement

The management of the controlling company Telemach d. o. o. states that it fully confirms the consolidated Financial Statements prepared for the year ending on 31 December 2011:

- Balance Sheet
- Income Statement
- Cash Flow Statement
- Statement of Changes in Equity

and corresponding explanations presented in the present annual report.

The management confirms that it is responsible for the preparation of the consolidated Annual Report and the Financial Statements of the Telemach in a manner which gives the interested public a truthful and fair presentation of the assets and financial situation of the Telemach Group in 2011.

The management confirms that appropriate accounting standards were consistently used in the preparation of consolidated Financial Statements, that the accounting estimates were prepared with care and due diligence and that the consolidated Financial Statements represent a truthful and fair presentation of the Group's assets and financial situation in 2011.

The management is also responsible for appropriate keeping of accounts and adoption of appropriate measures for the protection of assets and other means. The Management also confirms that the Financial Statements and corresponding explanations are prepared based on the assumption of the Group's continuing operations and in accordance with the valid legislation and International Financial Reporting Standards.

The management of the controlling company is acquainted with the content of components of the consolidated Annual Report of the Telemach Group for 2011 and as such with the entire Annual Report. I hereby agree with it and with my signature confirm the said document.

Financial director Urška Kos	Director Marko Šter

Ljubljana, 10 April 2012

Telemach d.o.o. Ljubljana

Financial Statements

As of December 31, 2012

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Auditor's Report

Independent Auditor's Report
To the Shareholder of Broadband kabel d.o.o., Ljubljana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company Telemach d.o.o., Ljubljana and its subsidiaries (the Telemach Group), which comprise the consolidated statement of financial position as at 31 December 2012. the consolidated income statement and the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that arc appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Telemach Group as at 31 December 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Emphasis of Matter

We draw attention to Note 9.7 of the Annual Report—Events after the Statement of Financial Position, providing information about the merger of Telemach d.o.o. with the company Broadband kabel d.o.o. in 2013. Upon the merger, the latter company was renamed into Telemach d.o.o.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Helena Kobal
Certified Auditor

Ljubljana, 17 April 2013

Jason Stachurski
Partner

KPMG Slovenija, d.o.o.
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2. Statement of Financial Position as at 31 December 2012

In €	Notes	31 Dec 2012	31 Dec 2011
ASSETS		**137,240,420**	**132,152,995**
NON-CURRENT FIXED ASSETS		**109,911,291**	**113,347,800**
Real estate, machinery and equipment	8.1.1.	56,385,894	55,332,735
1. Land and building		4,383,891	4,879,138
a) Land		225,360	203,167
b) Building		4,158,531	4,675,971
2. Other machinery and equipment		49,176,515	48,493,357
3. Tangible fixed assets in progress		2,825,488	1,960,240
Investment property	8.1.2.	633,321	682,989
Intangible fixed assets	8.1.3.	50,602,177	54,293,228
1. Goodwill		32,782,695	32,769,628
2. Other intangible assets		17,819,482	21,523,600
Long-term deferred costs and accrued revenues	8.1.4.	1,948,651	2,708,821
Non-current financial investments	8.1.5.	333,234	303,221
1. Non-current loans		64,429	34,416
a) Non-current loans to others		64,429	34,416
2. Other investments		268,805	268,805
Deferred tax claims	8.1.12.	8,014	26,806
CURRENT ASSETS		**27,329,129**	**18,805,195**
Inventories	8.1.6.	3,716,678	2,675,991
1. Materials		3,716,678	2,675,991
Short-term financial assets	8.1.7.	418,407	0
1. Short-term loans to Group enterprises		398,144	0
2. Short-term loans to others		20,263	0
Short-term operating receivables	8.1.8.	20,811,543	12,895,298
1. Short-term operating receivables against Group enterprises		5,988,346	43,800
2. Short-term operating receivables against customers		11,024,416	10,424,477
3. Short-term operating receivables against other parties		1,690,182	859,256
4. Other current assets		2,108,599	1,567,765
Cash and cash equivalents	8.1.9.	2,382,501	3,233,906

Accounting policies and notes represent a constituent part of financial statements and should be considered simultaneously.

2. Statement of Financial Position as at 31 December 2012 (Continued)

In €	Notes	31 Dec 2012	31 Dec 2
LIABILITIES		**137,240,420**	**132,152,995**
CAPITAL	**5.**	**37,406,122**	**28,175,212**
Called-up capital		13,022,283	13,022,283
Capital reserves		11,252,287	11,252,287
Retained net profit or loss		4,735,730	−4,018,422
1. Net profit or loss brought forward		0	−4,018,422
2. Net profit or loss for the financial year		4,735,730	0
Minority shareholding		8,395,822	7,919,064
Majority shareholding		29,010,300	20,256,148
NON-CURRENT LIABILITIES		**77,427,978**	**80,976,608**
Provisions and long-term accruals and deferred income	8.1.10.	2,316,477	4,248,611
1. Provisions for pensions and long-service awards		185,206	171,775
2. Other provisions		920,214	910,191
3. Long-term accruals and deferred income		1,211,057	3,166,645
Non-current financial liabilities	8.1.11.	74,032,976	76,187,130
1. Non-current financial liabilities to Group enterprises		21,890,330	24,606,335
2. Non-current financial liabilities to banks		52,142,646	50,700,000
3. Other non-current financial liabilities		0	880,795
Deferred tax liabilities	8.1.12.	1,078,525	540,867
SHORT-TERM LIABILITIES		**22,406,320**	**23,001,175**
Short-term financial liabilities	8.1.13.	5,721,956	10,051,493
1. Short-term financial liabilities to Group enterprises		2,443,086	0
1. Short-term financial liabilities to banks		1,587,685	8,710,000
2. Other short-term financial liabilities		1,691,185	1,341,493
Short-term operating liabilities	8.1.14.	16,684,364	12,949,682
1. Short-term operating liabilities to Group enterprises		363,741	0
2. Short-term operating liabilities to suppliers		4,522,404	3,369,579
3. Other short-term operating liabilities		4,995,454	4,888,864
3. Deferred revenues and accrued cost		6,802,765	4,691,239

Accounting policies and notes represent a constituent part of financial statements and should be considered simultaneously.

Financial Report of the Telemach Group

for the business year ended 31 December 2012

3.1 Income Statement for the period from 1 January 2012-31 December 2012

In €	Notes	2012	2011
NET SALES REVENUES	8.2.1.	64,311,200	56,893,435
OTHER OPERATING REVENUES	8.2.2.	1,263,584	193,569
3. COST OF GOODS, MATERIALS AND SERVICES	8.2.3.	26,538,522	21,431,042
a) Cost of purchase of goods and materials sold and cost of materials used		2,665,929	1,581,778
b) Cost of services		23,872,593	19,849,264
4. LABOUR COSTS	8.2.4.	6,055,425	5,776,510
a) Cost of wages and salaries		4,536,653	4,373,789
b) Social security contributions		769,312	702,459
c) Other labour costs		749,460	700,262
DEPRECIATION	8.2.5.	17,088,027	16,050,707
a) Depreciation of intangible long-term fixed assets		4,112,664	3,924,263
b) Depreciation of tangible fixed assets		12,975,363	12,126,444
OTHER OPERATING EXPENSES	8.2.6.	1,830,819	1,404,237
OPERATING PROFIT OR LOSS		**14,061,991**	**12,424,508**
FINANCIAL REVENUES	8.2.7.	363,108	447,432
FINANCIAL EXPENSES	8.2.8.	4,615,110	5,599,571
NET OPERATING PROFIT OR LOSS		**9,809,989**	**7,272,369**
TAXES		681,869	1,429,802
a) Income tax		125,419	157,549
b) Deferred tax	8.2.9.	556,450	1,272,253
NET PROFIT OR LOSS before adjustments		**9,128,120**	**5,842,567**
Minority owners share		**515,583**	**269,548**
Net profit or loss associated to the majority owners		**8,612,537**	**5,573,019**

3.2. Other comprehensive income for the period from 1 January 2012-31 December 2012

In €	2012	2011
NET PROFIT OR LOSS FOT THE FINANCIAL YEAR	9,128,120	5,842,567
OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	0	0
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	9,128,120	5,842,567
Total comprehensive income, attributable to the owners of the controlling company	**8,612,537**	**5,573,019**
Total comprehensive income, attributable to the non-controlling share	515,583	269,548

Accounting policies and notes represent a constituent part of financial statements and should be considered simultaneously.

4. Cash Flow Statement for the period from 1 January to 31 December 2012

In €	2012	2011
A. CASH FLOWS FROM OPERATING ACTIVITIES		
a) Net profit and loss cash flow for the business period	8,612,537	5,573,019
b) Adjustments:		
depreciation of tangible fixed assets	12,975,363	12,126,444
depreciation of intangible fixed assets	4,112,664	3,924,263
interest expenses	4,615,110	5,599,571
corporate tax	681,869	1,429,802
	30,997,543	**28,653,099**
change in operating receivables	−7,375,411	−2,675,592
change in deferred costs and accrued revenues	219,336	−124,426
change in inventories	−1,040,687	−218,062
change in operating liabilities	1,623,156	2,413,833
change in accrued costs and deferred revenues and provisions	698,258	3,669,075
	25,122,195	**31,717,927**
payments of interests	−4,306,100	−4,764,447
payment of corporate tax	−125,419	−157,549
Net cash flows from operating activities	**20,690,676**	**26,795,931**
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for acquisition of real estate, machines and equipment	7,970	25,587
Payments from alienation of intangible assets	3,649,710	0
Expenses for acquisition of real estate, machines and equipment	−14,103,801	−15,572,575
Expenses for acquisition of intangible fixed assets	−4,057,731	−8,521,282
Expenses for purchase of subsidiaries and associated companies	−163,748	−214,521
Net financial outflows for investing activities	**−14,667,600**	**−24,282,791**
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from non-current financial assets	7,000	7,000
Receipts from non-current financial liabilities	54,119,045	2,880,796
Receipts from short-term financial liabilities	0	841,837
Receipts from short-term financial claims	−165,222	648,316
Expenses for repayment of non-current financial liabilities	−51,053,402	0
Expenses for repayment of short-term financial liabilities	−9,781,902	−5,420,000
Net cash inflows from financing activities	**−6,874,481**	**−1,042,051**
NET CASH FLOWS FOR THE FINANCIAL YEAR	**−851,405**	**1,471,089**
Initial cash balance	3,233,906	1,762,817
Final cash balance	2,382,501	3,233,906

Accounting policies and notes represent a constituent part of the financial statements and should be considered simultaneously.

5. Statement of Changes in Equity

In €	Called-up capital	Capital reserves	Retained profit or loss	Minority shareholding	Total capital
1 Jan 2012	13,022,283	11,252,287	−4,018,422	7,919,064	28,175,212
All-encompassing return					
Net profit or loss	0	0	8,612,537	515,583	9,128,120
Other all-encompassing return	0	0	0	0	0
Total all-encompassing return	0	0	8,612,537	515,583	9,128,120
Transactions with owners					
Effect of purchase of subsidiaries	0	0	141,615	−38,825	102,790
Total transactions with owners	0	0	141,615	−38,825	102,790
31 Dec 2012	13,022,283	11,252,287	4,735,730	8,395,822	37,406,122

In €	Called-up capital	Capital reserves	Retained profit or loss	Minority shareholding	Total capital
1 Jan 2011	13,022,283	11,252,287	−10,442,014	9,246,319	23,078,875
All-encompassing return					
Net profit or loss	0	0	5,573,019	269,549	5,842,568
Other all-encompassing return	0	0	0	0	0
Total all-encompassing return	0	0	5,573,019	269,549	5,842,568
Transactions with owners					
Write-off of dated liabilities for dividends *	0	0	4,214	7,100	11,314
Effect of purchase of subsidiaries	0	0	846,359	−1,603,904	−757,545
Total transactions with owners	0	0	850,573	−1,596,804	−746,231
31 Dec 2011	13,022,283	11,252,287	−4,018,422	7,919,064	28,175,212

* with the company Telemach Tabor d. d.

Accounting policies and notes represent a constituent part of financial statements and should be considered simultaneously.

The owner of the Telemach Group is Broadband kabel d.o.o., Cesta Ljubljanske brigade 21, 1000 Ljubljana. The Group is controlled by Broadband Investments S.à r.l., which itself is an investee company owned in the majority by funds advised/managed by Mid Europa Partners LLP.

The Group has been covering the retained loss from past years with the net profit when compiling the data for accountancy statements.

Capital reserves were formed from the paid-up capital surplus, which the owner company paid in with the purchase amount on 15 July 2009.

6. Accounting policies and notes

Reporting company

Telemach d. o. o. (hereinafter referred to as "the Company") is a company with its head office in Republic of Slovenia. The address of the registered office is in Ljubljana, Cesta Ljubljanske brigade 21.

Consolidated accounts of the Group for the year concluded on 31 December 2012 include those of the Company and its subsidiary companies (hereinafter referred to as "the Group").

Declaration of conformity

The consolidated Financial Statements of the company Telemach for 2012 have been prepared in accordance with the Companies Act, the provisions of the International Financial Reporting Standards (IFRS) as adopted by the European Union, and explanatory notes adopted by the International Accounting Standard Board (IASB).

The Management Board of the controlling company Telemach d.o.o. adopted the consolidated financial statements of the Group on 26 March 2013.

Measurement basis

The consolidated Financial Statements has been prepared in accordance with the historical value except where it is explicitly stated otherwise.

Functional and presentation currency

The attached consolidated Financial Statements is constructed in EUR, that is, in the Group's functional currency. All accounting information presented in EUR is rounded to whole units.

Use of estimates and assessments

When composing the Financial Statements, management has to issue estimates, assessments, and assumptions that affect the use of accounting policies and the statement of values for assets, liabilities, revenues and expenses. The actual results may be different from these estimations.

Estimates, and the provided assumptions, need to be under continuous review. Corrections of accounting estimates are recognised for the period in which the estimation is corrected and all following years that are affected by the correction.

Data on important uncertainty assessments and decisive appraisals that the management prepared during the process of executing accounting policies, which have the greatest influence on financial statement amounts, is described in the following explanations:

- Notes no. 8.1.10 and 8.1.17—reservations and contingent liabilities
- Notes no. 8.2.4 and 8.1.10—measuring obligation for certain earnings (Labour Costs and Reservations)

Important accounting policies

The accounting policies defined below were consistently applied by the companies in the Group for all periods, which are presented in the enclosed consolidated accounts.

Basis for consolidation

All Financial Statements of companies included in the consolidation have been included in the Balance Sheet and Income Statement of the Group for the purposes of the consolidation of Financial Statements.

Further on in the consolidation procedure, the amounts of turnover of all companies in the Group have been excluded (among the parent company and the subsidiary companies and between subsidiary companies) and all mutual claims and liabilities among companies in the Group. The balances from transactions made in the framework of the Group of companies and the resulting outwards unrealised profits are not observed in the consolidated Financial Statements. Losses resulting from transactions within the Group of companies that have not been accrued are also not observed in the statement, unless cost cannot be recovered.

The provisions of standards are directly applied in observation and valuation of items except in valuation of items where standards give the company the opportunity to choose between different methods for valuation—here the Group used the policies described in the following points.

6.1 Investments in subsidiaries and associated companies

Subsidiaries are companies controlled by the Company Telemach and its subsidiary companies. Control exists when the company has the power to govern the financial and operating policies of a company so as to obtain benefits from their activities. Financial Statements of subsidiaries are included in the consolidated Financial Statements from the starting date of control until the date of control cessation.

6.2 Foreign currency

Transactions in foreign currency are calculated according to the exchange rate on the day of the transaction. Cash and cash equivalents, and liabilities in foreign currency on the date of the Balance Sheet, are calculated into national currency according to the middle exchange rate of the Bank of Slovenia on that date. Exchange rate differences are recognised in the Income Statement. Non-monetary assets and liabilities in foreign currency measured in originally currency are converted into national currency according to the exchange rate on the date of transaction. Non-monetary assets and liabilities in foreign currency measured at fair value are converted into national currency according to the exchange rate on the day the fair value rate was set.

6.3 Financial instruments

6.3.1 Non-derivative financial instruments

Non-derivative financial instruments include investments in equity and debt securities, operating and other claims, cash and cash equivalents, received and provided loans, and operating and other liabilities.

At the beginning the non-derived financial instruments (instruments that are not recognised at fair value through profit and loss) are recognised at their fair value, increased by costs tied directly to operations—with the exceptions referred to below. After the initiative recognition the non-derived financial instruments are measured according to the following method.

A financial instrument is recognised if the Group becomes a partner of contractual terms of the instrument. Recognition of financial assets is eliminated when the contractual rights of the company on cash flows, elapse, or the company transfers the financial asset to another customer-including the control or all risks and benefits on the assets. Purchase and sale made in the regular, that is, normal way, are charged on the date of the transaction—this is the date when the company resolves to buy or sell an asset. Recognition of financial liabilities is eliminated when the contractual obligations of the company elapse, cease, or are disrupted.

Cash and cash equivalents include money in the cash register, cash in the bank, sight deposits, and short-term deposits tied up for a period of up to three months. Bank overdrafts that can be settled 'on call', and are a composite part of short-term liabilities in the company.

6.4 Intangible fixed assets

6.4.1 Goodwill

Goodwill (or negative goodwill) develops during a merger. Goodwill is valued at purchase price and reduced by a possible loss due to impairment by acquisition. Goodwill is categorised as a cash-generating asset and is not depreciated. Instead goodwill is annually tested for impairment.

Negative goodwill that can occur at takeover is directly recognised in the operating Income Statement.

6. Accounting policies and notes (Continued)

6.4.2 Other intangible assets

Other intangible assets with a limited useful life are charged at the purchase price, reduced by accumulated depreciation of the value, and any loss due to impairment by acquisition. The recognised assets on the basis of long-term contracts are depreciated for the period of duration of the contract.

6.4.3 Subsequent costs

Subsequent costs connected to intangible fixed assets are only capitalised if the increased future economic benefits arise from the asset, connected with expenditure. All other costs are recognised in the operating profit and loss as expenditure when they occur.

The Group also discloses goodwill, customer base, and other intangible assets, in the intangible assets account.

6.5 Tangible fixed assets

6.5.1 Presentation and measurement

Tangible fixed assets are disclosed at their purchase price, reduced by accumulated amortisation and any loss due to impairment by acquisition.

The purchase price includes costs directly related to the asset purchase. Costs due to the production of an asset include cost of materials, direct labour, and other costs directly recognised as qualifying for intended use, and costs for de-commissioning and removal of a tangible fixed asset, and restoration of the site where the asset was located. Purchased computer programs that have an important contribution to the functional ability of assets are capitalised as part of this asset. Borrowing costs that can be directly attributed to the acquisition, construction or production of the asset in preparation, are recognized as part of the purchase cost of such an asset. For subsequent surveying of real estate, machinery and equipment the purchasing cost model is used.

Parts of the tangible fixed assets that have different useful lives are charged as individual tangible fixed assets. On the day of the transition to the IFRS the segmentation of existing fixed assets is made according to the assessment analysis and deviations.

Profit or loss incurred from a disposal of a tangible fixed asset is determined as the difference between revenue from the disposal of the asset and its book value and disclosed in the Income Statement under “other operating revenues”.

6.5.2 Redistribution to investment property

Property built or developed for future use as investment property is protected as tangible fixed assets and accounted at purchase value until the date of construction, or development completion, when the property becomes an investment property. Profit or loss that arises at re-measurement of its fair value is recognised in the operating Income Statement.

6.5.3 Subsequent costs

Subsequent costs connected to tangible fixed assets, increase their purchase price if there is a possibility of future economic benefits connected with a part of this asset, and if the purchase price can be measured accurately. Repair and maintenance costs that are intended for renovation and preservation of economic benefits are recognised as expenditure for the time they are carried out.

6.5.4 Spare parts

Spare parts and equipment for maintenance of smaller assets with a useful life of one year, are considered as supply and recognised as costs in the operating Income Statement. Spare parts and replacement equipment of more important assets with an estimated useful life longer than one year, are recognised as tangible fixed assets.

6. Accounting policies and notes (Continued)

In the Financial Statements for 2012, Telemach Group did not perform revaluation of tangible fixed assets, and account for impairment of assets, as the company believes that the book value of tangible assets exceeds their recoverable amount.

6.6 Depreciation

The company depreciates intangible fixed assets and tangible fixed assets separately according to the straight-line depreciation method.

Land is not depreciated.

The following depreciation rates are applied:

	Rates in %
Intangible fixed assets	
—Software	33.33%
—Subscriber data base	10.00%
Tangible fixed assets	
—Buildings	3.00% - 10.00%
—Network	10.00%
—MTC	20.00% - 25.00%
—Vehicles	20.00% - 25.00%
—Other equipment	20.00% - 33.33%

The remaining value and useful life of tangible fixed assets are revalued at least once a year on the day of the Balance Sheet. Adequate adjustments are made if necessary.

6.7 Investment property

Investment property is property possessed to collect payments, increase the value of a long-term investment, or both. Investment property is disclosed at its purchase value, reduced by accumulated depreciation, and any loss due to impairment by acquisition.

If use of the property is changed to an extent that this needs to be categorised as tangible fixed assets, its fair value becomes a cost for which it needs to be subsequently accounted.

Depreciation is accounted for by straight-line depreciation, with consideration to the useful life of the investment property. Investment property is depreciated by using the 5% annual rate. Land is not depreciated.

6.8 Impairment of assets

6.8.1 Financial assets

A financial asset is impaired if there is objective evidence proving there has been a reduction of estimated future cash flow from this asset due to one or several events.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its book value and the estimated future cash flows, discounted at the original effective interest rate.

An impairment loss, in respect of an available-for-sale financial asset, is calculated by reference to its current fair value.

Operating receivables are disclosed at derivative value. Receivables causing a dispute with the debtor and claimed through the court are disclosed as disputed and receivables not expected to be recovered at all, or by a deadline, are recognised as doubtful debt. A value adjustment for these receivables is debited to operating expenses.

Individually significant financial assets are tested for impairment on an individual basis. The remaining assets are assessed collectively in groups that share similar risk exposure characteristics.

6. Accounting policies and notes (Continued)

The company recognises all impairment losses in operating profit or loss accounts for the period. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to operating profit or loss accounts.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in operating Income Statement.

6.8.2 Non-financial assets

The book value of the company's non-financial assets, inventories, and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives, or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the book value of an asset exceeds its recoverable amount. Impairment losses are recognised in the operating Income Statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use, and its fair value reduced for sale costs. In assessing value in use, estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each Balance Sheet date for any indications that the loss has decreased, or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's book value does not exceed the book value that would have been determined, net of amortisation or depreciation, if no impairment loss had been recognised for the asset in prior years. Assets that have a non-specified useful life are not subjected to depreciation, which is why the company must check if impairment of such an asset is needed by comparing its book value with its recoverable amount.

The recoverable amount is estimated for individual assets except if an asset generates cash flows independently from those generated by other assets or groups of assets.

The evaluation of non-financial assets because of impairment loss is made once a year on the day of the Balance Sheet preparation.

6.9. Capital

The total capital of the Company is its liability to the owners, which is payable if the Company cease to operate, at which point the amount of the capital is amended according to the market price of the net property. It is defined by the amounts, paid in by the owners and the amounts which emerged from operation and belong to the owners. It is decreased by the operating loss and payments to the owners and it is increased by the profit of the period.

6.9.1 Capital reserves

Capital reserves consist of the amounts acquired by the Company from payments which exceed the lowest nominal share values that exceed bookkeeping values at the disposal of previously acquired own shares, amounts based on simplified decrease of the share capital, and the amounts based on the elimination of the general revaluation adjustment.

6.10 Provisions

Provisions are recognised if the company has present legal or constructive obligations due to a past event that can be reliably estimated, and it is likely that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at the pre-tax rate that reflects the current market assessments of the time value of money, and, if necessary, the risks specific to liabilities.

6. Accounting policies and notes (Continued)

Non-current provisions are disclosed separately on the account of long-term deferred revenues, non-current pre-calculated costs, long-term provisions connected to donations from budgets, receivables from basic assets, provisions for severance pay, and anniversary bonuses.

In accordance with the country's legislation, collective contracts, and internal rules, the company is bound to pay long service awards to employees and severance payments after they retire—which is why long-term provisions have been created. Other retirement liabilities do not exist.

Provisions are determined in the sum of estimated future severance payments and anniversary bonuses discounted on the day of the Balance Sheet. The calculation was made for each employee by considering severance costs at retirement, and costs for all estimated anniversary bonuses until retirement.

6.11 Financial assets

In accordance with IAS 39, after initial recognition, financial investments are categorised into the following groups, with no regard to purpose at acquisition:

- Financial assets measured at fair value through the operating profit or loss
- Financial investments in possession until the maturity of payment
- Loans and receivables
- Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are categorised as available for sale or are not categorised into any of the remaining categories.

6.12 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value; costs associated with the transaction are recognized in profit or loss, namely when they occur. After initial recognition, derivative financial instruments are measured at fair value, and corresponding changes are handled as described below.

- When a derivative financial instrument is designated as a protection against risk in case of exposure to the volatility of cash flows, which can be attributed to a particular risk associated with a recognized asset or liability or highly probable anticipated transactions that can affect profit or loss, the effective portion of changes in the fair value of the derivative financial instrument is recognized in the comprehensive income of the period and is disclosed in reserve to protection against risk in equity. Ineffective portion of changes in fair value of the derivative financial instrument is recognized directly in profit or loss. The group is expected to discontinue accounting protection against risk if the instrument for protection against risk no longer meets the criteria for accounting the protection against risk, if the instrument for protection against risk is sold, terminated or taken advantage of. Cumulative gain or loss, recognized in other comprehensive income, remains demonstrated in the protection against risk in equity reserve until the anticipated transaction does not affect the profit or loss. If the anticipated transaction is no longer expected, the amount in other comprehensive income should be recognized directly in profit or loss. In other cases, the amount recognized in other comprehensive income is transferred to profit or loss for the same period for which the item protected against risk affects profit or loss.
- Effects of other derivative financial instruments, not classified as protection against risk in case of exposure to volatility of cash flows, which cannot be attributed to a particular risk associated with a recognized asset or liability, are recognized in the Income Statement.

The Group uses the following derivative financial instrument:

Interest rate swap and interest rate collar

Interest rates of obtained loans are subject to interest rate changes risk, which, until 21 June 2012, the Group had been protecting by utilizing interest rate swaps and interest rate collars.

In interest rate swaps and interest rate collars fair value at the date of the balance sheet is valued by discounting future cash flows from a variable interest rate (interest received in a swap) and from a fixed interest rate (interest paid in a swap).

Interest rate swaps are not defined as an instrument for protection against the volatility of cash flows of recognized assets or liabilities or an anticipated transaction, therefore, the revaluation is recognized in the Income Statement.

6.13 Receivables

Initially, various receivables are disclosed with sums resulting from appropriate documents, with the assumption that they will be paid. Receivables denominated in foreign currency are calculated at the middle exchange rate of the Bank of Slovenia at the end of the period, and the difference represents revenues and expenses of financing.

Subsequent increases, or reductions of receivables, increase adequate revenues, that is, expenses from operating (or financing), if they occur in the same business year. If they occur later, other revenues or expenses are increased with no regard to the increases or reductions in receivables resulting from operating or financing.

6.14 Supplies of materials

Supplies of raw materials, materials, small tools, and commercial good, are capitalized at historic value, or net realisable value, at whichever has the lower value. The purchase value includes the buying price reduced by discounts, import and other non-refundable purchase charges, and other direct purchase costs.

A value reduction of supplies of raw materials and small tools is accounted as an increase of costs of materials; value reduction of product supply and commercial goods are accounted as an increase of operating expenditures. A normal and an exceeded deficit that burden the company are shown as a lower supply value and an increase of operating expenditure. The value of the surplus is shown in the increase value of supplies and a reduction of operating expenditure.

During the year, the first-in-first-out (FIFO) method is used for decreasing or using the stock. Impairment of the material stock value is carried out by individual assessment according to their market value and it is presented in the cost of materials.

6.15 Money in the cash register

Only cash is presented as money in the cash register.

6.16 Cash

Cash in national currency is accounted at denominational value. Foreign currencies are calculated into national currency on the date of the receipt at the, then, valid exchange rate. The state of the foreign currency accounts are calculated at the middle exchange rate on the date of the Balance Sheet. The exchange difference comprises revenues or expenditures on financing. Cash also includes sight deposits with banks.

6.17 Financial liabilities

Initially, all types of short-term and non-current liabilities are disclosed with amounts that derive from corresponding documents, assuming that creditors demand repayment.

Non-current liabilities are later increased by imputed yields (interest, other forms of compensation) that are covered by an agreement with the creditor. Calculated interests from non-current liabilities are considered financing expenses. Non-current liabilities are decreased by repaid amounts and eventual different forms of settlements in agreement with the creditor. They are also decreased by the amount that should be repaid in less than a year, which is shown in short-term liabilities.

6. Accounting policies and notes (Continued)

Non-current liabilities from legal and natural persons abroad are re-calculated into local currency, on the day of their occurrence. The exchange rate difference that occurred up to the day of repayment of such liabilities and the date of the Balance Sheet, respectively, makes up financing expenses and revenues.

Short-term liabilities can subsequently, directly or outside of made payment, increase or decrease by the amount that is covered by an agreement with the creditor. Later increases in short-term liabilities increase corresponding operating (or financing) expenses (costs), if they occur in the same financial year.

6.18 Deferred tax

Deferred tax is intended for covering temporary differences which occur between the book value and the liabilities and tax base, using the Balance Sheet liability method. They are either taxable temporary differences or deductible temporary differences.

Deferred tax receivables are income tax amounts that will be refunded in the future in respect of deductible temporary differences, and the carrying forward of unused tax losses and unused tax credits. Deferred tax receivables for temporary differences are recognized, if it is likely that these temporary differences will be eliminated in the foreseeable future, making taxable profit available, so exploitation of taxable differences will be possible.

Deferred tax liabilities are tax amounts that have to be settled in future in respect of taxable temporary differences. Deferred tax liabilities are fully recognized. Deferred tax receivables and liabilities are not discounted and can be off-set.

The effects of recognizing deferred tax receivables or liabilities are recognized as revenue or expense in the company's Income Statement; except when taxes arise from an event that was recognized directly in equity, or from a business combination.

6.19 Other short-term assets

Other short-term deferred assets include short-term deferred costs (expenses) and accrued revenues. Short- term deferred costs include amounts which, at the moment of their origin, are not charged as costs of the activity that the enterprise undertakes. Accrued revenues appear when payments have not been received and invoices have not been issued, but where the company has justifiably considered these revenues when assessing the operating results.

6.20 Deferred revenues and accrued costs

Accrued costs include costs expected to be incurred; they relate to the accounting period for which the operating results are to be determined. Deferred revenues appear when the enterprise has invoiced, or even received, payments for services it has agreed to render in future. Revenues may also be deferred for short periods when recognition of revenues remains doubtful at the moment of sale.

6.21 Recognition of revenues

Operating revenues comprise of revenues earned from the sale of merchandise and services performed in the accounting period. Operating revenues are recognized when the products are supplied or the services performed, and are accepted by the customer. Financial revenues are only recognized when no significant uncertainty about the amount, or collectability, exists.

Revenues are divided into sales revenues, other operating revenues, and other revenues from financial investments. They are also divided into revenues created in relation to other enterprises in the Group, associates, and other associates and other enterprises.

Lease income from investment property is recognized evenly in revenues for the duration of the lease.

Financial revenues are from investments and are generated in connection with financial investments and receivables. They are divided into financial revenues that are subject to operating profit or loss (interest); and revenues that are subject to operating profit or loss of others (dividends, profit-sharing). Interest receivables are recognized when they are generated, except when uncertainty about their collectability exists. In such cases, the amount is written-off as replacement value. Interest receivables from then on are recognized as based on the interest rate which is used for discounting future cash flows.

6. Accounting policies and notes (Continued)

Revenues from the sales of the equipment which is sold simultaneously with the subscription contract or the 24-month binding contract are deferred by the time of the binding period.

6.22 Costs

Costs of materials and services are the costs of those materials and services used in the creation of operating results that are considered direct costs; as are other costs that are not of that nature but are considered direct costs.

Depreciation costs present the acquisition costs of intangible fixed assets with final useful life periods and tangible fixed assets, which are transferred from these means over to emerging operating results in individual accounting periods.

Labour costs and refunds of expenses to employees are all forms of repayments the company makes to employees in return for their services which the company considers as labour costs. These earnings may also be related to charges which increase costs. The charges are calculated in accordance with the law, collective labour agreements, the company's general act, or employment agreements.

Costs from the sales of the equipment which is sold simultaneously with the subscription contract or the 24-month binding contract are deferred by the time of the binding period.

6.23 Expenses

Expenses are diminutions of economic benefits in an accounting period in the form of decreased assets and/or increased debts; they affect the size of equity through profit or loss.

Expenses are divided among other operating and financial interest expenses as well as other liabilities.

Expenses are recognized, if the diminution of economic benefits in an accounting period relates to a decrease in assets or an increase in debt, and when this decrease can be measured in a reliable manner. Expenses are, therefore, recognized at the same time when a decrease in assets and an increase in debt are recognized.

6.24 Cash Flow Statement

The Cash Flow Statement shows changes of the balance of cash and cash equivalents for the business year, for which it is prepared. The Cash Flow Statement is prepared by using the indirect method with the data from the Statement of Financial Position and the Income Statement.

6.25 Reporting by segments

A segment is a distinguishable component of the company that deals with products or services (business sector) or products and services in a particular economic environment (geographical sector) and is subject to risks and returns which differ from those in other sectors.

The Group does not report by business or geographical sectors, because it believes that sectors do not exist, because it offers a complete solution in the area of telecommunications. Geographical sectors also do not exist, because the Group only focuses on the Slovenian market.

6.26 New standards and explanations that have not yet entered into force

Numerous new standards, amendments to existing standards, and explanations regarding the year that ended on 31 December 2012 have not yet entered into force and therefore the company did not consider them in the preparation of Financial Statements:

Amendment to IFRS 7—Disclosures—offset of financial assets and financial liabilities
(valid for annual accounting periods beginning on 1 January 2013)

The amendments include new requirements regarding the disclosure of financial assets and financial liabilities which are offset in the cash flow statement; or the subject of enforceable master netting agreement or similar agreements.

6. Accounting policies and notes (Continued)

Respective changes should not have considerable effects on the Financial Statements as the company does not implement the offset of financial assets and financial liabilities and the company also did not conclude any enforceable netting agreement.

IFRS 10—Consolidated Financial Statements in IAS 27 (2011): Separate Financial Statements
(valid for annual accounting periods beginning on 1 January 2014).

IFRS 10 outlines a uniform model for management analysis implementation for all types of companies, including companies which are currently being treated as companies for specific purposes under the SOP-12. IFRS 10 introduces new requirements regarding assessment management which differ from the existing requirements set by IAS 27 (2008). In accordance with the new model, an investor controls an investee of a financial investment when it is exposed, or has rights, to variable returns based on its involvement with the investee and the ability to influence those returns through its power over the investee.

The altered standard also includes requirements on disclosures and requirements regarding the preparation of consolidated Financial Statements. These requirements are transferred from IAS 27 (2008).

The company indicates that the new standard will not affect the Financial Statements as the control assessment of the company over current investees according to the new standard will not affect previous findings regarding this type of control.

IFRS 11—Joint arrangements
(in force for annual accounting periods beginning on 1 January 2014)

IFRS 11, Joint arrangements, substitutes IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce essential changes to the overall definition of the arrangement which is subject to joint control, but the definition of control and indirectly joint control changes due to IFRS 10.

The new standard sets two types of arrangements, whereby each has its own accounting model:

- A joint operation is a joint arrangement whereby parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangements.

IFRS 11 successfully extracted cases where the entity of the joint arrangement was separated from others from provisions in IAS 31 Joint arrangements, whereby in some cases this separation proves to be inefficient. These arrangements are handled similarly to joint controlled assets/operations according to IAS 31, and are henceforth referred to as joint operations. Furthermore, IAS 31 for jointly controlled companies, i.e. joint ventures, cancels the option of free choice between the equity method and proportional consolidation. Henceforth, the equity method shall be used in consolidated Financial Statements.

The company predicts that IFRS 11 will not have an important effect on Financial Statements as the customer is not part of any type of joint arrangements.

IFRS 12—Disclosure of Interests in other Entities
(in force for annual accounting periods beginning on 1 January 2014).

IFRS 12 requires additional disclosures regarding important assessments and assumptions relating to the characterisation of an interest type in entities or arrangements, interests in subsidiaries, joint arrangements and associates, and unconsolidated structured entities.

The company foresees that the new standard will not have an important effect on the Financial Statements.

6. Accounting policies and notes (Continued)

IFRS 13—Fair Value Measurement
(applies to annual accounting periods beginning on or after 1 January 2013)

IFRS 13 substitutes instructions regarding fair value measurement stated by individual standards with one single source, i.e. the standard. This standard defines fair value, provides a framework for measuring fair value and requires disclosures about fair value measurement. IFRS 13 defines how to measure fair value when it is requested or permitted by other IFRS standards. This standard does not introduce new requirements regarding the measurement of assets and liabilities according to fair value, nor does it eliminate exceptions or infeasible cases of fair value measurement which currently exist in certain standards.

The standard includes an extensive disclosure framework which lists provisions along with existing disclosure requirements based on which users of Financial Statements can asses methods and inputs used in the fair value measurement more easily, and the measurement effect—in the event of multiple measurements which included important inputs—on profit and loss or other comprehensive income.

The company foresees that this standard will not have a significant effect on Financial Statements as the Management Board states that methods and assumptions currently used in fair value measurement are in compliance with the provisions of IFRS 13.

Amendment to IAS 1: Presentation of Financial Statements: Presentation of Other Comprehensive Income
(applies to annual accounting periods beginning on 1 July 2012; application with retroactive effect.)

The amendment requires that an entity provides separate items of other comprehensive income, i.e. those which should not be presented in profit and loss in the future, and those which will never be presented in profit and loss. If items of other comprehensive income are presented before joint tax effect, the complete tax amount has to be presented or distributed in these components and it requires a change of title from Comprehensive Income Statement into Cash Flow Statement and Other Comprehensive Income, although other titles are allowed.

The amendment will not significantly affect Financial Statements as the company does not have other comprehensive income.

Amendment to IAS 12: Income Taxes: Recovery of an investment into asset
(applicable to annual accounting periods beginning on or after 1 January 2013)

The amendment introduces the assumption that the book-value of an investment property which has been measured with the fair value model can be fully covered or recovered after a transaction. The intention of the Management Board is not important, except when an investment property is depreciated and possessed within the business model, the purpose of which is to principally take advantage of all economic benefits of an asset during its useful life. This assumption can be challenged only in these types of cases.

The company does not foresee that the amendment will have an effect on Financial Statements as Accounting Policies remain unchanged. Measuring deferred liabilities and deferred tax assets regarding investment property, where the fair value model is used according to IAS 40, does not change.

IAS 19 (2011): Employee Benefits
(applies to annual accounting periods beginning on or after 1 January 2013)

The amendment requires that actuarial gains and losses are recognised directly in the second comprehensive income. This amendment cancels the so-called "corridor" approach to account for actuarial gains and losses, and consequently prevents entities from recognising all changes within the obligation for certain profits and assets of the program in the profit or loss statement, which is currently allowed in accordance with the requirements of IAS 19. The amendment further requires that the estimated returns on assets recognised in profit or loss are calculated on the basis of the measure at which the commitment for certain earnings was discounted.

The company foresees that the amendment will not have a significant effect on Financial Statements as Accounting Policies of the Company remain unchanged. The company will continue to recognise actuarial profit and loss in the second comprehensive income.

6. Accounting policies and notes (Continued)

IAS 28 (2011): Investments in Associates and Joint Ventures
(amendments apply to annual accounting periods beginning on or after 1 January 2014)

Changes to the IAS 28 (2008) include: associated companies and joint ventures for sale. IFRS 5, Non-current assets for sale and discontinued operations, considers investments or part of an investment in an associate company or joint venture which fulfils measurements for classification as assets for sale. Part of an investment which is preserved and is not classified for sale is recognised according to the equity method until its disposal. After the disposal each retained or preserved part of an investment is recognised according to the equity method, under the condition that this is a share in an associate company or joint venture.

Changes to shares in associate companies and joint ventures—Until now IAS 28 (2008) and IAS 31 required repeated measurements of retained shares in the event of a deviation of a significant influence or joint control for all cases, even if the significant influence was transferred to the joint venture. The altered IAS 28 (2011) determines that in such cases the retained shares in investment do not need to be measured again.

It is foreseen that the amendment to the standard will not have a significant effect on Financial Statements as the company does not have investments in associate companies or joint ventures.

Amendment to IAS 32: Offset of financial instruments
(applies to annual accounting periods beginning on or after 1 January 2014)

The amendment does not introduce new requirements regarding the offset of financial instruments, but rather clarifies offset measurements and considers inconsistencies that arise in these cases.

In accordance with the amendment, the company has a legally enforceable right to offset, if the right is not subjected to a future event; and if the right is legally enforceable only in the regular framework of financial operations or in the event of non-payment or insolvency or receivership of one or all opposed customers.

The company foresees that the amendment will not have a significant effect on Financial Statements as it does not implement the offset of financial instruments, and does not conclude framework master network agreements.

IFRIC 20—Stripping Costs in the Production Phase of a Surface Mine
(applies to annual accounting periods beginning on or after 1 January 2013)

The explanation defines requirements regarding the recognition of stripping costs in the production phase and the initial accounting measurement of an asset in the disposal activity.

If a benefit from the disposal activity is shown in the form of produced inventories, the company considers costs of this disposal activity in accordance with principle of IAS 2, Inventories.

If the benefit results in an improved access to an ore, the company recognises these costs as short-term assets, if the following measures are met: it is possible that the company will partake in future economic benefits relating to the disposal activity; the company can define a component to the ore that had an improved access, and costs pertaining to the disposal activity connected to this component can be measured reliably.

An asset in the disposal activity is recognised as a supplement to an existing asset or as an enforcement of this asset.

At the beginning an asset in the disposal activity is measured according to costs, after the initial recognition it is stated according to costs or their revaluated value reduced by the depreciation and loss due to impairment, in the same manner as an existing asset.

When it is not possible to define costs at a disposal activity and cost of produced inventories separately, the company divides disposal costs from production between the produced inventories and assets at the disposal activity, whereby the calculation of this division is based on the respective production measure.

The company foresees that the explanation will not have a significant effect on Financial Statements, since the company does not perform any disposal operations.

7. Risk management

The Group is exposed to the following risk when using financial instruments:

- credit risk,
- liquidity risk,
- market risk.

This point pertains to the Group and its exposure to individual limited risks, its goals, guidelines, and measurement and risk management procedures as well as its handling of equity. Other quantitative disclosures are contained in explanations to Financial Statements below.

The management is fully responsible for the establishment of a risk management framework regarding the Group.

Risk management guidelines are designed with the purpose to define and analyse risks that threaten the Group, which serve as the basis for determining suitable limitations and control, monitoring risks and considering limitations. Risk management guidelines and systems are regularly checked and, as a result, information on changed market conditions and the Group's activities is regularly forwarded. The Group endeavours to develop a disciplined and constructive environment through education as well as risk management standards and procedures, in which all employees will be aware of their roles and obligations.

Financial risks

Credit risk

Credit risk presents a risk that the Group will suffer a financial loss if a customer or contractor does not fulfil contractual obligations. Credit risk arises in particular from the Group's address to claims on customers.

We have been intensively monitoring the situation of open claims, limitation of exposure to individual buyers, and implementation of a systematic and active process of claim recovery to limit the credit risk visible, particularly as a risk of non-payment for provided services.

We assess there is a low exposure to credit risk due to effective management.

Liquidity risk

Liquidity risk is a risk that the Group will not be able to settle its financial obligations upon their maturity. The Group ensures the greatest possible liquidity by always guaranteeing sufficient liquid assets to settle all its obligations in due time, namely in ordinary as well as high-stress circumstances, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk is managed by coordinating the maturity of receivables and liabilities; and by planning cash flows we can optimise short-term solvency.

A system for efficient planning and managing cash and cash equivalents to control liquidity risk was established. This enables precise regulation of cash flows, detection of deviations in due time, and decision-making on liquidity actions. The measures for monitoring, and planning cash flows, are implemented in all the companies of the Group, and short-term fluctuations in establishing liquidity are balanced with short-term financing within the Group.

In 2012 the liquidity risk in the Group has been low, due to stable regular inflows by buyers, and efficient synchronisation of inflows and outflows.

Market risk

Market risk is a risk that changes in market prices, such as exchange rates, interest rates and equity instruments, will influence the Group's income or the value of financial instruments. The goal of market risk management is to manage and control the exposure to market risk within reasonable limits while at the same time optimising profit.

7. Risk management (Continued)

The Group trades with financial instruments and undertakes financial obligations, both with the goal of managing market risks. All these businesses are performed in accordance with the Group's guidelines pertaining to this area.

Currency risk

The Group is subject to currency risk in American dollars when doing business with foreign programme suppliers and foreign material suppliers. As approximately 95 percent of the operations have been made in EUR and the only long-term loan is denominated in EUR, we asses there is a minimal level of currency risk.

Interest rate risk

Exposure to interest risk results from a non-current loan with a variable interest rate.

By using derivative financial instruments and in order to secure the interest rate risk the Group had been using the fixed interest rate instead of a variable one for ⅔ of the syndicated loan until 21 June 2012.

The earnings of the revaluation to the fair value recognised in the Income Statement 2012 amount to 163,275€. Interest risk insurance for the new syndicated loan received on 10 December 2012 had not yet been established until 31 December 2012.

Capital management

The Management Board has decided on the conservation of capital in order to ensure the trust of investors, creditors and the market as well as a sustained development of the Group. The business and management board monitors the return on capital that the Group defined as net operating income, divided by the shareholders entire capital. The Supervisory Board also monitors the dividend level paid to shareholders. The Group does not implement special measures in capital management.

No changes occurred in the Group's manner of capital management in the reporting year. The Group is not subject to any capital adequacy requirements determined by external bodies.

8. Breakdown of notes to Financial Statements

8.1.1 Real estate, machinery and equipment

In €	Land	Buildings	Equipment	TFA in progress	Total
COST OF PURCHASE					
Balance 1 January 2012	203,167	12,625,543	119,041,275	1,960,240	133,830,225
Purchase	0	140,824	13,097,729	865,248	14,103,801
Disposals, write-offs	0	−8,346	−898,866	0	−907,212
Sales	0	0	−118,512	0	−118,512
Transfer from equipment to buildings	22,193	−22,193	0	0	0
Other	0	0	144,938	0	144,938
Balance 31 December 2012	**225,360**	**12,735,828**	**131,266,564**	**2,825,488**	**147,053,239**
VALUE ADJUSTMENT					
Balance 1 January 2012	0	7,949,572	70,547,918	0	78,497,490
Depreciation	0	664,451	12,261,244	0	12,925,695
Disposals, write-offs	0	−14,164	−673,245	0	−687,409
Sales	0	0	−110,713	0	−110,713
Transfer from buildings to equipment	0	−22,562	22,562	0	0
Other	0	0	42,283	0	42,283
Balance 31 December 2012	**0**	**8,577,297**	**82,090,049**	**0**	**90,667,346**
CARRYING AMOUNT					
Balance 1 January 2012	203,167	4,675,971	48,493,357	1,960,240	55,332,735
Balance 31 December 2012	**225,360**	**4,158,531**	**49,176,515**	**2,825,488**	**56,385,894**

8. Breakdown of notes to Financial Statements (Continued)

Movement of real estate, machinery and equipment in 2011:

In €	Land	Buildings	Equipment	TFA in progress	Total
COST OF PURCHASE					
Balance 1 January 2011	203,167	12,614,929	103,602,321	2,303,657	118,724,074
Depreciation	0	10,614	15,905,378	−343,417	15,572,575
Disposals, write-offs	0	0	−318,748	0	−318,748
Sales	0	0	−147,676	0	−147,676
Other	0	0	133,941	0	133,941
Balance 31 December 2011	**203,167**	**12,625,543**	**119,175,216**	**1,960,240**	**133,964,166**
VALUE ADJUSTMENT					
Balance 1 January 2011	0	7,288,472	59,525,399	0	66,813,871
Depreciation	0	661,100	11,415,676	0	12,076,776
Disposals, write-offs	0	0	−277,547	0	−277,547
Sales	0	0	−106,158	0	−106,158
Other	0	0	124,489	0	124,489
Balance 31 December 2011	**0**	**7,949,572**	**70,681,859**	**0**	**78,631,431**
CARRYING AMOUNT					
Balance 1 January 2011	203,167	5,326,457	44,076,921	2,303,657	51,910,203
Balance 31 December 2011	**203,167**	**4,675,971**	**48,493,357**	**1,960,240**	**55,332,735**

In 2011 the Group sold and took financial leaseback on the equipment in the value of 1,743,825.39€ (purchase value 1,905,352.69 € and the accumulated value adjustment of 161,528€). The accumulated adjustment in 2012 amount to 490,962€.

Other real estate, machinery and equipment are owned by the Group. In the controlling company they are pledged for the repayment of the syndicated non-current loan.

8.1.2 Investment property

In €	Investment property	Total
COST OF PURCHASE		
Balance 1 January 2012	983,293	983,293
Balance 31 December 2012	**983,293**	**983,293**
VALUE ADJUSTMENT		
Balance 1 January 2012	300,304	300,304
Depreciation	49,668	49,668
Balance 31 December 2012	**349,972**	**349,972**
CARRYING AMOUNT		
Balance 1 January 2012	682,989	682,989
Balance 31 December 2012	**633,321**	**633,321**

8. Breakdown of notes to Financial Statements (Continued)

In €	Investment property	Total
COST OF PURCHASE		
Balance 1 January 2011	983,293	983,293
Balance 31 December 2011	**983,293**	**983,293**
VALUE ADJUSTMENT		
Balance 1 January 2011	250,636	250,636
Depreciation	49,668	49,668
Balance 31 December 2011	**300,304**	**300,304**
CARRYING AMOUNT		
Balance 1 January 2011	732,657	732,657
Balance 31 December 2011	**682,989**	**682,989**

Part of the Tivolska 50 building has been rented out to companies Dialog-Si, Solford and Adria Media since November 2012 by Telemach while Telemach Pobrežje d.o.o. is renting out a building in Cesta XIV divizije 5 to company Narvis d.o.o. Invested property in 2012 amounted to 6,582€ in earnings and 113,730€ in maintenance cost. The Group assesses the fair value to be the same as the book value.

8.1.3 Intangible fixed assets

In €	Goodwill	Database Customer list	Other intangible fixed assets	Total
COST OF PURCHASE				
Balance 1 January 2012	32,769,628	36,501,168	11,979,092	81,249,888
Purchase, activations	0	0	4,057,731	4,057,731
Disposals, write-offs	0	0	− 14,815	− 14,815
Sales	0	0	− 3,649,710	− 3,649,710
Transfer/new companies in the group	13,067	0	3,497	16,564
Balance 31 December 2012	**32,782,695**	**36,501,168**	**12,375,795**	**81,659,658**
VALUE ADJUSTMENT				
Balance 1 January 2012	0	23,715,596	3,241,064	26,956,660
Depreciation	0	3,650,112	462,552	4,112,664
Disposals, write-offs	0	0	− 14,815	− 14,815
Other	0	0	2,972	2,972
Balance 31 December 2012	**0**	**27,365,708**	**3,691,773**	**31,057,481**
CARRYING AMOUNT				
Balance 31 December 2011	32,769,628	12,785,572	8,738,028	54,293,228
Balance 31 December 2012	**32,782,695**	**9,135,460**	**8,684,022**	**50,602,177**

8. Breakdown of notes to Financial Statements (Continued)

Movement of intangible assets in 2011:

In €	Goodwill	Database Customer list	Other intangible fixed assets	Total
COST OF PURCHASE				
Balance 1 January 2011	32,769,628	36,501,168	3,463,082	72,733,878
Purchase, activations	0	0	8,521,282	8,521,282
Disposals, write-offs	0	0	−5,272	−5,272
Balance 31 December 2011	**32,769,628**	**36,501,168**	**11,979,092**	**81,249,888**
VALUE ADJUSTMENT				
Balance 1 January 2011	0	20,065,484	2,972,184	23,037,668
Depreciation	0	3,650,112	274,151	3,924,263
Disposals, write-offs	0	0	−5,271	−5,271
Balance 31 December 2011	**0**	**23,715,596**	**3,241,064**	**26,956,660**
CARRYING AMOUNT				
Balance 1 January 2011	32,769,628	16,435,684	490,898	49,696,210
Balance 31 December 2011	**32,769,628**	**12,785,572**	**8,738,028**	**54,293,228**

Goodwill

Book value of goodwill per individual cash-generating unit:

In €	31 Dec 2012	31 Dec 2011
Telemach	50,541,101	50,541,101
Telemach Rotovž d.d.	7,630,031	7,630,031
Telemach Tabor d.d. (z odvisnimi družbami)	4,491,692	4,491,692
Fonet d.o.o.	13,067	0
Total	**62,675,892**	**62,662,825**

In accordance with the Group's guidelines and IAS 36 "Impairment of assets" we performed an examination of an eventual impairment of said assets on 31 December 2012.

The examination is based on value in use as assessed on 30 June 2012 and recalculated to 31 December2012. As the book value of the stated unit (including the related goodwill) is higher than the determined value in use, we did not register an impairment of goodwill in 2012.

In assessing the present value of expected free cash flows, the Business Valuation Report for the company Telemach d.o.o as well as the Business Valuation Report for dependent companies in the Telemach Group were used, which were prepared by a certified business valuator and taking into account the following assumptions:

- Cash flows are mostly based on actual results and a five-year business plan
- Based on the company analysis of strengths, weaknesses, opportunities and threats, a growth of free cash flow is anticipated at an estimated 2% average per year
- Long-term rate of return on non-risk investments was estimated at 4%
- A 7% equity risk premium was used
- The scope of systematic risk of the equity investment (ß) was estimated at 0.86
- Required rate of return on loan capital was estimated at 7.2%
- Required rate of return on total capital was estimated at 9.5%

A certified business valuator also calculated the average present value of anticipated free cash flows in accordance with these assumptions and considering two scenarios of business operations (optimistic and pessimistic)—in all three scenarios, the amounts were higher than the book value, therefore, impairment of goodwill was not performed.

Intangible fixed assets, essential for the Group financial statements:

In €	Book value 31 December 2012	Remaining depreciation period in years	Book value 31 December 2011	Remaining depreciation period in years
Baza naročnikov "Customer list"	9,135,460	3	12,785,572	4

The customer database was shaped on the basis of a valuation by a court appraiser performed on 10 February 2005, who estimated its useful life at 10 years (10 percent depreciation rate).

In 2012, the customer database was re-evaluated by a certified business valuator for financial reporting purposes of the parent company. The performed valuation confirms that imapirment of the customer data base was not necessary.

The subject of evaluation is the entire Telemach customer database as of 30 June 2012, calculated on 31 December 2012. The assessment took into consideration the Report on evaluating Telemach customer database prepared by an authorised company value evaluator and the following assumptions::

- the market value of the Telemach customer database is equal to the present value of expected free cash flows as from the financial aspect it is true to say that an asset value equals the total sum of the future benefits, which the asset brings to the owner(s);
- the value of Telemach customer database has been calculated by using the»present excess earnings«method of the existing customer database. Thus, the free cash flow based on the customer database has been calculated by subtracting the return on other contribution assets (which also influence the generation of cash flow) from the free customer database cash flow, which has been calculated as the customer database EBIT. The return is mainly represented by the telecommunication network and the working capital;
- to serve the subject of evaluation (the existing customer database) an average life span of the existing customer database has been defined (10 years). Then, the survival curve of the existing customer database has also been defined (the assessment of the shares of retaining the existing customer database and the revenue linked to the existing customer database). This was the base on which the revenue from the existing customer database in a life span period has been defined;
- the required return rate on the customers database is equal to the required return rate of the company (WACC—Weighted Average Cost of Capital) = 9.5%;
- the required return rate of the working capital =5%;
- the required return rate of the fixed assets and other intangible assets = 6.5%.

Other intangible assets essential for the Group's financial statements are the acquired rights to transmit sports events in the basketball, football and ice-hockey leagues.

8.1.4 Long-term deferred costs and accrued revenues

Long-term deferred costs and accrued revenues represent costs of an acquired syndicated loan and deferred costs of equipment sales.

	2012	2011
Deferred costs of long-term loan	1,841,077	2,260,055
Deferred costs of equipment sales	53,754	448,766
Deferred costs of telephone sales	53,820	0
Balance 31 December	**1,948,651**	**2,708,821**

Loan costs were deferred over the loan period, using the effective interest rate method.

8. Breakdown of notes to Financial Statements (Continued)

Flow of long-term deferred costs and accrued revenues through the loan period

Total	2012	2013	2014	2015	2016	2017
Balance 1 January	2,260,055	1,841,077	1,511,321	1,220,180	991,054	852,042
Transfer to short-term deferred costs and accrued revenues	418,978	329,756	291,141	229,126	139,012	852,042
Balance 31 December	**1,841,077**	**1,511,321**	**1,220,180**	**991,054**	**852,042**	**0**

8.1.5 Non-current financial assets

Non-current loans:

	31 Dec 2011	Increase	Decrease	31 Dec 2012
Long-term Banka Celje deposit	0	37,013	0	37,013
Loans to other individuals	34,416	0	−7,000	27,416
Total	**34,416**	**37,013**	**−7,000**	**64,429**

	31 Dec 2010	Increase	Decrease	31 Dec 2011
Loans to other individuals	41,416	0	−7,000	34,416
Total	**41,416**	**0**	**−7,000**	**34,416**

Other investment:

	31 Dec 2011	Increase	Decrease	31 Dec 2012
Long-term deposits given	268,805	0	0	268,805
Total	**268,805**	**0**	**0**	**268,805**

	31 Dec 2010	Increase	Decrease	31 Dec 2011
Long-term deposits given	268,805	0	0	268,805
Total	**268,805**	**0**	**0**	**268,805**

Maturity of non-current loans given and other investment:

		Maturity	
	31 Dec 2011	from 1 to 2 years	from 1 to 2 years
Loans to other individuals	64,429	51,013	13,416
Long-term deposits given	268,805	0	268,805
Total	**333,234**	**51,013**	**282,221**

8.1.6 Inventory

	31 Dec 2012	31 Dec 2011
Materials	3,716,678	2,675,991
Total	**3,716,678**	**2,675,991**

The inventory is owned by the Group and is not pledged. It is presented in accordance with its book value, which does not exceed the net market value.

The stocktaking on 30 November 2012 found 339 € of surplus and 7,035 € of shortfall.

In 2012 the company wrote off 26,088 € worth of inventories—for uselessness, wear and tear and technical inappropriateness. The inventory write-off is presented in the costs of materials.

8. Breakdown of notes to Financial Statements (Continued)

8.1.7. Short-term financial assets

Short-term loans to associated companies:

	31 Dec 2012	31 Dec 2011
Telemach Tezno d.d.	0	253,185
Adria Media B.V.	398,144	0
Total	**398,144**	**253,185**

Short-term loans to others:

	31 Dec 2012	31 Dec 2011
The Association of Slovenian Cable Operators	20,263	0
Total	**20,263**	**0**

8.1.8 Kratkoročne poslovne terjatve

	31 Dec 2012	31 Dec 2011
Short-term receivables to associated companies	5,988,346	43,800
Other short-term receivables to customers	11,024,416	10,424,477
Short-term advances and collaterals given	129,888	168,694
Other short-term receivables	1,560,294	690,562
Other short-term assets	2,108,599	1,567,765
Total	**20,811,543**	**12,895,298**

—Short-term receivables to customers	31 Dec 2012	31 Dec 2011
Domestic customers	9,792,723	8,935,192
Foreign customers	1,231,693	1,489,285
Total	**11,024,416**	**10,424,477**

—Short-term operating receivables to others less advance payments	31 Dec 2012	31 Dec 2011
Receivables for incoming VAT	460,445	594,156
Other short-term receivables towards state and other institutions	106,468	51,094
Operations for accounts of others	966,666	0
Other short-term receivables	26,715	45,312
Total	**1,560,294**	**690,562**

—Other short-term assets	31 Dec 2012	31 Dec 2011
Short-term deferred car insurance costs	18,850	18,597
Deferred licensing fees	115,462	71,217
Short-term deferred interest	614,142	210,345
Short-term deferred cost of commission for granting long-term loan	418,978	705,899
Short-term deferred marketing costs	88,304	30,805
Short-term deferred equipment costs in instalments	540,509	403,916
Short-term deferred costs of telephones in instalments	81,675	0
Short-term deferred MVNO costs	218,266	0
Short-term uninvoiced revenues	3,000	46,553
Short-term deferred SLBB costs	0	58,333
Other	9,413	22,100
Total	**2,108,599**	**1,567,765**

8. Breakdown of notes to Financial Statements (Continued)

8.1.9 Cash and cash equivalents

	31 Dec 2012	31 Dec 2011
Cash-in-hand	24,422	6,188
Cash in bank accounts	1,039,712	179,011
Short-term bank deposits	181,991	2,262,776
Short-term bank deposits—guarantees	305,780	0
Short-term bank deposits—SAZAS	830,596	785,931
Total	**2,382,501**	**3,233,906**

All cash in bank accounts is pledged for the repayment of the syndicated non-current loan.

8.1.10 Provisions and long-term accruals and deferred income

	Balance 31 Dec 2011	Additional formation	Drawing	Balance 31 Dec 2012
Provisions for pensions and long-service awards	171,775	26,948	−13,517	185,206
Provisions for risky contracts	792,469	44,664	−6,537	830,596
Provisions for donations received for assets	117,722	0	−28,104	89,618
Long-term accruals and deferred income	2,600,000	1,242,000	−2,792,000	1,050,000
Long-term deferred income	566,645	120,275	−525,863	161,057
Total	**4,248,611**	**1,433,887**	**−3,366,021**	**2,316,477**

	Balance 31 Dec 2010	Additional formation	Drawing	Balance 31 Dec 2011
Provisions for pensions and long-service awards	178,861	−557	−6,529	171,775
Provisions for risky contracts	759,487	44,666	−11,684	792,469
Provisions for donations received for assets	15,680	111,120	−9,078	117,722
Long-term accruals and deferred income	0	8,070,000	−5,470,000	2,600,000
Long-term deferred income	88,013	501,172	−22,540	566,645
Total	**1,042,041**	**8,726,401**	**−5,519,831**	**4,248,611**

Provisions for pensions and long-service awards were formed on the basis of the actuarial calculation prepared by an authorised actuary.

Predispositions used in the calculation:

- nominal long-term interest rate was estimated to 3.6%;
- expected long-term growth of the long-service award and non-taxable sums in the calculation is estimated in the amount of anticipated long-term inflation of 2.5% per years, whereby the non-taxable amount considered in severance pay at retirement is 4,063 €, for long-service awards 460 €, 689 €, and 919 € (for 10, 20, 30, and 40 years of work). All sums for severance which are expected to exceed the foreseen limit of non-taxable sums at the estimated growth are additionally increased by 16.1% for contributions in accordance with Slovenian legislation on the day of the provision calculation;
- the estimated mortality of workers is considered in the calculation in accordance with Slovene mortality rates for 2000-2002, separated by gender, whereby replacement of older employees (pensioners) with younger ones, has to be indirectly regarded;
- provisions are calculated merely for employees for indefinite work period as employers have a long-term obligation towards them;
- for all employees to exercise the right to old-age pension when it occurs;
- evaluated future long-term salary growth was estimated at 3% per year;

- staff turnover was estimated at 7% for employees up to 35 years old, 3% for employees aged between 35 and 45, 2.50% for employees older than 45 years

Provisions for risky contracts were formed for the contract between Telemach and SAZAS. Based on the decision by the Slovenian Cable Association Telemach d.o.o. paid 50% between April 2010 and October 2010 of the calculated sum during the year, and formed provisions for risky contracts for the second half of the sum. In accordance with the SCA this sum was transferred to the company's deposit business account.

Long-term accruals and deferred income in the amount of 1,050,000 € present the long-term liability to pay off the acquired rights to transmit sports events in the basketball, football and ice-hockey leagues.

Long-term deferred income refers to customer connection fees and the deferred income from equipment and telephone sales.

8.1.11 Non-current financial liabilities

- to associated companies

	31 Dec 2012	payment	interests	31 Dec 2011
Broadband kabel d.o.o.	21,890,330	−3,800,000	1,083,995	24,606,335
Total	**21,890,330**	**−3,800,000**	**1,083,995**	**24,606,335**

	31 Dec 2011	payment	interests	31 Dec 2010
Broadband kabel d.o.o.	24,606,335	0	1,095,416	23,510,919
Total	**24,606,335**	**0**	**1,095,416**	**23,510,919**

On 15 July 2009 the company received a long-term loan from the parent company (Broadband kabel d.o.o.) in the amount of 21,908,311 €. The rate of interest is fixed (5%) and compliant with the rate of interest received from the bank trade-union in an affiliated transaction. Payment terms and the amortisation schedule are not contractually defined—with the exception of the loan repayment deadline (10 years from receiving the funds).

- to banks

From 10 December 2012 a syndicated loan was received from the banks Unicredit Bank Austria, BNP Paribas, ING Bank, WestLB and Natixis.

Facility A and Facility B, together with the long-term loan from Broadband kabel, are intended for the repayment of the loan to UPC Slovenia Holding.

Capex facilities are future loans for investments in fixed assets and for financing or refinancing the buyout of the subsidiaries' shares.

The interest rate is dependent on the Leverage (ratio of total net debt on the last day of the period and the EBITDA for the given period), which is defined in the syndicated loan contract.

From 1 Jan 2012 to 4 May 2012 the interest rates were: 4.25% + monthly EURIBOR for A assets, 5.25% + monthly EURIBOR for B assets; and 4.25% + monthly EURIBOR for Capex assets.

From 4 May 2012 to 10 December 2012 the interest rates were: 4% + monthly EURIBOR for A assets, 5.25% + monthly EURIBOR for B assets; and 4% + monthly EURIBOR for Capex assets.

A syndicated loan of 10 December 2012 was received from the banks: SKB banka, Banka Koper, Unicredit Bank Austria, BNP Paribas, ING Bank, Credit Agricole, Erste Group bank and Reiffeisen Bank International. Facility A and Facility B are intended for the repayment of the previous syndicated loan.

Capex facilities are future loans for investments in fixed assets and for financing or refinancing the buyout of the subsidiaries' shares or new acquisitions.

The interest rate is dependent on the Leverage (ratio of total net debt on the last day of the period and the EBITDA for the given period), which is defined in the syndicated loan contract. The EURIBOR mark-up depends on interest calculation.

8. Breakdown of notes to Financial Statements (Continued)

The interest rate for Facility A is 5.35% + three-monthly EURIBOR, the interest rate for Facility B is 6.10% + three-monthly EURIBOR, and the interest rate for Capex assets is 5.35% + three-monthly EURIBOR.

The interest is payable monthly.

	1 Jan 2012	Repayment	Acquisitions	Transfer to short-term	31 Dec 2012
BANKA KOPER—FA	0	0	2,984,369	−198,461	2,785,908
BANKA KOPER—FB	0	0	3,731,922	0	3,731,922
SKB BANKA—FA	0	0	2,984,369	−198,461	2,785,908
SKB BANKA—FB	0	0	3,731,921	0	3,731,921
UNICREDIT BANK AUSTRIA AG—Facility A	3,722,672	3,722,672	2,763,306	−183,757	2,579,549
UNICREDIT BANK AUSTRIA AG—Facility B	6,267,123	6,267,123	3,455,484	0	3,455,484
UNICREDIT BANK AUSTRIA AG—Capex Facility	601,644	601,644	0	0	0
BNP PARIBAS—Facility A	3,722,672	3,722,672	2,984,369	−198,461	2,785,908
BNP PARIBAS—Facility B	6,267,123	6,267,123	4,023,935	0	4,023,935
BNP PARIBAS—Capex Facility	601,644	601,644	0	0	0
ING BANK B.V.—Facility A	3,722,672	3,722,672	3,205,435	−213,162	2,992,273
ING BANK B.V.—Facility B	6,267,123	6,267,123	4,008,360	0	4,008,360
ING BANK B.V.—Capex Facility	601,644	601,644	0	0	0
CREDIT AGRICOLE CIB—FA	0	0	2,984,369	−198,461	2,785,908
CREDIT AGRICOLE CIB—FB	0	0	3,439,910	0	3,439,910
ERSTE GROUP BANK AG—FA	0	0	2,984,369	−198,461	2,785,908
ERSTE GROUP BANK AG—FB	0	0	3,731,922	0	3,731,922
REIFFEISEN BANK INTERNATIONAL AG—FA	0	0	2,984,369	−198,461	2,785,908
REIFFEISEN BANK INTERNATIONAL AG—FB	0	0	3,731,922	0	3,731,922
WESTLB AG—Facility A	3,722,672	3,722,672	0	0	0
WESTLB AG—Facility B	6,267,123	6,267,123	0	0	0
WESTLB AG—Capex Facility	601,644	601,644	0	0	0
NATIXIS—Facility A	2,929,313	2,929,313	0	0	0
NATIXIS—Facility B	4,931,507	4,931,507	0	0	0
NATIXIS—Capex Facility	473,424	473,424	0	0	0
Total	**50,700,000**	**50,700,000**	**53,730,331**	**−1,587,685**	**52,142,646**

The maturity of the principal repayment:

Facility A	2012	2013	2014	2015	2016	2017	2018
Balance 1 January	0	23,874,955	22,287,270	19,183,526	14,444,347	8,356,233	0
Acquired loan	23,874,955	0	0	0	0	0	0
Payments	0	1,587,685	3,103,744	4,739,179	6,088,114	8,356,233	0
Balance 31 December	**23,874,955**	**22,287,270**	**19,183,526**	**14,444,347**	**8,356,233**	**0**	**0**

Facility B	2012	2013	2014	2015	2016	2017	2018
Balance 1 January	0	29,855,376	29,855,376	29,855,376	29,855,376	29,855,376	29,855,376
Acquired loan	29,855,376	0	0	0	0	0	0
Payments	0	0	0	0	0	0	29,855,376
Balance 31 December	**29,855,376**	**29,855,376**	**29,855,376**	**29,855,376**	**29,855,376**	**29,855,376**	**0**

8. Breakdown of notes to Financial Statements (Continued)

Other non-current financial liabilities

	31 Dec 2012	Transfer to short-term	31 Dec 2011
Financial lease—equipment	0	−907,106	907,106
Financial lease—equipment (interests)	0	26,311	−26,311
Total	**0**	**−880,795**	**880,795**

Among other non-current financial liabilities in 2011 Telemach d.o.o. listed the equipment in financial lease (their sale and leaseback).

8.1.12 Deferred claims and tax liabilities

	31 Dec 2012	31 Dec 2011
Deferred tax liabilities	−1,078,525	−540,867
Deferred tax claims	8,014	26,806
Net deferred tax claims (liabilities)	**−1,070,511**	**−514,061**

	31 Dec 2012	Net calculation of claims/liabilities	Balance in Statement of Financial Situation 31 Dec 2012
Deferred tax liabilities	−1,788,301	709,776	−1,078,525
Deferred tax claims	717,790	—709,776	8,014
Net deferred tax claims (liabilities)	**−1,070,511**	**0**	**−1,070,511**

Deferred tax liabilities:

	1 Jan 2012	Recalculation due to the rate change	Additional formation	Drawing	31 Dec 2012
Deferred liabilities for modems/set top boxes	1,939,807	−288,215	479,641	−529,365	1,601,868
Deferred liabilities for depreciation	219,333	−32,900	0	0	186,433
Total	**2,159,140**	**−321,115**	**479,641**	**−529,365**	**1,788,301**

	1 Jan 2011	Additional formation	Drawing	31 Dec 2011
Deferred liabilities for modems/set top boxes	1,550,063	899,724	−509,980	1,939,807
Deferred liabilities for depreciation	219,333	0	0	219,333
Total	**1,769,396**	**899,724**	**−509,980**	**2,159,140**

Deferred tax claims:

	1 Jan 2012	Recalculation due to the rate change	Additional formation	Drawing	31 Dec 2012
Deferred claims for anniversary bonuses and severance payments	34,354	−5,125	3,531	−1,738	31,022
Deferred claims for unused relief	53,885	−39,017	861,385	−196,320	679,933
Deferred claims for tax losses	1,548,264	−155,228	−2,017	−1,384,184	6,835
Deferred claims for deferred income	8,576	−785	303	−8,094	0
Total	**1,645,079**	**−200,155**	**863,202**	**−1,590,336**	**717,790**

8. Breakdown of notes to Financial Statements (Continued)

	1 Jan 2011	Additional formation	Drawing	31 Dec 2011
Deferred claims for anniversary bonuses and severance payments	35,771	−1,302	−115	34,354
Deferred claims for unused relief	29885	141,370	−117370	53,885
Deferred claims for tax losses	2448994	34,272	−935,002	1,548,264
Deferred claims for deferred income	12,938	−3,819	−543	8,576
Total	**2,527,588**	**170,521**	**−1,053,030**	**1,645,079**

The official tax rate used for 2012 was 17%, while it was 20% for 2011. The Group intends to use the unused tax relief in the next business year.

8.1.13 Short-term financial liabilities

Short-term financial liabilities to associated companies	31 Dec 2012	31 Dec 2011
Total TV d.o.o.	2,443,086	0
Total	**2,443,086**	**0**

The interest rate depends on the repayment date. The considered interest rate for loans to associated companies is the one valid on the date of concluded contract with a mark-up of 100 base points in accordance with the Rules on the recognised rate of interest, Article 5, Paragraph 3, published by the Ministry of Finance and calculated using the common (linear) interest calculation. The actual interest rate in 2012 was 1.153%. The loan received is not insured.

Short-term financial liabilities to banks	1 Jan 2012	Transfer from long-term liabilities	Payments	31 Dec 2012
BANKA KOPER—FA	0	198,461	0	198,461
SKB BANKA—FB	0	198,461	0	198,461
UNICREDIT BANK AUSTRIA AG—Facility A	1,585,582	183,757	1,585,582	183,757
UNICREDIT BANK AUSTRIA AG—Capex Facility	233,973	0	233,973	0
BNP PARIBAS—Facility A	1,585,582	198,461	1,585,582	198,461
BNP PARIBAS—Capex Facility	233,973	0	233,973	0
ING BANK B.V.—Facility A	1,585,582	213,162	1,585,582	213,162
ING BANK B.V.—Capex Facility	233,973	0	233,973	0
CREDIT AGRICOLE CIB—FA	0	198,461	0	198,461
ERSTE GROUP BANK AG—FA	0	198,461	0	198,461
REIFFEISEN BANK INTERNATIONAL AG—FA	0	198,461	0	198,461
WESTLB AG—Facility A	1,585,582	0	1,585,582	0
WESTLB AG—Capex Facility	233,973	0	233,973	0
WESTLB AG—Revolving	0	0	0	0
NATIXIS—Facility A	1,247,673	0	1,247,673	0
NATIXIS—Capex Facility	184,107	0	184,107	0
NATIXIS—Revolving	0	0	0	0
Total	**8,710,000**	**1,587,685**	**8,710,000**	**1,587,685**

The interest rate and the principal repayment are presented in 8.1.10.

Other short-term financial liabilities	31 Dec 2012	31 Dec 2011
ING Bank B.V.	0	184,795
UNICREDIT BANK A.G.	809,035	314,861
Financial leases—equipment	882,150	841,837
Total	**1,691,185**	**1,341,493**

8. Breakdown of notes to Financial Statements (Continued)

8.1.14 Short-term operating liabilities

	31 Dec 2012	31 Dec 2011
Short-term liabilities to suppliers	**4,522,404**	**3,369,579**
Short-term liabilities to domestic suppliers	3,302,152	2,261,828
Short-term liabilities to foreign suppliers	1,220,252	1,107,751
Short-term operating liabilities to associated companies	**363,741**	**0**
Short-term liabilities for advances and securities received	**10,994**	**15**
Short-term liabilities for advances received	10,994	15
Short-term liabilities to employees	**789,719**	**695,536**
Liabilities for net wages and continued pay	563,593	496,423
Liabilities for contributions from gross wages and continued pay	119,605	103,586
Liabilities for taxes from gross wages and continued pay	60,523	55,499
Other liabilities	45,998	40,028
Liabilities to state and other institutions	**858,100**	**1,036,252**
Liabilities for VAT payable	716,057	821,302
Liabilities for payer's contributions	69,996	61,507
Corporate income tax liabilities	72,047	153,443
Other short-term liabilities	**3,336,641**	**3,157,061**
Short-term liabilities to pay off minority shareholders of LK	63,266	69,592
Short-term liabilities to pay off minority shareholders of Velenje	218,484	320,382
Short-term liabilities to pay off minority shareholders of Murska Sobota	115,594	145,870
Short-term liabilities to pay off the KKS Slivnica share	0	8,763
Short-term part of the liabilities for rights	2,900,000	2,540,000
Other short-term liabilities	39,297	72,454
Other short-term operating liabilities	**4,995,454**	**4,888,864**
Deferred revenues and cost provisions	**6,802,765**	**4,691,239**
Total short-term operating liabilities	**16,684,364**	**12,949,682**

8. Breakdown of notes to Financial Statements (Continued)

Deferred income and built-in costs	31 Dec 2012	31 Dec 2011
Attributed costs of SLBB	1,492,500	1,102,500
Attributed costs of authors' rights (Aipa, Sazas, EBU...)	1,677,821	949,278
Attributed costs of programme contents	1,064,965	715,021
Attributed costs of sewerage	248,993	260,128
Attributed costs of interconnection	242,889	183,014
Attributed costs of network maintenance	49,506	136,743
Attributed costs of online transmission, maintenance	140,896	169,789
Attributed costs of advertising	80,909	94,589
Attributed costs of Telekom	0	68,304
Attributed costs of postal services	77,260	56,206
Attributed costs of Adacta	24,414	37,872
Attributed costs of students	36,233	33,949
Attributed costs of telephone	8,784	28,841
Attributed costs of rented premises	35,015	23,930
Attributed costs of counselling	23,242	13,400
Attributed costs of audit	27,090	27,461
Attributed costs of energy	53,553	25,235
Attributed costs of advertising commission	102,372	0
Other attributed costs	103,915	63,029
Attributed investments	620,511	238,452
Short-term deferred income—equipment	597,200	451,074
Short-term deferred income—telephones	82,609	0
Short-term deferred income—connection fees	12,088	12,424
Total	**6.802.765**	**4.691.239**

8.1.15 Financial instruments

Fair values of financial instruments:

	Book value		Book value	
	31 Dec 2012	Fair value	31 Dec 2011	Fair value
Non-current financial liabilities	74,032,976	74,032,976	76,187,130	76,187,130
Short-term financial liabilities	5,721,956	5,721,956	10,051,493	10,051,493
Short-term operating liabilities (minus deferred income and accrued costs)	9,881,599	9,881,599	8,258,443	8,258,443
Total	**89,636,531**	**89,636,531**	**94,497,066**	**94,497,066**
Cash and cash equivalents	2,382,501	2,382,501	3,233,906	3,233,906
Other investments	268,805	268,805	268,805	268,805
Non-current loans given	64,429	64,429	34,416	34,416
Short-term operating receivables (less accrued revenues and advances)	18,702,944	18,702,944	11,327,533	11,327,533
Total	**21,418,679**	**21,418,679**	**14,864,660**	**14,864,660**

Given and received loans are disclosed in accordance with their repayment value. Possible differences between historical and repaid value are disclosed in the Income Statement during the period of repayment of the loan.

The received syndicated loan has a variable interest rate while the loan from the capital owner has a fixed interest rate.

Short-term operating receivables are disclosed at fair value and are impaired in accordance with the company's orientations. Short-term operating liabilities are presented in their original values.

8. Breakdown of notes to Financial Statements (Continued)

Credit risk:

Financial means in the total amount of 21,418,679 € (31 December 2011: 14,864,660 €) represent the maximum exposure of the Group to the credit risk. Due to the size of the amounts, the Group believes that they do not represent a significant credit risk.

The greatest actual exposures to credit risk are the short-term receivables against the customers (third persons) in the amount of 11,024,416 € (31 December 2011: 10,424,477 €).

Statement of receivables against customers on the day of the report:

	31 Dec 2012	31 Dec 2011
Not yet matured	8,786,295	7,698,381
Matured 0-30 days	1,325,861	1,192,074
Matured 31-120 days	1,090,661	1,224,588
Matured 121-180 days	260,871	198,702
More than 180 days	1,313,604	1,474,256
Total	12,777,292	11,788,001
minus value correction	-1,752,876	-1,363,524
Receivables against customers	**11,024,416**	**10,424,477**

Developments in value adjustments due to impairments with regard to receivables against customers in the year:

	2012	2011
Balance 1 January	−1,363,855	−1,248,498
Newly formed adjustment	−549,897	−281,112
Write-offs and elimination of an adjustment	160,876	166,086
Balance 31 December	**−1,752,876**	**−1,363,524**

Greatest exposure to credit risk by customer type (third persons):

Short-term receivables from customers	31 Dec 2012	31 Dec 2011
Legal entities	2,764,216	2,597,992
Natural persons	8,260,200	7,826,485
Total	**11,024,416**	**10,424,477**

The greatest single amount receivable represents 1.3 percent (31 December 2011: 8 percent) of all receivables from customers.

Liquidity risk:

	31 Dec 2012	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
Non-current financial liabilities	74,032,976	74,032,976	0	0	3,103,744	19,183,526	51,745,706
Non-current operating liabilities	1,050,000	0	0	0	600,000	450,000	0
Short-term financial liabilities	5,721,956	5,721,956	1,719,044	4,002,912	0	0	0
Short-term financial liabilities from operations (minus deferred income and accrued costs)	9,888,331	9,888,331	8,438,331	1,450,000	0	0	0
Total	**90,693,263**	**89,643,263**	**10,157,375**	**5,452,912**	**3,703,744**	**19,633,526**	**51,745,706**

8. Breakdown of notes to Financial Statements (Continued)

	31 Dec 2011	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	Over 5 years
Non-current financial liabilities	76,187,130	76,187,130	0	0	18,300,796	33,279,999	24,606,335
Non-current operating liabilities	2,600,000	0	0	0	2,600,000	0	0
Short-term financial liabilities	10,051,493	10,051,493	5,275,575	4,775,918	0	0	0
Short-term financial liabilities from operations (minus deferred income and accrued costs)	8,258,443	8,258,443	6,958,443	1,300,000	0	0	0
Total	**97,097,066**	**94,497,066**	**12,234,018**	**6,075,918**	**20,900,796**	**33,279,999**	**24,606,335**

Foreign exchange risk:

No Group's important liabilities and assets, except within the Group, are denominated in foreign currencies. Thus the foreign exchange risk is considered to be insignificant

Interest rate risk:

The exposure to the interest rate risk stems from the received syndicated non-current loan with a variable interest rate.

By using derivative financial instruments and in order to secure the interest rate risk the Group had been using the fixed interest rate instead of a fixed one for ⅔ of the syndicated loan until 21 June 2012.

Interest risk insurance for the new syndicated loan received on 10 December 2012 had not yet been established until 31 December 2012.

Sensitivity analysis

A change of the average interest rate of an interest-bearing debt by 100 basic points would have an effect on the Financial Statements in the amount of 978,118 € (31 December 2011: 1,385,687 €).

8.1.16 Business rents

Payments of lowest rent:

	2012	2011
Shorter than one year	1,087,774	1,194,623
Longer than one year and shorter than five years	1,937,550	1,808,250
Longer than five years	644,550	1,145,100
Total	**3,669,874**	**4,147,973**

All rents can be extended.

8.1.17 Contingent liabilities

There are no contingent liabilities in the Company on 31 December 2012.

There are no expected material liabilities that would originate from contingent liabilities, except for those with formed reservations.

8.1.18 Off-Balance Sheet Record

The Off-Balance Sheet Record lists bid bonds and a guarantee to an associated entity for buying sports broadcasting rights. The cut-off date records four bid bonds in the total amount of 313,982€ and a guarantee for buying sports broadcasting rights in the amount of 1,418,448€. The Group also has pledged rights with the mark of direct maturity for insuring all claims for the syndicated loan

8. Breakdown of notes to Financial Statements (Continued)

8.2.1 Net sales revenues

Revenues from product and services sales

	2012	2011
CATV subscription fee	5,576,841	9,080,007
CATV connections	103,456	107,848
Other revenues from CATV	60,063	51,116
Internet subscription fee	17,686,294	16,063,883
Internet connections	33	133
Other revenues from internet	449,103	558,209
Optical fibre subscription fee	1,788,468	2,000,688
Optical fibre connections	63,579	70,485
Other optical fibre	1,326,805	816,445
Digital services subscription fee	25,221,343	19,597,400
Digital services connections	21	167
Other digital services	144,190	185,931
MMDS subscription fee	1,160,788	1,214,718
MMDS connections	0	32,095
MMDS other	5,488	17,322
VOIP subscription fee	6,114,694	5,228,056
VOIP connections	117	0
VOIP other	431,363	192,362
MVNO subscription fee	26,046	0
MVNO connections	8,950	0
MVNO other	53,098	0
ADSL	227,516	22,133
Lease of the signal	525,516	378,742
Leas of the channel	254,846	138,764
Advertising	828,447	310,036
Revenues from leases	123,434	134,423
Revenues from sales of commercial goods and materials on domestic market	1,955,057	502,024
Revenues from sales to dependent companies	25,509	0
Other	150,135	190,448
Total	**64,311,200**	**56,893,435**

8.2.2 Other operating revenues

	2012	2011
Revenues from sales of fixed assets	8,282	23,044
Revenues from sales of rights	1,088,790	0
Recovered written-off receivables	2,961	7,379
Legal expenses from lawsuits	57,828	42,606
Received penalties and damages	5,601	8,151
Elimination of provisions	8,088	7,306
Revaluated operating revenues	240	12,123
Negative goodwill	12,015	40,100
Other revenues	79,779	52,860
Total	**1,263,584**	**193,569**

8. Breakdown of notes to Financial Statements (Continued)

8.2.3 Costs of goods, materials and services

	2012	2011
Acquisition cost of goods sold	1,441,330	351,821
Cost of materials	1,224,599	1,229,957
Cost of services	23,872,593	19,849,264
Total	**26,538,522**	**21,431,042**

- **Cost of materials**

	2012	2011
Cost of spare parts and material for maintenance	155,808	179,535
Cost of power used	921,146	918,742
Write-off of low-value assets and packaging	17,378	27,061
Cost of office stationery and technical literature	86,315	73,231
Other costs of material	43,952	31,379
Total	**1,224,599**	**1,229,948**

- **Cost of services**

	2012	2011
Cost of postal services	757,298	759,844
Cost of maintenance services	1,030,026	1,330,477
Cost of rents	3,386,541	3,336,285
Cost of program suppliers	10,949,619	7,783,518
Costs of sub-suppliers' services	281,266	291,870
Refund of work-related expenses to employees	266,396	151,770
Cost of marketing	1,864,267	1,642,108
Cost of payment transactions and bank services	159,033	149,052
Cost of intellectual performances and personal services	1,835,839	1,411,724
Insurance premiums	63,915	60,670
Cost of telephone	248,139	261,310
Cost of maintenance of office facilities	174,466	154,979
Cost of lease and maintenance of cars	69,528	74,974
Cost of VOIP interconnectivity	2,381,262	2,089,548
Cost of other services	404,998	351,135
Total	**23,872,593**	**19,849,264**

8.2.4 Labour costs

	2012	2011
Employee wages	3,317,518	3,229,544
Employee compensation pay	277,756	229,374
Pension and disability insurance from wages	660,242	641,651
Other contributions from wages	281,137	273,220
Transport to and from work costs	175,979	37,446
Meal allowance	316,194	423,152
Vacation bonus	234,279	232,932
Severance pay and long service awards	23,008	6,732
Employer's contribution from wages, continued pay for pension and disability insurance	421,859	385,748
Other employer's contributions from wages	347,453	316,711
Total	**6,055,425**	**5,776,510**

8. Breakdown of notes to Financial Statements (Continued)

In Telemach 15 employees received their salaries according to their individual contracts. Based on that 840,024 € in gross salaries was paid in 2012; in 2011 there were 13 individual contract employees and 852,686 € of gross salaries was paid.

In the dependent company Telemach Rotovž, 2 employees received their salaries based on individual contracts. Based on that, 91,224 € in gross salaries was paid in 2012, while in 2011 gross salaries of 93,651 € for two employees were calculated.

One person in dependent company Comedia received the salary based on an individual contract. Consequently, 35,118 € was calculated in 2012.

The controlling company operates with a one-member board—the director of the company. There are no open items in loans to or from the Board.

	Fixed part	Variable part
Board	106,444	25,000
Procurator	127,395	0
Others	656,377	51,150

The variable part refers to actual payments in 2012 connected with financial years 2012 and 2011.

8.2.5 Depreciation

	2012	2011
Depreciation of intangible fixed assets	4,112,664	3,924,263
Depreciation of buildings	664,451	661,100
Depreciation of equipment and spare parts	12,257,504	11,411,110
Depreciation of investment property	49,668	49,668
Depreciation of low-value assets	3,740	4,566
Total	**17,088,027**	**16,050,707**

8.2.6 Other operating expenses

	2012	2011
Cost of donations	8,917	30,810
Cost of membership fees	80,579	35,213
Scholarships to high-school and university students	5,101	6,000
Fiscal charges irrespective of labour costs or other expenses	103,409	105,987
Forming provisions for severance pays	44,665	46,018
Financial penalties	1,080	160
Subsequently charged taxes	0	3,961
Damages	38,022	5,003
Revaluation expenses from the impairment of receivables	544,293	278,383
Fixed assets write-offs	239,647	37,740
Environmental taxes for electric and electronic equipment	780	1,196
Commission for granting the long-term loan	705,899	781,069
Other expenses	58,427	72,697
Total	**1,830,819**	**1,404,237**

8. Breakdown of notes to Financial Statements (Continued)

8.2.7 Financial revenues

	2012	2011
Interest revenues	33,663	9,435
Revenues from interest change fair value	163275	255010
Foreign exchange gains	39,775	76,698
Other financial revenues	126,395	106,289
Total	**363,108**	**447,432**

8.2.8 Financial expenses

	2012	2011
Foreign exchange losses	82,538	112,836
Interest expenditures	4,532,572	5,486,735
Total	**4,615,110**	**5,599,571**

8.2.9 Deferred taxes

	2012	2011
Deferred receivables for deferred revenues	8,576	4,363
Deferred liabilities for modems/set top boxes	−337,942	389,743
Deferred liabilities for depreciation	−32,900	0
Deferred receivables for long service awards, severance pay	3,334	1,084
Deferred receivables for unused relief	−626,047	−16,014
Deferred receivables for tax losses	1,541,429	893,077
Total	**556,450**	**1,272,253**

9. Additional disclosures

9.1 Increasing investment into subsidiaries

In 2012 the Group increased their shares in some of their subsidiaries.

	31 Dec 2011	Acquisitions	Elimination	31 Dec 2012
Telemach Murska Sobota d.d.	1,387,877	0	−1,387,877	0
Telemach Rotovž d.d.	12,255,637	34,656	0	12,290,293
Telemach Tabor d.d.	4,665,907	13,496	0	4,679,403
Telemach Pobrežje d.d.	77,353	4,098	0	81,451
Telemach Tezno d.d.	37,555	1,498	0	39,053
Comedia d.o.o.	0	10,000	0	10,000
Fonet d.o.o.	0	100,000	0	100,000
Total	**18,424,329**	**163,748**	**−1,387,877**	**17,200,200**

There have been no adjustments to fair value.

9.1.1 Acquisition of 100% share in company Comedia d.o.o.

On 27 June 2012 Telemach d.o.o. acquired a 100% share in company Comedia marketing d.o.o., Leskoškova cesta 6, 1000 Ljubljana; from two individuals for 10,000€. Comedia marketing d.o.o. was established on 2 February 2012.

Comedia marketing d.o.o. deals with placing ads (selling advertising space). The company holds exclusive rights for selling advertising space on the following cable channels in Slovenia: Animal Planet,

9. Additional disclosures (Continued)

Discovery Channel, E! Entertainment, CBS Reality, Travel Channel, Universal Channel, Viasat Explorer, Viasat History, and Viasat TV1000.

In €	Book value 30 June 2012	Recognised value 1 July 2012
ASSETS	**460,042**	**460,042**
SHORT-TERM ASSETS	**460,042**	**460,042**
Short-term operating receivables	453,304	453,304
1. Short-term operating receivables against associated companies	12,889	12,889
2. Short-term operating receivables against buyers	402,510	402,510
3. Short-term operating receivables against others	35,572	35,572
4. Other short-term assets	2,333	2,333
Cash and cash equivalents	6,738	6,738

In €	Book value 30 June 2012	Recognised value 1 July 2012
LIABILITIES	**438,027**	**438,027**
SHORT-TERM LIABILITIES	**438,027**	**438,027**
Short-term operating liabilities	438,027	438,027
1. Short-term operating liabilities to Group enterprises	195,930	195,930
2. Short-term operating liabilities to suppliers	92,442	92,442
3. Other short-term operating liabilities	37,759	37,759
4. Deferred revenues and accrued expenses	111,896	111,896
Net assets and liabilities	22,015	22,015
Negative goodwill at absorption		−12,015
Purchase value of the merger		10,000

In the period from the acquisition to 31 December 2012 the Consolidated Income Statement recognised 571,855€ in revenues, 628,594€ in expenses and a loss in the amount of 49,245€.

9.1.2 Acquisition of 51% share in company Fonet d.o.o.

On 16 October 2012 Telemach d.o.o. acquired a 51% share in company Fonet d.o.o., Leskoškova cesta 6, 1000 Ljubljana; from one individual for 100,000€. Fonet d.o.o. was established on 14 October 2004.

Fonet d.o.o. offers complete telecommunication solutions for small, medium and large enterprises in business telephony.

The company is an authorised partner of Alcatel-Lucent for the area of Slovenia and Bosnia and Herzegovina. Apart from that the company distributes headphones from Jabra, which is a part of the leading headphones producer GN Netcom.

9. Additional disclosures (Continued)

With ALCATEL products the company ensures solutions in the areas of modern premium telephones, multimedia environment, voice and data integration, CTI applications, network building, work station mobility, multi operating environment, and similar.

In €	Book value 30 September 2012	Recognised value 1 October 2012
ASSETS	**315,029**	**315,029**
NON-CURRENT ASSETS	**57,678**	**57,678**
Real estate, machinery and equipment	23,948	23,948
1. Other machinery and equipment	23,948	23,948
Intangible assets	525	525
1. Other intangible assets	525	525
Non-current financial assets	33,205	33,205
1. Non-current loans	33,205	33,205
a) Non-current loans to others	33,205	33,205
SHORT-TERM ASSETS	**257,351**	**257,351**
Inventories	43,211	43,211
1. Materials	43,211	43,211
Short-term financial assets	1,489	1,489
1. Short-term loans to others	1,489	1,489
Short-term operating receivables	200,608	200,608
1. Short-term operating receivables against buyers	181,684	181,684
2. Short-term operating receivables against others	17,799	17,799
3. Other short-term assets	1,125	1,125
Cash and cash equivalents	12,043	12,043

In €	Book value 30 September 2012	Recognised value 1 October 2012
LIABILITIES	**144,572**	**144,572**
SHORT-TERM LIABILITIES	**144,572**	**144,572**
Short-term financial liabilities	24,137	24,137
1. Short-term financial liabilities to banks	24,137	24,137
Short-term operating liabilities	120,435	120,435
1. Short-term operating liabilities to Group enterprises		0
2. Short-term operating liabilities to suppliers	72,565	72,565
3. Other short-term operating liabilities	44,998	44,998
4. Deferred revenues and accrued expenses	2,872	2,872
Net assets and liabilities	170,457	86,933
Goodwill at absorption		13,067
Purchase value of the merger		100,000

In the period from the acquisition to 31 December 2012 the Consolidated Income Statement recognised 327,850€ in revenues, 262,309€ in expenses and a profit for the Group in the amount of 25,291€.

9.2 Absorption of Telemach Murska Sobota d.d. to the controlling company Telemach d.o.o

With the SRG 2012/22956 Ljubljana County Court order, Telemach recorded the absorption of the company Telemach Murska Sobota d.d., following the notarial record on the absorption contract of 24 April 2012.

Telemach is the leading Slovenian cable provider of TV services, telephone services and broadband internet access. Telemach focuses on ensuring advanced, high quality and user friendly services, which bring the digital world closer to the clients and make it comfortable and easy to access. With its comprehensive network based on the combination of optical fibre and coaxial connections and its

9. Additional disclosures (Continued)

continuous investment in technological innovation Telemach ensures a high level of services to the widest range of Slovenian retail and business users.

Telemach Murska Sobota d.d. dealt with telecommunication services in the area of Murska Sobota.

The basic reasons for the absorption lie in the fact that both companies dealt with totally identical business operations of cable operators and providers of unified packages of electronic communication and that in the last period the absorbing company acquired all the shares, or the whole share capital, of the absorbed company. This is why the separated organisations of both companies became totally superfluous as virtually all business operations were managed in a unified way, where some of the business processes, especially administrative-technical as well as accountancy-financial matters and calculations unnecessarily doubled or became obsolete after the merger and the above mentioned operations no longer needed to be in place for the absorbed company.

Consequently, the merger enabled savings at fixed costs. Apart from savings the merger also enabled the elimination of separated management processes and with the unification of the organisational structure further improved the efficiency of supervising all business processes. As the absorbing company was also a 100% owner of the absorbing company share capital, the absorption did not cause any financial changes in the values of the absorbing company's share capital. The merger merely eliminated the legal separation of the absorbed company, which became obsolete with the acquisition of all the shares of the absorbed company by the absorbing company.

As there were no more sensible reasons for the independent existence of the absorbed company and as the merger eliminated unnecessary overlapping of bodies, functions and operations thus enabling a better transparency and savings with business costs to generate a higher return on property and capital of both companies, the merger was, in the opinion of the absorbing company's management, totally justified.

9.3 Net profit or loss after capital calculation using consumer prices

	Capital	% of growth	Calculated effect	Reduced profit or loss
Capital -all categories, apart from current profit	28,278,002	2.70	763,506	8,364,614

9.4 Events after the date of Financial Statements

No such events were established from the date of the Financial Statements to the day of the preparation of this report, which might influence the truthfulness and fairness of the presented Financial Statements for 2012.

On 27 December 2012 a contract about the absorption of Telemach d.o.o. by Broadband kabel d.o.o. was signed. The date of the acquisition calculation is 31 December 2012.

With the SRG 2013/8091 Ljubljana County Court order, the absorption of the company Telemach d.o.o. by the company Broadband kabel d.o.o. was recorded on 22 February 2013. The company Broadband kabel d.o.o. was renamed to Telemach d.o.o. with the SRG 2013/8728 Ljubljana County Court order

9. Additional disclosures (Continued)

9.5 Deals with related entities

9.5.1 Mutual transactions in the Statement of Financial Situation

RECEIVABLES	Telemach d.o.o.	TM Rotovž d.d.	TM Tabor d.d.	TM Pobrežje d.d.	TM Tezno d.d.	Comedia d.o.o.	Total
Telemach d.o.o.	0	0	0	0	0	6,732	6,732
Broadband kabel d.o.o.	47,753	0	0	0	0	0	47,753
Telemach Rotovž d.d.	546,829	0	8,209	7,700	4,320	0	567,058
Telemach Tabor d.d.	309,565	72,264	0	145	0	0	381,974
Telemach Pobrežje d.d.	81,573	17,400	1,186	0	0	0	100,159
Telemach Tezno d.d.	82,164	18,149	1,338	0	0	0	101,651
Comedia d.o.o.	205,710	0	0	0	0	0	205,710
Fonet d.o.o.	77	0	0	0	0	0	77
Total TV d.o.o.	38,589	0	0	0	0	0	38,589
Adria Media Limited	4,423,150	0	0	0	0	0	4,423,150
KDS Novi Sad	8,778	0	0	0	0	0	8,778
Serbia Broadband	249,995	0	0	0	0	0	249,995
Telemach Bosna	1,033,233	0	0	0	0	0	1,033,233
Totalna televizija Hrvatska	186,848	0	0	0	0	0	186,848
	7,214,264	**107,813**	**10,733**	**7,845**	**4,320**	**6,732**	**7,351,707**

LIABILITIES	Telemach d.o.o.	TM Rotovž d.d.	TM Tabor d.d.	TM Pobrežje d.d.	TM Tezno d.d.	Comedia d.o.o.	Fonet d.o.o.	Total
Telemach d.o.o.	0	546,829	309,565	81,573	82,164	205,710	77	1,225,918
Telemach Rotovž d.d.	0	0	72,264	17,400	18,149	0	0	107,813
Telemach Tabor d.d.	0	8,209	0	1,186	1,338	0	0	10,733
Telemach Pobrežje d.d.	0	7,700	145	0	0	0	0	7,845
Telemach Tezno d.d.	0	4,320	0	0	0	0	0	4,320
Comedia d.o.o.	6,732	0	0	0	0	0	0	6,732
Total TV d.o.o.	273,475	0	0	0	0	0	0	273,475
Serbia Broadband	90,266	0	0	0	0	0	0	90,266
	370,473	**567,058**	**381,974**	**100,159**	**101,651**	**205,710**	**77**	**1,727,102**

RECEIVABLES—loans	Telemach d.o.o.	TM Rotovž d.d.	TM Tabor d.d.	TM Pobrežje d.d.	TM Tezno	Total
Telemach d.o.o.	0	7,743,786	503,241	594,826	113,029	8,954,882
Telemach Tezno d.d.	0	0	252,955	0	0	252,955
Adria Cable BV	398,144	0	0	0	0	398,144
	398,144	**7,743,786**	**756,196**	**594,826**	**113,029**	**9,605,981**

LIABILITIES—loans	Telemach d.o.o.	TM Tezno d.d.	Total
Telemach Rotovž d.d.	7,743,786	0	7,743,786
Telemach Tabor d.d.	503,241	252,955	756,196
Telemach Pobrežje d.d.	594,826	0	594,826
Telemach Tezno d.d.	113,029	0	113,029
Total TV d.o.o.	2,443,086	0	2,443,086
	11,397,968	**252,955**	**11,650,923**

9. Additional disclosures (Continued)

9.5.2 Mutual transactions in Income Statement

	Telemach d.o.o.	TM Murska Sobota d.d.	TM Rotovž d.d.	TM Tabor d.d.	TM Tezno d.d.	Comedia d.o.o.	Fonet d.o.o.	Total
Telemach d.o.o.	0	64,125	0	0	0	31,747	1,909	97,781
TM Rotovž d.d.	2,835,854	0	0	31,731	15,360	0	0	2,882,945
TM Tabor d.d.	1,479,672	0	677,071	0	0	0	0	2,156,743
TM Pobrežje d.d.	472,258	0	153,535	0	0	0	0	625,793
TM Tezno d.d.	400,047	0	156,160	0	0	0	0	556,207
Comedia d.o.o.	231,281	0	0	0	0	0	0	231,281
Fonet d.o.o.	223	0	0	0	0	0	0	223
	5,419,335	**64,125**	**986,766**	**31,731**	**15,360**	**31,747**	**1,909**	**6,550,973**

	Telemach d.o.o.	TM Rotovž d.d.	TM Tabor d.d.	TM Pobrežje d.d.	TM Tezno d.d.	Comedia d.o.o.	Fonet d.o.o.	Total
Costs of rents	0	47,091	677,071	153,535	126,324	0	0	1,004,021
Costs of intellectual and personal services	97,781	2,835,854	1,479,672	472,258	429,883	231,281	0	5,546,729
Costs of telephones	0	0	0	0	0	0	223	223
Total	**97,781**	**2,882,945**	**2,156,743**	**625,793**	**556,207**	**231,281**	**223**	**6,550,973**

FINANCIAL REVENUES	Telemach d.o.o.	TM Murska Sobota d.d.	TM Rotovž d.d.	TM Tabor d.d.	TM Pobrežje d.d.	TM Tezno d.d.	Comedia d.o.o.	Total
Telemach d.o.o.	0	583	204,718	7,089	8,752	313	253	221,708
Telemach Tezno d.d.	2,978	0	0	2,955	0	0	0	5,933
Adria Cable B.V.	1,718	0	0	0	0	0	0	1,718
	4,696	**583**	**204,718**	**10,044**	**8,752**	**313**	**253**	**229,359**

FINANCIAL EXPENSES	Telemach d.o.o.	TM Tezno d.d.	Total
Broadband kabel d.o.o.	1,083,995	0	1,083,995
Telemach d.o.o.	0	2,978	2,978
Telemach Murska Sobota d.d.	583	0	583
Telemach Rotovž d.d.	204,718	0	204,718
Telemach Tabor d.d.	7,089	2,955	10,044
Telemach Pobrežje d.d.	8,752	0	8,752
Telemach Tezno d.d.	313	0	313
Comedia d.o.o.	253	0	253
Total tv d.o.o.	6,772	0	6,772
	1,312,475	**5,933**	**1,318,408**

9.6 Management's statement

The management of the controlling company Telemach d. o. o. states that it fully confirms the consolidated Financial Statements prepared for the year ending on 31 December 2012:

- Balance Sheet
- Income Statement
- Cash Flow Statement
- Statement of Changes in Equity

and corresponding explanations presented in the present annual report.

9. Additional disclosures (Continued)

The management confirms that it is responsible for the preparation of the consolidated Annual Report and the Financial Statements of the Telemach in a manner which gives the interested public a truthful and fair presentation of the assets and financial situation of the Telemach Group in 2012.

The management confirms that appropriate accounting standards were consistently used in the preparation of consolidated Financial Statements, that the accounting estimates were prepared with care and due diligence and that the consolidated Financial Statements represent a truthful and fair presentation of the Group's assets and financial situation in 2012.

The management is also responsible for appropriate keeping of accounts and adoption of appropriate measures for the protection of assets and other means. The Management also confirms that the Financial Statements and corresponding explanations are prepared based on the assumption of the Group's continuing operations and in accordance with the valid legislation and International Financial Reporting Standards.

The management of the controlling company is acquainted with the content of components of the consolidated Annual Report of the Telemach Group for 2012 and as such with the entire Annual Report. I hereby agree with it and with my signature confirm the said document.

Financial director
Urška Kos

Director
Marko Šter

Ljubljana, 15 April 2013

SERBIA BROADBAND—SRPSKE KABLOVSKE MREZE" D.O.O.

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENTS

Independent Auditors' Report

To the owners

"Serbia Broadband—Srpske Kablovske Mreže" d.o.o. and its subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of "Serbia Broadband—Srpske Kablovske Mreže" d.o.o and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG d.o.o. Beograd

16 May 2012

In thousand of Serbian dinars (RSD)

Consolidated statement of comprehensive income

	Note	2011	2010
Revenue	7	**11,192,858**	**9,360,277**
Other income		152,678	28,627
Content cost		(2,712,498)	(2,310,458)
Satellite capacity cost		(288,653)	(586,518)
Internet link cost		(278,671)	(375,534)
Materials cost	8	(545,784)	(262,163)
Staff costs	9	(923,173)	(732,247)
Depreciation	13	(1,681,358)	(1,414,509)
Amortisation of intangible assets	14	(486,518)	(469,783)
Other operating expenses	10	(1,668,826)	(2,736,933)
Results from operating activities		**2,760,055**	**500,760**
Finance income	11	43,198	53,277
Finance costs	11	(2,357,238)	(4,074,760)
Net finance costs		**(2,314,040)**	**(4,021,482)**
Profit/(loss) before tax		**446,015**	**(3,520,723)**
Income tax expense	12	(31,886)	(25,643)
Profit/(loss)for the year		**414,129**	**(3,546,366)**
Other comprehensive income			
Impairment of available for sale investments		—	1,523
Currency translation differences		(2,134)	58,320
Other comprehensive income for the year, net of tax		**(2,134)**	**59,843**
Total comprehensive income for the year		**411,995**	**(3,486,523)**
Profit/(loss) attributable to:			
Owners of the Company		422,283	(3,543,959)
Non-controlling interests		(8,154)	(2,407)
Profit/(loss)for the year		**414,129**	**(3,546,366)**
Total comprehensive income attributable to:			
Owners of the Company		423,055	(3,484,157)
Non-controlling interests		(11,060)	(2,366)
Total comprehensive income for the year		**411,995**	**(3,486,523)**

The accompanying notes on pages F-95 - F-130 are an integral part of these consolidated financial statements.

In thousand of Serbian dinars (RSD)

Consolidated statement of financial position

	Note	2011	2010
Assets			
Property, plant and equipment	13	6,653,607	6,210,327
Goodwill	14	3,689,046	3,594,011
Intangible assets	14	6,334,617	6,570,100
Long term loans	17	181,206	173,934
Other financial assets	17	23,428	74,189
Deferred tax assets	15	8,332	9,918
Non-current assets		**16,890,236**	**16,632,478**
Inventories	16	242,915	274,514
Trade and other receivables	18	1,868,128	1,404,862
Prepayments	19	380,797	333,949
Income tax receivable		19,327	19,412
Cash and cash equivalents	20	1,054,916	271,381
Current assets		**3,566,083**	**2,304,118**
Total assets		**20,456,319**	**18,936,596**
Equity			
Registered capital	21	3,335,691	3,335,691
Reserves		107,625	109,188
Accumulated losses		(7,534,085)	(7,958,703)
Equity attributable to owners of the Company		**(4,090,769)**	**(4,513,823)**
Non-controlling interests		**(136)**	**10,924**
Total equity		**(4,090,905)**	**(4,502,900)**
Liabilities			
Loans and borrowings	22	19,673,614	18,298,659
Deferred revenue	24	866,791	757,763
Finance lease liabilities	13	55,756	32,703
Deferred tax liabilities	15	470,654	475,795
Employee benefits	23	22,123	14,468
Non-current liabilities		**21,088,939**	**19,579,388**
Trade and other payables	25	2,619,228	2,592,529
Current tax liabilities		30,666	10,392
Loans and borrowings	22	662,679	1,230,007
Deferred revenue	24	79,538	10,591
Finance lease liabilities	13	66,174	16,588
Current liabilities		**3,458,285**	**3,860,107**
Total liabilities		**24,547,224**	**23,439,495**
Total equity and liabilities		**20,456,319**	**18,936,596**

These financial statements have been approved for issue by the Board of Directors on 16 May 2012 and signed on their behalf:

General Manager	Finance Director
Dragica Pilipovic - Chaffey	Nenad Brankovic

The accompanying notes on pages F-95 - F-130 are an integral part of these consolidated financial statements.

In thousand of Serbian dinars (RSD)

Consolidated statement of changes in equity

	Attributable to owners of the Company							
	Registered capital	Statutory reserves	Translation reserves	Available for sale investments	Accumulated losses	Total	Non-controlling interests	Total equity
Balance at 1 January 2010								
Comprehensive income	**3,335,691**	**4,399**	**44,881**	**(1,523)**	**(4,414,744)**	**(1,031,296)**	**—**	**(1,031,296)**
Loss	—	—	—	—	(3,543,959)	(3,543,959)	(2,407)	(3,546,366)
Additions	—	1,588	—	—	—	1,588	—	1,588
Impairment of available for sale investments	—	—	—	1,523	—	1,523	—	1,523
Acquisition of subsidiary	—	—	—	—	—	—	13,331	13,331
Other comprehensive income								
Foreign currency translation differences	—	—	58,320	—	—	58,320	—	58,320
Total other comprehensive income	—	—	58,320	—	—	58,320	—	58,320
Balance at 31 December 2010	**3,335,691**	**5,987**	**103,201**	**—**	**(7,958,703)**	**(4,513,824)**	**10,924**	**(4,502,900)**
Balance at 1 January 2011								
Comprehensive income	**3,335,691**	**5,987**	**103,201**	**—**	**(7,958,703)**	**(4,513,824)**	**10,924**	**(4,502,900)**
Profit (loss)	—	—	—	—	422,283	422,283	(8,154)	414,129
Other comprehensive income								
Foreign currency translation differences	—	—	(1,563)	—	2,335	772	(2,906)	(2,134)
Total other comprehensive income	—	—	(1,563)	—	2,335	772	(2,906)	(2,134)
Balance at 31 December 2011	**3,335,691**	**5,987**	**101,638**	**—**	**(7,534,085)**	**(4,090,769)**	**(136)**	**(4,090,905)**

The accompanying notes on pages F-95 - F-130 are an integral part of these consolidated financial statements.

In thousand of Serbian dinars (RSD)

Consolidated statement of cash flows

	Note	2011	2010
Cash flows from operating activities			
Net (loss) before tax		446,015	(3,520,723)
Adjustments for:			
Depreciation	13	1,681,358	1,414,509
Amortisation	14	486,518	469,783
Allowance for impairment of receivables	17	114,977	589,733
Allowance for impairment of loans receivable	10	—	700,452
Allowance for impairment of inventories	16	13,564	8,988
Impairment of available for sale investments	10	—	76,173
Loss/(gain) on disposal of PPE		—	22,423
Net interest and related expenses		2,440,867	2,173,254
Provision for employee benefits	23	8,782	4,631
Unrealised exchange rate difference		(204,171)	1,673,765
Operating cash flows before working capital changes		**4,987,910**	**3,612,989**
Changes in working capital (excluding the effects of exchange differences on consolidation):			
(Increase)/decrease in trade and other receivables		(590,563)	(1,221,914)
(Increase)/decrease in inventories		18,039	(55,542)
Increase/(decrease) in deferred revenue		177,976	401,790
Increase/(decrease) in trade and other payables		(3,787)	700,544
Cash generated by operations		**4,589,575**	**3,437,868**
Interest paid		(254,922)	(216,548)
Income tax paid		(14,869)	(8,083)
Net cash from operating activities		**4,319,784**	**3,213,238**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,927,136)	(1,686,624)
Purchase of intangible assets		(153,975)	(189,353)
Loans repaid from/(granted to) related parties		5,301	(454,155)
Acquisition of subsidiary	6	(144,419)	—
Net cash used in investing activities		**(2,220,229)**	**(2,330,132)**
Cash flows from financing activities			
Proceeds from borrowings		—	211,964
Repayment of borrowings		(1,238,798)	(1,009,394)
Repayment of finance lease		(77,222)	(30,942)
Net cash used in financing activities		**(1,316,020)**	**(828,372)**
Net increase in cash and cash equivalents		**783,535**	**54,733**
Cash and cash equivalents at 1 January		271,381	215,965
Effect of exchange rate fluctuations on cash held		—	683
Cash and cash equivalents at 31 December		**1,054,916**	**271,381**

The accompanying notes on pages F-95 - F-130 are an integral part of these consolidated financial statements.

In thousand of Serbian dinars (RSD)

1 Reporting entity

Description of the business

The principal activities of “Serbia Broadband—Srpske kablovske mreže” d.o.o. and its controlled entities (together “The Group”, “Serbia Broadband” or “SBB”) are providing of Cable, Internet and Direct-to-Home services to subscribers. The Group’s activities are based in 29 cities in Serbia, in Slovenia, Montenegro and Bosnia and Herzegovina through its subsidiaries.

Certain Group service lines are subject to approval (general license) issued by the relevant Telecommunications Agency. Serbia Broadband has received approvals for CATV, D3 and Internet services. The Group has also obtained licences for DTH service in Slovenia, Montenegro, Macedonia and Bosnia and Herzegovina.

As at 31 December 2011 the Group employed 840 people (2010: 803).

Ownership structure

The Group consists of:

- The Parent—Serbia Broadband—Srpske Kablovske mreze (“SBB”)

The subsidiaries are:

- Total TV Slovenia d.o.o (100%), established on 23 July 2007,
- Total TV Montenegro d.o.o (100%), established on 13 June 2007,
- Total TV Bosnia&Herzegovina d.o.o (100%), established on 19 May 2007,
- Adria DTH B.V., Netherlands (100%), acquired on 18 September 2009,
- CAS Media d.o.o., Serbia (100%), established on 11 February 2010,
- Total TV Macedonia (75% though Adria DTH B.V.), acquired on 1 March 2010,
- Latiron Finance Limited, Cyprus (100%), acquired on 22 December 2011,
- Telegrad d.o.o., Serbia (100% through Latiron Finance Limited).

The Parent entity Serbia Broadband—Srpske Kablovske mreze is a private company, domiciled in Belgrade, Serbia.

On 22 December 2011, SBB acquired local cable entity Telegrad d.o.o. through the acquisition of 100% equity of Latiron Finance Ltd based in Nicosia, Cyprus.

The ultimate parent of the Group is Adria Cable S.a.r.l. domiciled in Luxemburg, which itself is an investee company owned in the majority by funds advised/managed by Mid Europa Partners LLP.

Management team

The persons who served office during the year were the following:

General Manager	—Dragica Pilipovic—Chaffey
General Manager Deputy	—Victoriya Boklag
CFO	—Nenad Brankovic

2 Basis of preparation

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs).

2 Basis of preparation (Continued)

The consolidated financial statements were authorised for issue by the Board of Directors on 16 May 2012.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention.

Going concern

The consolidated financial statements are prepared in accordance with the going concern concept, which assumes that the Group will continue its operations in the foreseeable future.

The Group operates with current net profit in the amount of RSD 414,129 thousand (2010: loss of RSD 3,546,366 thousand) and as at 31 December 2011 has a negative equity of RSD 4,090,905 thousand (31 December 2010: negative equity of RSD 4,502,900 thousand).

The Group operates with an operating profit and generates positive cash flow from operating activities. Significant outstanding debt balance denominated in Euros primarily from related parties, has resulted in net losses in previous years due to interest expense and foreign exchange losses. The Group is not in a position to effectively hedge currency risks due to absence of relevant financial products in the countries of operations.

Business plan for the period 2012 - 2016 is based on further growth of the customer base, further growth of EBITDA and positive operating cash flow. In addition, projected debt repayments will reduce the overall exposure to foreign exchange risks and increase net profitability. Finally, the parent company converted a part of shareholder loan of RSD 4,247,496 thousand in equity in January 2012.

The (consolidated) financial statements are, therefore, prepared on a going concern basis, as management have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Functional and presentation currency

These consolidated financial statements are presented in Serbian Dinars ("RSD"), which is the Group's presentation currency. All financial information presented in dinars has been rounded to the nearest thousand. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 14—goodwill and trademark impairment (key assumptions used in discounted cash flow projections),

2 Basis of preparation (Continued)

- Note 3 (d)—useful life of plant, equipment and intangibles,
- Note 29—contingencies.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity-interest in the acquiree, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Special purpose entities

The Group has established special purpose entities (SPEs) for investment purposes. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to the majority of risks incident to the SPEs' activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the

3 Significant accounting policies (Continued)

previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign operations

The results and final position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of transactions) and,
- all resulting exchange differences are recognised as a separate component of equity (translation reserves).

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

3 Significant accounting policies (Continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has one category of financial assets: long term loans and receivables.

Long term loans and receivables

Long term loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade and other receivables

Short-term trade and other receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables should be impaired. The amount of the provision is recognised in the statement of comprehensive income within ‘other operating expenses’.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

(ii) Non-derivative financial liabilities

The Group initially recognises financial liabilities on the date that they are originated. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Borrowings

Borrowings are recognised initially at fair value (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are carried at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3 Significant accounting policies (Continued)

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(iii) Registered capital

Stakes

The Group’s parent entity was registered as Limited Liability Company and stakes are classified as equity. Incremental costs directly attributable to the issue of stakes are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

Recognition and measurement

Property, plant and equipment comprise mainly cable network (coaxial and optical primary and secondary network and backbone) and customer premise equipment (CPE—receivers and modems). Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of network construction includes costs of site preparation, cost of materials used, installation and assembly costs and costs of testing whether the asset is functioning properly as well as direct labour costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

Subsequent costs

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Major renovations are depreciated over shorter of remaining useful life of an asset or period until new renovation. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

Depreciation is based on the cost of an asset. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. No changes of depreciation rates were made in 2011.

3 Significant accounting policies (Continued)

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for the current are as follows:

	Number of years
Buildings	40
Cable network	10
Vehicles	4
Head-end and optical equipment	5
Computer equipment	3

(e) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangibles comprise direct subscriber acquisition costs which are capitalised and amortised over the useful life of cable customer relationship, estimated at 17 years.

Trademarks

Separately acquired trademarks are shown at historical cost. Trademark acquired in a business combination is recognised at fair value at the acquisition date. Trademarks have indefinite useful life and are carried at cost less accumulated impairment losses. There is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The business and products have a track record of stability and there are relatively good forecasts even in the economic crisis. There is a long-term commitment to continue building on already established cable TV footprint (including cable and DTH operators) across South Eastern Europe. Assessment of indefinite useful life is based on planned technological improvements in the future which should ensure the Group's leading market position and cable subscription agreements of unlimited time. Trademarks are tested annually for impairment.

Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Expenditure to acquire software and bring it to use and licenses are capitalised at cost and

In thousand of Serbian dinars (RSD)

3 Significant accounting policies (Continued)

amortised using the straight-line method over their useful lives, but not exceeding 5 years. Intangible assets are not re-valued.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the relevant criteria are satisfied.

Directly attributable costs, capitalised as part of the software product, includes software development employee cost and appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 5 years.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is based on the cost of an asset and is calculated using straight line method to allocate their cost or re-valued amounts to their residual values over their estimated useful lives as follows:

	Number of years
Goodwill	Indefinite
Trademark	Indefinite
Customer relationship—Cable	17
Customer relationship—DTH	14
Software & licences	5
Subscriber acquisition cost—CATV	17
Subscriber acquisition cost—Internet	7

The remaining useful lives of customer relations for cable and DTH are estimated through valuation exercise using the income approach based upon an industry standard and current market conditions. Useful lives of customer relationship reassessed to 17 years for cable and 14 years for DTH in 2008 remain unchanged in 2011 after testing the useful life of the customer base. Appraised remaining useful lives of customer relationship as of 31 December 2011 are 14 years for cable and 7 years for DTH customer base, which will be applied from 2012.

Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

(f) Leased assets

Finance lease

Leases of property, plant and equipment, where the Group as the lessee has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance costs is charged to the statement of income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

3 Significant accounting policies (Continued)

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The Group purchased IP equipment and vehicles under finance lease agreements.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The Group leases mainly premises under operating lease contracts.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The costs of inventories comprise of all costs of purchase and other costs incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When necessary, obsolete and slow moving inventories are written down to their net realisable value.

(h) Impairment of non-financial assets

Non-financial assets, except deferred tax assets and inventories are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses are recognised in the statement of comprehensive income. Non-financial assets, excluding goodwill, that suffered impairment, are reviewed for possible reversal of the impairment at each reporting date.

Goodwill and trademark are reviewed annually for impairment.

(i) Employee benefits

In accordance with the regulations prevailing in the countries where the Group operates, the Group has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

The Group does not operate any private pension scheme or post retirement defined contribution plan except the state mandatory pension scheme in each country of operation.

The Group makes regular provision in respect with retirement benefits (indemnities) which relates to mandatory payments made by SBB Serbia in respect with termination of employment due to expiry of working life. According to General Collective Agreement in Serbia, the indemnity retirement provided to employees of SBB will be equal to the higher of:

- 3 individual monthly salaries at the time of payment,
- 3 average montly salaries in the company at the time of payment,
- 3 average monthly salaries in the Republic of Serbia at the time of payment.

3 Significant accounting policies (Continued)

The calculation of retirement benefits is performed annually by a qualified actuary using the projected unit credit method.

Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, if it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Accumulating compensated absences may be carried forward and used in future periods if the current period's entitlement has not been fully used. The expected cost of accumulated compensated absences is recognised in the amount that is expected to be paid as a result of the unused entitlement that has accumulated as of the balance sheet date.

In the instance of non-accumulating compensated absences no liability or expense is recognised until the time of the absence.

(j) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(k) Revenue and costs

(i) Services

Revenue from services rendered is recognised within the statement of comprehensive income in proportion to the stage of completion of the transaction at the reporting date. The Group generates four main service revenue streams which are recognised in the period when the service is provided: Cable TV (CATV), Digital TV (D3), cable and fibre Internet service, and satellite TV (Direct to Home—DTH). Additionally, corporate and retail telecommunication service revenue (Voice-Over-Internet-Protocol—VOIP) is recognised in the period in which these are provided. The rental of carriage services to local TV stations are charged and recognised in the month when service is provided.

Connection fee earned is deferred and amortised over the average remaining useful life of customer relationship for cable service, currently estimated at 17 years. Connection fee for DTH service is recognised upon delivery of installation.

When the services under a single arrangement are rendered in different reporting periods, the consideration is allocated on a relative fair value basis between the services.

(ii) Other revenue

The Group earns revenue when selling end-user equipment to intermediaries which is recognised at the moment of sale.

(iii) Costs

Content, satellite capacity and internet link costs are recorded as the services are provided. These costs are recorded based on the Group's contractual agreements with its vendors.

3 Significant accounting policies (Continued)

(l) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(m) Finance income and finance costs

Finance income comprises interest income on funds invested (including short-term bank deposits), and foreign currency gains. Interest income is recognised as it accrues in statement of comprehensive income.

Finance costs comprise interest expense on borrowings and foreign currency losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in statement of comprehensive income.

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The prevailing corporate tax rate in Serbia is 10%, in Montenegro is 9%, in Slovenia 20%, in Macedonia 10%, and in Bosnia & Herzegovina is 10%.

(o) New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 Financial Instruments, which becomes mandatory for the Group’s 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4 Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Group’s top management has overall responsibility for the establishment and oversight of the Group’s risk management framework, and development and monitoring the Group’s risk management policies.

The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The finance function monitors compliance with the Group’s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers.

Trade and other receivables

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group assess that it has no significant concentration of credit risk due to its exposure to a broad customer base in each service line (CATV&DTH). No concentration of credit risk on a geographical basis is assessed as material. The Group has policies that limit the amount of credit exposure for each customer including services disconnection procedure.

The Group’s risk procedure limit the credit risk through short credit period available (invoices are due for payment within 8 days from the date of issue) and 3 levels of dunning letters in different time intervals The first dunning letter which brings the warning about disconnecting the service is being sent 10 days after due date. The second dunning letter is being sent after 40 days after due date. The third letter is being sent after 70 or 110 days (it depends on the area) after the due date and it generates the order for temporary disconnection of the subscriber until the debt had been settled. The credit control procedure assures that an average receivable from one subscriber is from RSD 2 - 9 thousand and limits the credit limit to 4 months of service. The Group outsourced collection activities of all receivables which are overdue more than 6 months to collection company.

Credit risk exposure is disclosed in note 17.

4 Financial risk management (Continued)

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific provision that relates to individually significant exposures, and a general provision established for mass billing customers in respect of losses that have been incurred but not yet identified. The general allowance is determined based on Group’s provisioning policy for mass billing customers.

Cash and cash equivalents

The Group held cash and cash equivalents of RSD 1,054,916 thousand as 31 December 2011 (2010: RSD 271,381 thousand) with reputable local commercial banks, which represents its maximum credit exposure on these assets. The Group limits its exposure to credit risk by making short term deposits. Management actively monitors credit risk exposure and given that the Group only has invested in bank deposits management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group’s policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due, which has been achieved through appropriate bank arrangements. Typically the Group ensures that it has sufficient cash on demand to meet expected current liabilities, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, the Group maintains the following lines of credit granted by Unicredit Bank Serbia:

- RSD 803,956 thousand revolving facility for issue of short term liquidity loans, guarantees and coverage of letters of credit issued to foreign equipment suppliers,
- RSD 48,000 thousand revolving facility for coverage of issued bills of exchange, and
- RSD 26,400 thousand overdraft facility.

The credit lines are used for servicing planned cable and optical network extension. The total value of credit lines approved amounted to RSD 878,356 thousand.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

i) Currency risk

The Group operates internationally and is exposed to foreign exchange risk mainly due to commercial transactions in Euros and USD dollars related to capital investments and purchase of content. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the functional currency of the Group company holding the asset or obligation.

The Group is mainly exposed to currency risk on purchases and borrowings which are denominated in foreign currency (mainly in EUR and USD).

4 Financial risk management (Continued)

Management has set up a policy to manage its foreign exchange risk against its functional currency. To manage its foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group implements regular service price increases following the depreciation of the local currency in Serbia. Monthly fee of basic cable TV service is subject to approval of regulatory body.

The management believes the Group is able to quickly adjust monthly service fees without eroding the existing customer base in the case of a significant devaluation of the RSD, with the exception of basic cable service where regulatory approval is required. The extent to which the prices can be adjusted vis-à-vis devaluation of RSD will also depend on the level of competition for each service and potential competitor reaction to currency fluctuations. The share of revenues from non-regulated services in the total Group net revenues is budgeted at 68% in 2012 (2011: 67%).

ii) Price risk

The Group is not exposed to material price risks. The Group periodically reviews financial position of each subsidiary entity.

iii) Interest rate risk

As the Group has no significant interest-bearing assets, the Group’s income and operating cash flows relating to financial assets are substantially independent of changes in market interest rates.

The Group’s interest rate risk arises from long-term borrowings issued at variable rates. The variable rate borrowings were denominated in the foreign currency as presented in note 22.

Capital management

Due to the structure of long-term financing through leveraged buyout arrangement, the management policy is to maintain a stable return on investment so as to maintain investor, creditor and market confidence and to sustain future development of the business. Equity capital is negative due to historical accumulated losses reflected in significant interest expense and foreign exchange losses. The Group’s performance management is focused on generating budgeted EBITDA as well as maintaining overall liquidity position to repay the outstanding financial debt.

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for investors and to maintain an optimal liquidity position.

There were no changes in the Group’s approach to capital management during the year.

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment of goodwill and trademarks

The Group tests annually whether goodwill and trademarks with indefinite useful lives, suffer any impairment in accordance with the Group’s accounting policy. Discounted cash flow method for annual impairment testing is based on management assumptions on projected revenue growth and liquidity position (note 14).

(b) Useful lives of property, plant and equipment and intangibles

The management estimate useful lives and related depreciation rates for its plant and equipment and intangibles on an annual basis. These estimates are based on technological development, projected growth

In thousand of Serbian dinars (RSD)

5 Critical accounting estimates and judgements (Continued)

in customer base and further development of service lines. They are subject to change and influenced by substitutes available on the market. The management will increase the depreciation charge when useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned. There are no residual values on long-term assets. The Group has assessed that the customer relationships for cable and DTH service line have a remaining useful life of 13 and 7 years as at 31 December 2011 respectively.

6 Acquisition of subsidiary

On 21 December 2011 the Group obtained control of local cable company Telegrad d.o.o., by acquiring 100% of equity of special purpose entity Latiron Finance Ltd from Nicosia, Cyprus.

Taking control of Telegrad will enable the Group to further increase its penetration on Belgrade's cable market by enlarging its customer base.

Identifiable assets acquired and liabilities assumed

	Book value	Fair value adjustments	Fair value
Acquisition of net assets			
Goodwill	96,909	(96,909)	—
Customer base	—	97,316	97,316
Property, plant and equipment	33,549	(16,816)	16,733
Inventory	4	—	4
Receivables	39,116	—	39,116
Cash and cash equivalents	5,325	—	5,325
Trade and other payables	(15,167)	—	(15,167)
Deferred tax liabilities	(4,263)	4,263	—
Short term financial liabilities	(86,718)	55,303	(31,415)
Net assets	**68,755**	**43,157**	**111,912**
Resulting goodwill			95,119
Share of net assets acquired by Group			111,912
Foreign exchange losses			(1,980)
Total investment in acquired entity			**205,051**
Cash outflow in acquisition			149,744
Cash retained in acquired entity			(5,325)
Net cash outflow in acquisition			**144,419**

Goodwill was recognised as a result of the acquisition as follows:

Total consideration transferred	149,744
Foreign exchange losses	1,984
Fair value of loan forgiven	55,303
Fair value of identifiable net assets	(111,912)
Goodwill	**95,119**

In thousand of Serbian dinars (RSD)

7 Revenue

	2011	2010
Subscription fee	9,782,478	8,322,538
Connection fee	49,822	51,790
End-user equipment	375,544	104,705
Other revenue	985,014	881,244
Total revenue	**11,192,858**	**9,360,277**

Revenus from sale of end-user equipment include sale of equipment to both related parties and external customers.

Other revenue mainly comprises reinvoiced satellite capacity, content and equipment to related parties (note 26).

8 Materials cost

	2011	2010
Repairs and drop line materials	76,846	68,102
Printing costs and consumables used	46,271	39,892
Energy and fuel costs	60,275	50,636
Cost of end-user equipment	348,827	94,546
Allowance for impairment of inventories	13,564	8,988
Total material cost	**545,784**	**262,163**

9 Staff costs

	2011	2010
Salaries and social security	802,040	636,389
Part - time employment costs	34,657	34,087
Employee benefit cost	3,902	4,631
Unused vacations	8,782	3,198
Other staff costs	73,791	53,942
Total staff costs	**923,173**	**732,247**

During 2011 the Group capitalised staff costs in the carrying value of its property, plant and equipment in the amount of RSD 40,235 (2010: RSD 40,433 thousand).

10 Other operating expenses

	2011	2010
Rent of premises	307,013	259,811
Marketing and promotion expenses	183,301	145,218
Bank charges	25,317	27,874
Phone and postal expenses	153,831	131,802
Maintenance costs	136,997	101,533
Customer service costs	31,787	23,732
Allowance for impairment of receivables (note 17)	114,977	589,733
License fees	24,125	13,493
Allowance for impairment of loans receivable	—	700,452
Impairment of available for sale investments	—	76,173
Other expenses	691,478	667,111
Total other operating expenses	**1,668,826**	**2,736,933**

Other expenses mainly relate to media buying costs (CAS Media), office security costs, local administrative charges, property charges, withholding tax, insurance costs, and other miscellaneous costs.

In thousand of Serbian dinars (RSD)

11 Finance income and finance cost

	2011	2010
Related parties—interest expense	2,435,304	2,156,067
Bank borrowings—interest expense	34,301	48,808
Finance leases—interest expense	6,576	3,777
Other finance cost	6,486	17,879
Interest income	(41,248)	(53,277)
Other financial gain	(1,950)	(796)
Foreign exchange losses	270,585	1,983,823
Foreign exchange gains	(396,014)	(134,799)
Total finance cost—net	**2,314,040**	**4,021,482**

Related parties financial expenses relate to the interest expense on Shareholder loan, Tranche 1, Tranche 2 and Tranche 3 (note 22).

12 Income tax expense

	2011	2010
Current tax	35,178	9,523
Deferred tax (Note 15)	(3,292)	16,120
Income tax expense	**31,886**	**25,643**

The reconciliation of the Group’s income tax expense is as follows:

	2011	2010
Profit/(loss) for the year	414,129	(3,546,366)
Total income tax expense	31,886	25,643
Profit/(Loss) excluding income tax	**446,015**	**(3,520,723)**
Income tax using the Company’s domestic tax rate	44,602	(352,072)
Non-deductible expenses	121,960	275,896
Thin capitalisation (SBB)	243,530	215,607
Effect of tax rates in foreign jurisdictions	35,178	10,940
Utilisation of tax losses	—	(88,766)
Effect of tax holiday	(413,384)	(35,961)
Income tax expense	**31,886**	**25,643**
Effective tax rate	7.1%	n/a

The prevailing tax rate in Serbia is 10% and is used as the domestic tax rate, as primary business operations are within Serbia. However, the Parent company utilises tax holiday rate at 0.97%. It is required, by Serbian CIT law, to recalculate every year the percentage of tax holiday on the basis of CAPEX investments in new equipment. After such calculation has been performed, percentage of 0.97% is established for 2011 (2010: 0.96%).

Thin capitalisation for SBB Serbia mainly relates to non-deductible interest expenses from related parties. These interest expenses are non-deductible under the Serbian tax regulation as SBB Serbia has negative equity, thus no related party interest expenses can be deductible for tax purposes.

In thousand of Serbian dinars (RSD)

13 Property, plant and equipment

	Buildings	Cable plant and other equipment	Assets under construction	Leasehold improvements	Total
Year ended 31 December 2010					
Cost					
Opening balance	14,585	8,014,831	428	56,529	8,086,373
Exchange differences	—	59,796	—	—	59,796
Transfer from work in progress	—	428	(428)	—	—
Additions	—	1,671,058	48,317	23,311	1,742,686
Disposals	—	(22,423)	—	—	(22,423)
Closing balance	**14,585**	**9,723,690**	**48,317**	**79,840**	**9,866,432**
Depreciation					
Opening balance	1,160	2,215,386	—	25,050	2,241,596
Depreciation for the year	(167)	(1,404,157)	—	(10,186)	(1,414,509)
Closing balance	**1,327**	**3,619,543**	**—**	**35,236**	**3,656,105**
Year ended 31 December 2011					
Cost					
Opening balance	14,585	9,723,690	48,317	79,840	9,866,432
Exchange differences	—	(5,585)	—	—	(5,585)
Acquisitions (note 6)	6,906	9,827	—	—	16,733
Transfer from work in progress	—	48,317	(48,317)	—	—
Additions	1,040	1,814,138	288,946	9,364	2,113,489
Closing balance	**22,532**	**11,590,387**	**288,947**	**89,204**	**11,991,069**
Depreciation					
Opening balance	1,327	3,619,542	—	35,236	3,656,104
Depreciation for the year	(186)	(1,667,829)	—	(13,343)	(1,681,358)
Closing balance	**1,513**	**5,287,371**	**—**	**48,579**	**5,337,462**
Net book value 31 Dec 2011	**21,019**	**6,303,016**	**288,947**	**40,625**	**6,653,607**
Net book value 31 Dec 2010	**13,258**	**6,104,147**	**48,317**	**44,604**	**6,210,327**

The majority of property, plant and equipment relates to cable network (backbone, primary and secondary network, coaxial, fiber and optical equipment) and DTH end user equipment.

Based on the results of annual impairment test of goodwill and trademarks (refer to note 14), the management estimate that no impairment of property, plant and equipment existed as at 31 December 2011.

Leased assets

The Group leases internet protocol equipment, office premises, and transport and passenger vehicles under a number of cancellable finance lease agreements. Majority leases of vehicles provide the Group with the option to purchase the equipment at a beneficial price. All renovations of leased office space are accounted for as leasehold improvements and are depreciated over the period of five years.

In thousand of Serbian dinars (RSD)

13 Property, plant and equipment (Continued)

The carrying value of equipment and vehicles purchased under finance lease agreement is as follows:

	2011	2010
Total cost—capitalised finance leases	120,860	100,446
Accumulated depreciation	(62,197)	(43,515)
Net book amount	**58,663**	**56,932**

Present value of minimum lease payments is as follows:

	2011	2010
Not later than 1 year	66,174	16,588
Between 2 and 5 years	55,756	32,703
Present value of finance lease liabilities	**121,930**	**49,291**

Minimum lease payments are as follows:

	2011	2010
Not later than 1 year	69,373	19,204
Later than 1 year and not later than 3 years	60,791	34,531
	130,164	53,735
Future finance charges on finance leases	(8,234)	(4,444)
Present value of finance lease liabilities	**121,930**	**49,291**

Assets provided as security for loans

Bank borrowings are secured by the total amount of property, plant and equipment shown in the table above, except for assets held under finance lease which secure the finance lease obligations.

In thousand of Serbian dinars (RSD)

14 Intangible assets

	Software & Licenses	Trademark	Customer Relationship	Other intangibles	Goodwill	Total
Year ended 31 December 2010						
Cost						
Opening balance	230,183	1,055,400	6,470,947	148,471	3,593,086	11,498,087
Exchange differences	382	—	—	—	925	1,307
Additions	120,187	—	—	69,165	—	189,353
Closing balance	**350,752**	**1,055,400**	**6,470,947**	**217,636**	**3,594,011**	**11,688,746**
Amortisation						
Opening balance	87,381	—	947,656	19,817	—	1,054,854
Amortisation for the year	(57,205)	—	(393,909)	(18,668)	—	(469,782)
Closing balance	**144,586**	**—**	**1,341,565**	**38,485**	**—**	**1,524,636**
Year ended 31 December 2011						
Cost						
Opening book amount	350,752	1,055,400	6,470,947	217,636	3,594,011	11,688,746
Exchange differences	(256)	—	—	—	(84)	(340)
Acquisition of subsidiary (note 6)	—	—	97,316	—	95,119	192,435
Additions	60,817	—	—	93,158	—	153,975
Closing balance	**411,313**	**1,055,400**	**6,568,263**	**310,794**	**3,689,046**	**12,034,816**
Amortisation						
Opening balance	144,586	—	1,341,564	38,485	—	1,524,635
Amortisation for the year	(67,545)	—	(393,909)	(25,064)	—	(486,518)
Closing balance	**212,131**	**—**	**1,735,473**	**63,549**	**—**	**2,011,153**
Net book value 31 Dec 2011	**199,182**	**1,055,400**	**4,832,790**	**247,245**	**3,689,046**	**10,023,663**
Net book value 31 Dec 2010	**206,166**	**1,055,400**	**5,129,382**	**179,151**	**3,594,011**	**10,164,110**

Additions to software and licences relate to SAP ERP information system, Video-On-Demand (VOD) information system and Voice-Over-Internet-protocol (VOIP) information systems software. Additions to other intangibles relate to subscriber acquisition costs capitalised as intangibles.

Assets provided as security for loans

As at 31 December 2011 CAPEX, Refinancing and Revolving loans are guaranteed by pledge of trademark (note 22).

Impairment testing for goodwill and trade mark

Due to nature of operations and organisation and the fact that material operations of the Group are in Serbia, the Group as a whole is considered as single CGU for the purpose of annual impairment testing.

The recoverable amount of a CGU is determined using value-in-use calculations. These calculations use pre-tax cash flow projections based on five-year financial budget. Cash flow beyond the five-year period is calculated on perpetuity bases.

Based on the results of impairment testing, the management estimate that no impairment of goodwill and trademark exists as at 31 December 2011.

In thousand of Serbian dinars (RSD)

14 Intangible assets (Continued)

Key assumptions used for discounted cash flow projections

Key assumptions used in the calculation of recoverable amounts are weighted average cost of capital, terminal value growth rate and EBITDA margin. These assumptions are as follows:

	2011	2010
EBITDA margin	44.33%	42.07%
Growth rate[(1)]	2.00%	2.00%
WACC	14.20%	9.90%

(1) Weighted average growth rate used to extrapolate cash flows beyond the budget period

Budgeted EBITDA margins are based on past performance and expectations of market development. The weighted average growth rates used are consistent with the forecasts included in the industry reports. The discount rates used are pre-tax and based on industry reports as of 31 December 2011 and leveraged by the debt margin calculated from the parent company's data. The management believes that calculation of debt margin based on the parent's company data is appropriate since capital market data for Serbia does not represent actual cost of funding. Assumptions used for value-in-use calculations (refer to the above table) changed (EBITDA margin) to reflect current business environment as more information became available to the Company.

Reassessment of customer relationship average remaining useful lives

The Group has revised customer relationship (cable and DTH) useful lives as at 31 December 2011 since customer relationship valuation is based on churn rates of cable and DTH subscribers. Based on the internal valuation, cable and DTH customer relationship useful lives reduced from 17 and 14 years respectively in 2010 to 14 and 7 years respectively in 2011.

15 Deferred tax assets and liabilities

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances, is presented below.

	2011	2010
Deferred tax assets		
Settled after more than 12 months	8,332	7,571
To be settled within 12 months	—	2,347
	8,332	**9,918**
Deferred tax liabilities		
To be settled after more than 12 months	470,654	475,795
To be settled within 12 months	—	—
	470,654	**475,795**

The net movement of the deferred income tax is as follows:

	2011	2010
Opening balance	465,877	448,191
Exchange differences	(264)	1,567
Charge in statement of comprehensive income	(3,292)	16,120
At 31 December	**462,322**	**465,877**

In thousand of Serbian dinars (RSD)

15 Deferred tax assets and liabilities (Continued)

Deferred tax liability	Trademark & Customer base	Accelerated depreciation	Total
At 1 January 2010	443,392	17,978	461,370
Charged/(credited) to statement of comprehensive income	7,484	5,357	12,841
Exchange differences	—	1,584	1,584
At 31 December 2010	450,876	24,919	475,795
Charged/(credited) to statement of comprehensive income	(10,271)	5,130	(5,141)
Exchange differences	—		—
At 31 December 2011	**440,605**	**30,049**	**470,654**

Deferred tax assets	Non-current assets	Non-current liabilities	Current assets	Current liabilities	Tax loss carried forward	Total
At 1 January 2010	—	5,998	539	6,223	420	13,180
Charged/(credited) to statement of comprehensive income	1,056	1,052	(11)	(6,687)	1,312	(3,279)
Exchange differences	9	(543)	14	464	73	17
At 1 January 2011	**1,065**	**6,507**	**541**	**—**	**1,806**	**9,918**
Charged/(credited) to statement of comprehensive income	(199)	(1,212)	(101)	—	(337)	(1,849)
Exchange differences	28	172	15	—	48	263
At 31 December 2011	**894**	**5,467**	**455**	**—**	**1,517**	**8,332**

16 Inventories

	2011	2010
Materials and end-user equipment	256,480	283,502
Write down of materials	(13,564)	(8,988)
Total inventories	**242,915**	**274,514**

There are no inventories which have been pledged as security for borrowings.

17 Financial instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2011	2010
Long term loans	181,206	173,934
Other financial assets	23,428	74,189
Trade and other receivables	1,868,128	1,404,862
Cash and cash equivalents	1,054,916	271,381
Total	**3,127,678**	**1,924,366**

In thousand of Serbian dinars (RSD)

17 Financial instruments (Continued)

The maximum exposure to credit risk for gross trade receivables at the reporting date by revenue stream generated was:

	2011	2010
Provision of service	2,282,061	2,247,665
Sale of end user equipment	3,391	84,982
Sale of other equipment	156,207	976
Other receivables	27,243	18,745
Provision for impairment	(600,774)	(947,506)
Total	**1,868,128**	**1,404,862**

Impairment losses

The aging of gross trade receivables at the reporting date was:

	31 December 2011		31 December 2010	
	Gross	Impairment	Gross	Impairment
Up to 3 months	1,608,603		1,260,487	—
3 to 6 months	314,936	(55,411)	407,369	(262,994)
Over 6 months	545,363	(545,363)	684,512	(684,512)
Total	**2,468,902**	**(600,774)**	**2,352,368**	**(947,506)**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2011	2010
Opening balance	947,506	312,629
Charge for the period	114,977	589,733
Write-off	(439,099)	—
Collected previously written-off receivables	(22,610)	—
Other changes	—	45,144
Balance at 31 December	**600,774**	**947,506**

The provision expense for impaired receivables has been included in other operating expenses in the statement of comprehensive income (note 10).

In thousand of Serbian dinars (RSD)

17 Financial instruments (Continued)

Liquidity risk

The following are the undiscounted contractual maturities of financial liabilities:

	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
31 December 2011				
Borrowings	662,679	2,249,779	17,423,835	—
Future interest payable	2,847,508	3,237,786	4,808,066	—
Finance lease liabilities	66,174	32,650	23,106	—
Trade&interest payables and accruals	2,619,228	—	—	—
Total	**6,195,589**	**5,520,215**	**22,255,007**	**—**
31 December 2010				
Borrowings	1,230,007	636,438	17,662,221	—
Future interest payable	2,554,853	2,891,178	8,170,841	—
Finance lease liabilities	16,588	11,456	21,021	225
Trade&interest payables and accruals	2,592,529	—	—	—
Total	**6,393,977**	**3,539,071**	**25,854,083**	**225**

The major share of total financial liabilites relate to shareholder loan which matures in 2015.

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

	31 December 2011					
	RSD	EUR	USD	GBP	BAM	MKD
Trade receivables	1,187,131	567,337	21,549	—	78,313	13,798
Long term loans	—	181,206	—	—	—	—
Other financial assets	—	4,702	—	—	18,726	—
Cash and cash equivalents	460,830	401,235	166,911	—	21,761	4,179
Total	**1,647,961**	**1,154,480**	**188,460**	**—**	**118,800**	**17,977**
Trade and other payables	1,562,295	648,851	361,105	—	38,722	8,255
Loans and borrowings	—	20,336,293	—	—	—	—
Finance lease liabilites	—	121,930	—	—	—	—
Total	**1,562,295**	**21,107,074**	**361,105**	**—**	**38,722**	**8,255**
Net exposure	**85,666**	**(19,952,594)**	**(172,645)**	**—**	**80,078**	**9,722**

In thousand of Serbian dinars (RSD)

17 Financial instruments (Continued)

Gross trade receivables which are denominated in foreign currency relate primarily to receivable due from related parties (Note 18) and DTH operating sales, sales of end-user equipment and DTH development support. Other receivables are primarily denominated in RSD.

	31 December 2010					
	RSD	EUR	USD	GBP	BAM	MKD
Trade receivables	851,988	477,655	20,462	—	34,030	20,726
Long term loans	—	173,934	—	—	—	—
Other financial assets	—	42,947	31,242	—	—	—
Cash and cash equivalents	55,985	164,166	261	—	50,969	—
Total	**907,973**	**858,702**	**51,965**	**—**	**84,999**	**20,726**
Trade and other payables	1,269,045	824,626	479,852	3,433	15,572	—
Loans and borrowings	—	19,528,666	—	—	—	—
Finance lease liabilites	—	49,291	—	—	—	—
Total	**1,269,045**	**20,402,583**	**479,852**	**3,433**	**15,572**	**—**
Net exposure	**(361,072)**	**(19,543,881)**	**(427,887)**	**(3,433)**	**69,427**	**20,726**

The Group's net exposure position in euros remained unchanged reflecting the existing financing structure.

At 31 December 2011, the principal official rates of exchange as determined by the National Bank of Serbia were as follows:

Currency	2011	2010
EUR	104.6409	105.4982
USD	80.8662	79.2802
BAM	53.5020	53.9404
HRK	13.9087	14.3091
MKD	1.7015	1.7153

Sensitivity analysis

Currency risk

As at 31 December 2011, if the currency had weakened/strengthened by 10% against the Euro with all the variables held constant, net profit for the year would have been RSD 1,995,259 thousand higher/lower (2010: RSD 1,954,388 thousand), mainly as a result of foreign exchange losses on translation of Euro denominated trade receivables, trade payables and Euro denominated borrowings.

As at 31 December 2011, if the currency had weakened/strengthened by 10% against the USD with all the variables held constant, net loss for the year would have been RSD 17,265 thousand higher/lower (2010: RSD 42,789 thousand), mainly as a result of foreign exchange losses on translation of USD denominated trade receivables and trade payables.

Interest rate risk

As at 31 December 2011, if interest rates on currency denominated borrowings (with floating rate) had been 1% higher with all other variables held constant, net loss for the year would have been RSD 58,766 thousand higher (2010: RSD 40,700 thousand), mainly as a result of higher interest expense on floating rate borrowings.

In thousand of Serbian dinars (RSD)

17 Financial instruments (Continued)

Fair value estimation

Financial instruments carried in the statement of financial position include cash and bank balances, trade and other receivables, trade and other payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The amounts disclosed in the consolidated financial statements approximate their fair value.

The Group's financial instruments are subject to fluctuations in foreign currency exchange and interest rates. The carrying values less impairment provision of trade receivables are assumed to approximate their fair values.

18 Trade and other receivables

	2011	2010
Trade receivables	1,987,926	2,089,005
Trade receivables—related parties (note 26)	453,733	244,618
Other receivables	50,670	92,934
Provision for impairment	(600,774)	(947,506)
Total trade receivables	**1,891,555**	**1,479,051**
Less: non-current portion of other receivables	(23,427)	(74,189)
Current portion	**1,868,128**	**1,404,862**

The total amount of trade receivables of SBB Serbia (RSD 1,511,588 thousand) was pledged as collateral for loans granted by Unicredit bank.

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 16.

19 Prepayments

	2011	2010
Advance payments and prepaid expenses	283,041	318,483
Accrued income	48,544	90
Other prepayments	49,212	15,376
Total prepayments	**380,797**	**333,949**

Prepayments primarily relate to advance payments to local content providers and mobile operator for the construction of a part of backbone network in Serbia.

20 Cash and cash equivalents

Cash and cash equivalents comprise of the following:

	2011	2010
RSD accounts and cash on hand	460,830	55,985
Foreign currency accounts	594,086	215,396
Total cash and cash equivalents	**1,054,916**	**271,381**

The structure of cash held on foreign currency accounts is presented in note 17. Bank borrowings are secured on the total amount of cash and cash equivalents shown in the table above.

In thousand of Serbian dinars (RSD)

21 Capital and reserves

Registered capital

The Parent Company is a limited liability company and 100% of its registered capital is held by Adria Cable B.V. (the Holding Group) domiciled in the Netherlands. Adria Cable BV took control over 'Serbia Broadband—Srpske kablovske mreže' through the special purpose vehicle 'Adria Cable d.o.o.' domiciled in Serbia, from Sabaline Investments B.V. on the basis of a share transfer agreement dated 8 June 2007. On 30 September 2007 'Adria Cable d.o.o.' and 'Serbia Broadband—Srpske kablovske mreže' merged, and the capital of Adria Cable d.o.o. then was registered as capital of Serbia Broadband. The ultimate parent of the Group is Adria Cable S.a.r.l. domiciled in Luxemburg, which itself is an investee company owned in the majority by funds advised/managed by Mid Europa Partners LLP.

The registered capital of the Group is RSD 3,335,691 thousand (2010: RSD 3,335,691 thousand) comprising of RSD 39 thousand (2010: RSD 39 thousand) as money and RSD 3,335,652 thousand (2010: RSD 3,335,652 thousand) as contribution in kind as a waiver of liability (debt converted into capital). The Group shares are 100% pledged for the loans obtained.

22 Loans and borrowings

Long-term borrowings

Long-term borrowings by principal lender may be analysed as follows:

	2011	2010
Borrowings		
Intra Group Loan Tranche 1	113,189	273,879
Intra Group Loan Tranche 2	2,249,779	2,268,211
Intra Group Loan Tranche 3	2,360,428	2,256,054
Shareholder Loan	15,063,407	13,137,956
Unicredit Bank—Refinancing	290,902	703,884
Unicredit Bank—CAPEX	227,175	686,013
Unicredit Bank—Revolving	—	202,670
Yapi Kredi Bank	31,413	—
Total borrowings	**20,336,293**	**19,528,666**
Less: current portion	(662,679)	(1,230,007)
Total long-term borrowings	**19,673,614**	**18,298,659**

Long-term debt by category of loan consists of the following:

Loan description	2011 nominal interest rate	31 December 2011
Intra Group Loan Tranche 1	3 month euribor + 2%	113,189
Intra Group Loan Tranche 2	3 month euribor + 2.75%	2,249,779
Intra Group Loan Tranche 3	6 month euribor + 10.75%	2,360,428
Shareholder Loan	fixed − 15.10%	15,063,407
Unicredit loan—Refinancing	1 month euribor + 1.75%	290,902
Unicredit loan—CAPEX	1 month euribor + 1.75%	227,175
Yapi Kredit Bank	3 month euribor + 1.30%	31,413
Total loans		**20,336,293**

In thousand of Serbian dinars (RSD)

22 Loans and borrowings (Continued)

Loan description	2010 nominal interest rate	31 December 2010
Intra Group Loan Tranche 1	3 month euribor + 2%	273,879
Intra Group Loan Tranche 2	3 month euribor + 2.75%	2,268,211
Intra Group Loan Tranche 3	6 month euribor + 10.75%	2,256,054
Shareholder Loan	fixed − 15.10%	13,137,956
Unicredit loan—Refinancing	1 month euribor + 1.75%	703,884
Unicredit loan—CAPEX	1 month euribor + 1.75%	686,013
Unicredit loan—Revolving	1 month euribor + 2.75%	202,670
Total loans		**19,528,666**

Shareholder loan

As of 15 June 2007 the Group entered into a loan facility with its parent company Adria Cable B.V. The facility bears an interest rate per annum equal to 15.10%. All accrued and unpaid interest will be capitalised and added to the principle amount. The loan plus all unpaid interest is repayable in full in a single bullet instalment after 8 years of the facility. The Group may prepay the whole or any part of the facility, including (together with interest accrued thereon and any other amounts due or owing to the parent company Adria Cable B.V. at such time including break funding costs) at any time.

As at 31 December 2011 the total principle amount outstanding is RSD 15,063,407 thousand (including capitalised interest of RSD 2,052,930 thousand). The Group made three repayments of shareholder loan during 2011 in the total amount of RSD 71,091 thousand.

Intra-group loans

On 20 June 2007, the Group entered into Intra-Group Loan with its parent company Adria Cable B.V. for an aggregate principle amount of EUR 5,408,439 (Tranche 1), EUR 21,500,000 (Tranche 2) and EUR 18,000,000 (Tranche 3).

Tranche 1 loan bears an interest rate of margin of 2% plus Euribor rate of 1 month. This loan is repayable in two annual instalments each May and November within 5 years, beginning May 2008. Instalments vary from 6% of principal amount payable in 2008, 8% in 2009, 12% in 2010, 14% in 2011 to 20% on 30 May 2012. Interest is payable at the end of each interest period, subject to agreement with the lender. During 2011, the Group repaid two instalments in total amount of EUR 1,514 thousand (RSD 152,089 thousand).

Tranche 2 loan bears an interest rate of margin of 2.75% plus Euribor rate of 1 month. The loan is due to be repaid in total outstanding amount on 20 June 2013.

Tranche 3 loan bears an interest rate of 10.75% plus Euribor rate of 3 or 6 months. Part of the interest (5.25%) shall be capitalised and added to the principle. The remaining part is repayable at the end of each interest period. The balance of RSD 2,360,428 thousand includes capitalised interest of RSD 120,130 thousand. The loan plus all unpaid interest is repayable on 20 June 2014.

CAPEX and refinancing loans

The long term facility has been arranged with Unicredit bank to finance the expansion of the business operations. In July 2007, the Group entered into two loan facility agreements with Unicredit bank for an aggregate principle amount of EUR 13,900,000 for the purpose of refinancing and EUR 13,000,000 for the purpose of Capex investment. Additionaly, the Group was granted additional revolving facility by Unicredit bank Serbia in 2010 at the total amount of RSD 143,833 thousand (EUR 1.5 million).

In thousand of Serbian dinars (RSD)

22 Loans and borrowings (Continued)

The refinancing loan bears an interest rate of margin of 1.75% plus Euribor rate of 1 month. This loan is repayable in 9 instalments starting from May 2008 within 5 years and the interest at the end of each interest period. During 2011, the Group repaid two instalments in May and November, for a total amount of EUR 3,892 thousand (RSD 378,599 thousand).

The Capex facility loan bears an interest rate of margin of 1.75% plus Euribor rate of 1 month. This loan is repayable in 6 instalments starting from November 2009 within 3 years and the interest at the end of each interest period. During 2011, the Group repaid two instalments in May and November, in the total amount of EUR 4,332 thousand (RSD 434,953 thousand).

The maturity of non-current borrowings is presented in note 17. Fair value of all borrowings at inception was calculated and it approximates the carrying amounts shown in the consolidated financial statements. The amortised cost calculation of the borrowings included capitalised interest.

During 2011, SBB repaid bank and shareholder loans in total amount of RSD 1,238,798 thousand and paid interest thereon in the amount of RSD 254,922 thousand.

Security

As at 31 December 2011 CAPEX, Refinancing and Revolving loans were secured by a pledge on Parent Company's registered capital (note 21), property, plant and equipment (note 13), receivables outstanding (note 18), and trademark (note 14).

Short-term borrowings

Major share of short-term borrowings relates to current portion of long-term debt.

The current portion of the long term loan is payable in May 2012 (Facility A at the amount of RSD 113,189 thousand, Refinancing facility in the amount of RSD 290,902 thousand, and Capex facility in the amount of RSD 227,175 thousand). As at 31 December 2011 the total outstanding amount of the Revolving facility was nil (2010: RSD 202,670 thousand). The loan from Yapi Kredi Bank Netherland, overtaken in acquisition of Latiron Finance Limited, in the total amount of RSD 31,413 thousand is payable in June 2012.

23 Employee benefits

Balance sheet obligation for:

	2011	2010
Retirement benefits	22,123	14,468

Statement of comprehensive income charge for:

	2011	2010
Retirement benefits	8,782	4,631

The Group has an obligation under the current legislation to pay the greatest of 1) three individual monthly salaries, 2) three average monthly salaries in the Company or 3) three average monthly salaries in the Republic of Serbia at the time of payment.

The obligation in the amount of RSD 22,123 thousand was calculated by assumptions used by actuary.

In thousand of Serbian dinars (RSD)

23 Employee benefits (Continued)

The amounts recognised in the balance sheet are determined as follows:

	2011	2010
Present value of retirement benefits	14,919	29,044
	14,919	29,044
Unrecognised net gain	(898)	(9,382)
Unrecognised past service cost	8,102	(5,194)
Net liability	**22,123**	**14,468**

The movement in the retirement benefits over the year is as follows:

	2011	2010
Net liability at the beginning of the period	14,468	9,981
Benefits paid directly	(1,127)	(144)
Total expense recognised in income statement	8,782	4,631
Net liability before adjustment	22,123	14,468
Actuarial gain		—
Net liability	**22,123**	**14,468**

The amounts recognised in the statement of comprehensive income are as follows:

	2011	2010
Service cost	6,024	3,410
Interest cost	1,623	919
Amortisation of unrecognised actuarial loss/gain	265	—
Amortisation of past service cost	385	212
Regular charge	8,297	4,541
Settlement/Curtailment/Termination gain	485	90
Total charge	**8,782**	**4,631**

Reconciliation of benefit obligation

	2011	2010
DBO at start of period	29,044	14,920
Service cost	6,024	3,410
Interest Cost	1,623	919
Benefits paid directly by the Company	(1,127)	(144)
Extra payments or expenses/income	439	72
Past service cost arising over the past period	(12,911)	—
Actuarial Gain/Loss	(8,173)	9,867
DBO at end of period	**14,919**	**29,044**

The sensitivity of defined benefit obligation to changes in the weighted principal assumptions is as follows:

If the discount rate used was 7.0% (rather than 7.5%) per year, then defined benefit obligation (DBO) would increase by about 9.6%.

In thousand of Serbian dinars (RSD)

23 Employee benefits (Continued)

If pay increased by 5.5% (rather than 6.0%) per year in the long term, then defined benefit obligation (DBO) would increase by about 8.7%.

The principal actuarial assumptions used are presented below:

	2011	2010
Discount rate	7.5%	6.0%
Future salary increases	6%	6%
Inflation rate	4%	4%
Employee turnover	0%	0%
Retirement age (male/female)	65/60	65/60
Mortality rate	PA 90 mortality table for male and female adjusted by 2 years	PA 90 mortality table for male and female adjusted by 2 years

24 Deferred revenue

	2011	2010
Up to 1 year	**79,538**	**10,591**
Between 1 and 2 years	64,986	10,591
Between 2 and 5 years	129,180	31,774
Over 5 years	672,625	715,398
Total over 1 year	**866,791**	**757,763**
Total deferred revenue	**946,329**	**768,354**

Deferred revenue arises from CATV and DTH connection fees and long-term operating lease arrangement with local mobile operators. Connection fees are deferred over the period of 17 years.

25 Trade and other payables

	2011	2010
Trade payables	1,588,955	1,719,003
Trade payables—related parties (note 26)	30,434	29,489
Bills of exchange	372,092	156,394
Received advances	182,805	215,801
Interest payable	149,551	136,666
Accrued liabilities and other creditors	126,429	168,510
Other taxes payable	168,962	166,665
Total trade and other payables	**2,619,228**	**2,592,529**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 17.

Major share of interest payables in the amount of RSD 147,967 thousand relate to interest on borrowings from parent entity.

26 Related parties

Generally parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosure”. In considering each possible related party relationship, attention is focused on the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related parties’ relationships for those parties with whom the Group entered into significant transactions or had significant balances outstanding as at 31 December 2011 detailed below. Transactions with related parties were entered into during the ordinary course of business on normal commercial terms.

In thousand of Serbian dinars (RSD)

26 Related parties (Continued)

Balances and transactions with related parties of the Group consist of the following:

i) Balances with related parties

	Relationship	2011	2010
Borrowings			
Adria Cable B.V.	Parent	19,786,803	17,936,100
		19,786,803	**17,936,100**
Long term loans			
Adria Cable S.a.r.l.	Ultimate parent	57,625	53,650
Adria Cable B.V.	Parent	57,249	59,532
Adria Media B.V.	Under common control	66,332	60,752
		181,206	**173,934**
Other financial assets			
Telemach d.o.o. Bosnia	Under common control	18,726	—
		18,726	**—**
Trade receivables			
Totalna televizija d.o.o. Croatia	Under common control	292,964	184,926
Telemach d.o.o. Slovenia	Under common control	44,477	43,952
Telemach d.o.o. Bosnia	Under common control	116,292	15,740
		453,733	**244,618**
Interest receivable			
Adria Cable S.a.r.l.	Ultimate parent	392	365
Adria Cable B.V.	Parent	3,117	404
Adria Media B.V.	Under common control	451	413
		3,960	**1,182**
Trade payables			
Adria Cable B.V.	Parent	—	29,489
Telemach d.o.o. Slovenia	Under common control	30,273	—
Telemach d.o.o. Bosnia	Under common control	161	—
		30,434	**29,489**
Interest payable			
Adria Cable B.V.	Parent	147,967	136,666
		147,967	**136,666**

The Group lent to its ultimate parent and parent the amount of RSD 114,874 thousand in several tranches under the following terms and conditions: 1 month interest period, interest accrues on the principal amount, interest rate 8% p.a., and principal repayable on demand.

In thousand of Serbian dinars (RSD)

26 Related parties (Continued)

ii) Transactions with related parties

	Relationship	2011	2010
Sales			
Totalna televizija d.o.o. Croatia	Under common control	130,271	136,272
Telemach d.o.o. Slovenia	Under common control	594,722	92,883
Telemach d.o.o. Bosnia	Under common control	95,215	15,249
		820,208	**244,404**
Other operating expenses			
Adria Cable S.a.r.l.	Ultimate parent	—	77,616
Telemach d.o.o. Slovenia	Under common control	19,034	—
		19,034	**77,616**
Interest expense			
Adria Cable B.V.	Parent	2,435,304	2,156,067
		2,435,304	**2,156,067**
Interest income			
Adria Cable B.V.	Parent	3,117	3,314
Adria Cable S.a.r.l.	Ultimate parent	—	41,370
Adria Media B.V.	Under common control	—	2,616
		3,117	**47,300**

iii) Borrowings from Adria Cable B.V.

	2011	2010
Opening balance	17,936,100	14,705,640
Capitalised interest	2,173,059	1,847,625
Loan repayments during the year	(223,180)	(136,211)
Foreign exchange losses	(99,176)	1,519,046
Balance at 31 December	**19,786,803**	**17,936,100**

iv) Directors' compensation

Compensation paid to directors for their services is made up of a contractual salary and a performance bonus depending on operating results. There are no post-employment benefits and termination benefits. Total directors' compensation amounted to RSD 74,581 thousand (2010: RSD 46,938 thousand).

27 Commitments

Capital commitments

As at 31 December 2011 in line with its investment program the Group had capital commitments for purchases of cables and equipment at the amount of RSD 293,039 thousand. These commitments are financed by Letters of Credit, which terms are between 60 and 180 days, using a credit facility granted by Unicredit Bank. There is no restricted cash and no other securities provided to the bank in respect to letter of credit other than those already disclosed elsewhere in the financial statements.

28 Operating leases

The Group leases various premises under cancellable operating lease agreements. The Group is required to give one to six month notice for the termination of those agreements. The lease expenditure charged to the statement of comprehensive income during the period is disclosed in note 10 under other operating expenses. The Group does not have any contingent rent arrangement.

29 Contingencies

Taxation

The taxation systems in the countries where the Group operates are undergoing a continual revision and amendment. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties. In Serbia, tax periods remain open for 5 years. The tax liabilities included in these consolidated financial statements are based on management’s best estimate.

Regulatory and legal matters

Industry regulation

The Group provides large number of channels to its subscribers including foreign satellite channels, national and local channels. Some of these channels are terrestrial, distribution of which is required by law and others are satellite. The Group has signed broadcasting contracts for all channels it broadcasts, except for some channels which have national and regional licence and ones which are free to air for distribution. As at the date of the approval of the consolidated financial statements, the Republic Broadcasting Agency (RBA) started with issuing permits for cable broadcasting of all other TV stations operating in Serbia.

Anti-trust regulation

During 2010, the Commission for Protection of the Competition (the “Commission”) issued a resolution stating that SBB abused its dominant position on the ‘market of distribution of TV programme. The company appealed to the Supreme Court, on grounds of errors in law and errors in process, which cancelled this resolution. The Commission reissued the same resolution again and SBB made the second appeal to court which has not yet been answered. Management do not expect that effects of this legal action could have material effect on Group’s financial position.

Legal matters

The Group is involved in a number of legal cases in the total amount of RSD 17,685 thousand (2010: RSD 10,289 thousand) for which management believes that there is a remote probability of negative outcome, thus no provision has been recognised.

30 Subsequent events

Merger of Telegrad d.o.o. Belgrade

The Group has acquired 100% of equity of local cable company Telegrad through acquisition of its parent entity Latiron Finance Limited for the total consideration of RSD 149,744 thousand (note 6). The Group is currently in the process of merger of Telegrad into parent company.

Conversion of shareholder loan into equity

The Group converted EUR 40,000 thousand (RSD 4,247,496 thousand) of outstanding amount of shareholder loan in equity as at 27 January 2012.

30 Subsequent events (Continued)

Repayment of shareholder loan

The Group repaid RSD 271,130 thousand of outstanding amount of shareholder loan at 20 February 2012.

Extension of revolving facility with Unicredit Bank

The Group extended the revolving facility in the total amont of RSD 803,956 thousand with Unicredit Bank.

Regulatory issues

In April 2012 RBA approved to SBB price increase for cable business line at an average rate of 4.2%.

The Group’s management holds that they are not aware of any significant post balance sheet events that could affect the financial statements for 2011 or require separate disclosure.

SERBIA BROADBAND—SRPSKE KABLOVSKE MREŽE” D.O.O.

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS FOR THE YEAR ENDED 31 DECEMBER 2012

"SERBIA BROADBAND—Srpske kablovske mreže d.o.o. and its controlled entities

Consolidated financial statements for the year ended 31 December 2012

CONTENTS

TO THE OWNERS
"SERBIA BROADBAND—SRPSKE KABLOVSKE MREŽE" D.O.O. AND ITS SUBSIDIARIES

Independent Auditors' Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of "Serbia Broadband—Srpske Kablovske Mreže" d.o.o., and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG d.o.o. Be

KPMG d.o.o. Beograd

14 May 2013

In thousand of Serbian dinars (RSD)

Consolidated statement of comprehensive income

	Note	2012	2011
Revenue	6	**13,194,808**	**11,192,858**
Other income		79,456	152,678
Content cost		(3,170,467)	(2,712,498)
Satellite capacity cost		(787,255)	(288,653)
Internet link cost		(295,950)	(278,671)
Materials cost	7	(656,461)	(545,784)
Staff costs	8	(1,088,040)	(923,173)
Depreciation	12	(1,992,568)	(1,681,358)
Amortisation of intangible assets	13	(509,075)	(486,518)
Other operating expenses	9	(2,109,628)	(1,668,826)
Results from operating activities		**2,664,820**	**2,760,055**
Finance income	10	4,914,121	43,198
Finance costs	10	(3,650,812)	(2,357,238)
Net finance costs		**1,263,309**	**(2,314,040)**
Profit before tax		**3,928,129**	**446,015**
Income tax expense	11	(967,662)	(31,886)
Profit for the year		**2,960,467**	**414,129**
Other comprehensive income			
Currency translation differences		80,306	(2,134)
Other comprehensive income for the year, net of tax		**80,306**	**(2,134)**
Total comprehensive income for the year		**3,040,773**	**411,995**
Profit attributable to:			
Owners of the Company		2,975,673	422,283
Non-controlling interests		(15,206)	(8,154)
Profit for the year		**2,960,467**	**414,129**
Total comprehensive income attributable to:			
Owners of the Company		3,056,033	423,055
Non-controlling interests		(15,260)	(11,060)
Total comprehensive income for the year		**3,040,773**	**411,995**

The accompanying notes on pages F-139 - F-172 are an integral part of these consolidated financial statements.

"SERBIA BROADBAND—Srpske kablovske mreže d.o.o. and its controlled entities

Consolidated Financial statements for the year ended 31 December 2012

In thousand of Serbian dinars (RSD)

Consolidated statement of financial position

	Note	2012	2011
Assets			
Property, plant and equipment	12	7,488,108	6,653,607
Goodwill	13	3,689,920	3,689,046
Intangible assets	13	6,049,942	6,334,617
Deferred tax assets	14	9,619	8,332
Non-current assets		**17,237,589**	**16,685,602**
Inventories	15	715,801	242,915
Trade and other receivables	17	2,456,747	1,868,128
Short term loans	16	609,035	204,634
Prepayments	18	747,761	380,797
Income tax receivable		42,573	19,327
Cash and cash equivalents	19	703,239	1,054,916
Current assets		**5,275,156**	**3,770,717**
Total assets		**22,512,745**	**20,456,319**
Equity			
Registered capital	20	15,463,421	3,335,691
Reserves		187,985	107,625
Accumulated losses		(4,558,412)	(7,534,085)
Equity attributable to owners of the Company		**11,092,994**	**(4,090,769)**
Non-controlling interests		**(15,396)**	**(136)**
Total equity		**11,077,598**	**(4,090,905)**
Liabilities			
Loans and borrowings	21	5,213,282	19,673,614
Deferred revenue	23	864,342	866,791
Finance lease liabilities	12	169,469	55,756
Deferred tax liabilities	14	1,411,159	470,654
Employee benefits	22	24,574	22,123
Non-current liabilities		**7,682,826**	**21,088,939**
Trade and other payables	24	3,307,530	2,619,228
Current tax liabilities		106	30,666
Loans and borrowings	21	347,655	662,679
Deferred revenue	23	37,825	79,538
Finance lease liabilities	12	59,205	66,174
Current liabilities		**3,752,321**	**3,458,285**
Total liabilities		**11,435,147**	**24,547,224**
Total equity and liabilities		**22,512,745**	**20,456,319**

Consolidated statement of financial position (Continued)

These financial statements have been approved for issue by the Board of Directors on 14 May 2013 and signed on their behalf:

General Manager	Finance Director
Dragica Pilipovic—Chaffey	Nenad Brankovic

The accompanying notes on pages F-139 - F-172 are an integral part of these consolidated financial statements.

In thousand of Serbian dinars (RSD)

Consolidated statement of changes in equity

	Attributable to owners of the Company						
	Registered capital	Statutory reserves	Translation reserves	Accumulated losses	Total	Non-controlling interests	Total equity
Balance at 1 January 2011							
Comprehensive income	**3,335,691**	**5,987**	**103,201**	**(7,958,703)**	**(4,513,824)**	**10,924**	**(4,502,900)**
Profit for the year	—	—	—	422,283	422,283	(8,154)	414,129
Other comprehensive income							
Foreign currency translation differences	—	—	(1,563)	2,335	772	(2,906)	(2,134)
Total other comprehensive income	—	—	(1,563)	2,335	772	(2,906)	(2,134)
Balance at 31 December 2011	**3,335,691**	**5,987**	**101,638**	**(7,534,085)**	**(4,090,769)**	**(136)**	**(4,090,905)**
Balance at 1 January 2012							
Comprehensive income	**3,335,691**	**5,987**	**101,638**	**(7,534,085)**	**(4,090,769)**	**(136)**	**(4,090,905)**
Profit for the year	—	—	—	2,975,673	2,975,673	(15,206)	2,960,467
Conversion of shareholder loan into equity	12,127,730	—	—	—	12,127,730	—	12,127,730
Other comprehensive income							
Foreign currency translation differences	—	—	80,360	—	80,360	(54)	80,306
Total other comprehensive income	—	—	80,360	—	80,360	(54)	80,306
Balance at 31 December 2012	**15,463,421**	**5,987**	**181,998**	**(4,558,412)**	**11,092,994**	**(15,396)**	**11,077,598**

The accompanying notes on pages F-139 - F-172 are an integral part of these consolidated financial statements.

In thousand of Serbian dinars (RSD)

Consolidated statement of cash flows

	Note	2012	2011
Cash flows from operating activities			
Net profit before tax		3,928,129	446,015
Adjustments for:			
Depreciation	12	1,992,568	1,681,358
Amortisation	13	509,075	486,518
Allowance for impairment of receivables	16	178,375	114,977
Allowance for impairment of inventories	15	37,216	13,564
Net interest and related expenses		(2,883,732)	2,440,867
Provision for employee benefits	22	3,310	8,782
Unrealised exchange rate difference		1,593,928	(204,171)
Operating cash flows before working capital changes		**5,358,869**	**4,987,910**
Changes in working capital (excluding the effects of exchange differences on consolidation):			
(Increase)/decrease in trade and other receivables		(1,158,448)	(590,563)
(Increase)/decrease in inventories		(510,102)	18,039
Increase/(decrease) in deferred revenue		(44,163)	177,976
Increase/(decrease) in trade and other payables		665,366	(3,787)
Cash generated by operations		**4,311,522**	**4,589,575**
Interest paid		(228,865)	(254,922)
Income tax paid		(59,167)	(14,869)
Net cash from operating activities		**4,023,490**	**4,319,784**
Cash flows from investing activities			
Purchase of property, plant and equipment		(2,429,113)	(1,927,136)
Purchase of intangible assets		(223,209)	(153,975)
Loans repaid from/(granted to) related parties		(372,638)	5,301
Acquisition of subsidiary		—	(144,420)
Net cash used in investing activities		**(3,024,960)**	**(2,220,230)**
Cash flows from financing activities			
Repayment of borrowings		(1,242,702)	(1,238,798)
Repayment of finance lease		(107,505)	(77,222)
Net cash used in financing activities		**(1,350,207)**	**(1,316,020)**
Net increase in cash and cash equivalents		**(351,677)**	**783,535**
Cash and cash equivalents at 1 January		1,054,916	271,381
Effect of exchange rate fluctuations on cash held		—	—
Cash and cash equivalents at 31 December		**703,239**	**1,054,916**

The accompanying notes on pages F-139 - F-172 are an integral part of these consolidated financial statements.

In thousand of Serbian dinars (RSD)

Notes to the consolidated financial statements

1 Reporting entity

Description of the business

The principal activities of "Serbia Broadband—Srpske kablovske mreže" d.o.o. and its controlled entities (together "The Group", "Serbia Broadband" or "SBB") are the provision of Cable, Internet and Direct-to-Home services to subscribers. The Group's activities are based in Serbia, Slovenia, Montenegro and Bosnia and Herzegovina through its subsidiaries.

Certain Group service lines are subject to approval (general license) issued by the relevant Telecommunications Agency. Serbia Broadband has received approvals for CATV, D3 and Internet services. The Group has also obtained licences for DTH service in Slovenia, Montenegro, Macedonia and Bosnia and Herzegovina.

As at 31 December 2012 the Group employed 924 people (2011: 840).

Ownership structure

The Group consists of:

- The Parent—Serbia Broadband—Srpske kablovske mreže ("SBB")

The subsidiaries are:

- Total TV Slovenia d.o.o (100%), established on 23 July 2007,
- Total TV Montenegro d.o.o (100%), established on 13 June 2007,
- Total TV Bosnia&Herzegovina d.o.o (100%), established on 19 May 2007,
- Adria DTH B.V., Netherlands (100%), acquired on 18 September 2009,
- CAS Media d.o.o., Serbia (100%), established on 11 February 2010,
- Total TV Macedonia (75% though Adria DTH B.V.), acquired on 1 March 2010.

The Parent entity Serbia Broadband—Srpske kablovske mreže is a private company, domiciled in Belgrade, Serbia. As at 30 November 2012 the Group has been sold to Broadband Investment d.o.o. Belgrade, which is Group's parent entity at 31 December 2012.

The ultimate parent of the Group is Slovenia Broadband S.a.r.l. domiciled in Luxemburg, which is controlled by Broadband Investments S.à r.l., which itself is an investee company owned in the majority by funds advised/managed by Mid Europa Partners LLP.

Management team

The persons who served office during the year were the following:

General Manager	—Dragica Pilipovic—Chaffey
General Manager Deputy	—Victoriya Boklag
CFO	—Nenad Brankovic

2 Basis of preparation

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The consolidated financial statements were authorised for issue by the Board of Directors on 14 May 2013.

2 Basis of preparation (Continued)

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention.

Going concern

The consolidated financial statements are prepared in accordance with the going concern concept, which assumes that the Group will continue its operations in the foreseeable future.

Functional and presentation currency

These consolidated financial statements are presented in Serbian Dinars ("RSD"), which is the Group's presentation currency. All financial information presented in dinars has been rounded to the nearest thousand. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 13—goodwill and trademark impairment (key assumptions used in discounted cash flow projections),
- Note 3 (d)—useful life of plant, equipment and intangibles,
- Note 28—contingencies.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus

3 Significant accounting policies (Continued)

- If the business combination is achieved in stages, the fair value of the pre-existing equity-interest in the acquiree, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign operations

The results and final position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,

3 Significant accounting policies (Continued)

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of transactions) and,
- all resulting exchange differences are recognised as a separate component of equity (translation reserves).

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has one category of financial assets: long term loans and receivables.

Long term loans and receivables

Long term loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade and other receivables

Short-term trade and other receivables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables should be impaired. The amount of the provision is recognised in the statement of comprehensive income within ‘other operating expenses’.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

3 Significant accounting policies (Continued)

(ii) Non-derivative financial liabilities

The Group initially recognises financial liabilities on the date that they are originated. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Borrowings

Borrowings are recognised initially at fair value (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are carried at amortised cost using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(iii) Registered capital

Stakes

The Group’s parent entity was registered as Limited Liability Company and stakes are classified as equity. Incremental costs directly attributable to the issue of stakes are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

Recognition and measurement

Property, plant and equipment comprise mainly cable network (coaxial and optical primary and secondary network and backbone) and customer premise equipment (CPE—receivers and modems). Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased

3 Significant accounting policies (Continued)

software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of network construction includes costs of site preparation, cost of materials used, installation and assembly costs and costs of testing whether the asset is functioning properly as well as direct labour costs.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Major renovations are depreciated over shorter of remaining useful life of an asset or period until new renovation. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

Depreciation is based on the cost of an asset. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. No changes of depreciation rates were made in 2012.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for the current are as follows:

	Number of years
Buildings	40
Cable network	10
Vehicles	4
Head-end and optical equipment	5
Computer equipment	3

(e) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Other intangibles comprise direct subscriber acquisition costs which are capitalised and amortised over the useful life of cable customer relationship.

3 Significant accounting policies (Continued)

Trademarks

Separately acquired trademarks are shown at historical cost. Trademark acquired in a business combination is recognised at fair value at the acquisition date. Trademarks have indefinite useful life and are carried at cost less accumulated impairment losses. There is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The business and products have a track record of stability and there are relatively good forecasts even in the economic crisis. There is a long-term commitment to continue building on already established cable TV footprint (including cable and DTH operators) across South Eastern Europe. Assessment of indefinite useful life is based on planned technological improvements in the future which should ensure the Group's leading market position and cable subscription agreements of unlimited time. Trademarks are tested annually for impairment.

Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Expenditure to acquire software and bring it to use and licenses are capitalised at cost and amortised using the straight-line method over their useful lives, but not exceeding 5 years. Intangible assets are not re-valued.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the relevant criteria are satisfied.

Directly attributable costs, capitalised as part of the software product, includes software development employee cost and appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 5 years.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3 Significant accounting policies (Continued)

Amortisation

Amortisation is based on the cost of an asset and is calculated using straight line method to allocate their cost or re-valued amounts to their residual values over their estimated useful lives as follows:

	Number of years
Goodwill	Indefinite
Trademark	Indefinite
Customer relationship—Cable	14
Customer relationship—DTH	7
Software & licences	5
Subscriber acquisition cost—CATV	17
Subscriber acquisition cost—Internet	7

The remaining useful lives of customer relations for cable and DTH are estimated through valuation exercise using the income approach based upon an industry standard and current market conditions. Useful lives of customer relationship reassessed to 17 years for cable and 14 years for DTH in 2008 remain unchanged in 2011 after testing the useful life of the customer base.

Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

(f) Leased assets

Finance lease

Leases of property, plant and equipment, where the Group as the lessee has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease’s commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance costs is charged to the statement of income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The Group purchased IP equipment and vehicles under finance lease agreements.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The Group leases mainly premises under operating lease contracts.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The costs of inventories comprise of all costs of purchase and other costs incurred in bringing the inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When necessary, obsolete and slow moving inventories are written down to their net realisable value.

3 Significant accounting policies (Continued)

(h) Impairment of non-financial assets

Non-financial assets, except deferred tax assets and inventories are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses are recognised in the statement of comprehensive income. Non-financial assets, excluding goodwill, that suffered impairment, are reviewed for possible reversal of the impairment at each reporting date.

Goodwill and trademark are reviewed annually for impairment.

(i) Employee benefits

In accordance with the regulations prevailing in the countries where the Group operates, the Group has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

The Group does not operate any private pension scheme or post retirement defined contribution plan except the state mandatory pension scheme in each country of operation.

The Group makes regular provision in respect with retirement benefits (indemnities) which relates to mandatory payments made by SBB Serbia in respect with termination of employment due to expiry of working life. According to General Collective Agreement in Serbia, the indemnity retirement provided to employees of SBB will be equal to the higher of:

- 3 individual monthly salaries at the time of payment,
- 3 average montly salaries in the company at the time of payment,
- 3 average monthly salaries in the Republic of Serbia at the time of payment.

The calculation of retirement benefits is performed annually by a qualified actuary using the projected unit credit method.

Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, if it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Accumulating compensated absences may be carried forward and used in future periods if the current period's entitlement has not been fully used. The expected cost of accumulated compensated absences is recognised in the amount that is expected to be paid as a result of the unused entitlement that has accumulated as of the balance sheet date.

In the instance of non-accumulating compensated absences no liability or expense is recognised until the time of the absence.

3 Significant accounting policies (Continued)

(j) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(k) Revenue and costs

(i) Services

Revenue from services rendered is recognised within the statement of comprehensive income in proportion to the services period provided of transaction at the reporting date. The Group generates four main service revenue streams which are recognised in the period when the service is provided: Cable TV (CATV), Digital TV (D3), cable and fibre Internet service, and satellite TV (Direct to Home—DTH). Additionally, corporate and retail telecommunication service revenue (Voice-Over-Internet-Protocol—VOIP) is recognised in the period in which these are provided. The rental of carriage services to local TV stations are charged and recognised in the month when service is provided.

Connection fee earned is deferred and amortised over the average remaining useful life of customer relationship for cable service. Connection fee for DTH service is recognised upon delivery of installation.

When the services under a single arrangement are rendered in different reporting periods, the consideration is allocated on a relative fair value basis between the services.

(ii) Other revenue

Other revenue relate to sale of end-user equipment which is recognised at the moment of sale.

(iii) Costs

Content, satellite capacity and internet link costs are recorded as the services are provided. These costs are recorded based on the Group’s contractual agreements with its vendors.

(l) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(m) Finance income and finance costs

Finance income comprises interest income on funds invested (including short-term bank deposits), and foreign currency gains. Interest income is recognised as it accrues in statement of comprehensive income.

Finance costs comprise interest expense on borrowings and foreign currency losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in statement of comprehensive income.

3 Significant accounting policies (Continued)

(n) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The prevailing corporate tax rate in 2012 in Serbia is 10%, in Montenegro is 9%, in Slovenia 20%, in Macedonia 10%, and in Bosnia & Herzegovina is 10%. On 15 December 2012 the Serbian Parliament adopted the Law on Amendments to the Corporate Income Tax Law by which corporate income tax rate is increased from 10% to 15%, effective in 2013. The Group applied 15% for the calculation of deferred taxes for SBB in 2012.

(o) New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 Financial Instruments, which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets and liabilities. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4 Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

4 Financial risk management (Continued)

Risk management framework

The Group's top management has overall responsibility for the establishment and oversight of the Group's risk management framework, and development and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The finance function monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group assess that it has no significant concentration of credit risk due to its exposure to a broad customer base in each service line (CATV&DTH). No concentration of credit risk on a geographical basis is assessed as material. The Group has policies that limit the amount of credit exposure for each customer including services disconnection procedure.

The Group's risk procedure limit the credit risk through short credit period available (invoices are due for payment within 8 days from the date of issue) and 3 levels of dunning letters in different time intervals. The first dunning letter which brings the warning about disconnecting the service is being sent 10 days after due date. The second dunning letter is being sent after 40 days after due date. The third letter is being sent after 70 or 110 days (it depends on the area) after the due date and it generates the order for temporary disconnection of the subscriber until the debt had been settled. The credit control procedure assures that an average receivable from one subscriber is from RSD 2 - 9 thousand and limits the credit limit to 4 months of service. The Group outsourced collection activities of all receivables which are overdue more than 6 months to collection company.

Credit risk exposure is disclosed in note 16.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific provision that relates to individually significant exposures, and a general provision established for mass billing customers in respect of losses that have been incurred but not yet identified. The general allowance is determined based on Group's provisioning policy for mass billing customers.

Cash and cash equivalents

The Group held cash and cash equivalents of RSD 703,239 thousand as 31 December 2012 (2011: RSD 1,054,916 thousand) with reputable local commercial banks, which represents its maximum credit exposure on these assets. The Group limits its exposure to credit risk by making short term deposits.

4 Financial risk management (Continued)

Management actively monitors credit risk exposure and given that the Group only has invested in bank deposits management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due, which has been achieved through appropriate bank arrangements. Typically the Group ensures that it has sufficient cash on demand to meet expected current liabilities, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, the Group maintains the lines of credit for issue of short term liquidity loans, guarantees and coverage of letters of credit issued to foreign equipment suppliers granted by Unicredit Bank Serbia and Credit Agricole Serbia in the total value of RSD 710,739 thousand, and has fully cash covered deposit for issuance of bills of exchange with Unicredit bank Serbia in the total amount of RSD 20,000 thousand.

The credit lines are used for servicing planned cable and optical network extension.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

i) Currency risk

The Group operates internationally and is exposed to foreign exchange risk mainly due to commercial transactions in Euros and USD dollars related to capital investments and purchase of content. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the functional currency of the Group company holding the asset or obligation.

The Group is mainly exposed to currency risk on purchases and borrowings which are denominated in foreign currency (mainly in EUR and USD).

Management has set up a policy to manage its foreign exchange risk against its functional currency. To manage its foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group implements regular service price increases following the depreciation of the local currency in Serbia. Monthly fee of basic cable TV service is subject to approval of regulatory body.

The management believes the Group is able to quickly adjust monthly service fees without eroding the existing customer base in the case of a significant devaluation of the RSD, with the exception of basic cable service where regulatory approval is required. The extent to which the prices can be adjusted vis-à-vis devaluation of RSD will also depend on the level of competition for each service and potential competitor reaction to currency fluctuations. The share of revenues from non-regulated services in the total Group net revenues is budgeted at 69% in 2013 (2012: 68%).

4 Financial risk management (Continued)

ii) Price risk

The Group is not exposed to material price risks. Out of all services provided, CATV basic subscription is regulated by Serbian Regulatory Agency for Electronic Communications. The Group periodically reviews financial position of each subsidiary entity.

iii) Interest rate risk

As the Group has no significant interest-bearing assets, the Group’s income and operating cash flows relating to financial assets are substantially independent of changes in market interest rates.

The Group’s interest rate risk arises from long-term borrowings issued at variable rates. The variable rate borrowings were denominated in the foreign currency as presented in note 16.

Capital management

The management policy is to maintain a stable return on investment so as to maintain investor, creditor and market confidence and to sustain future development of the business. During 2012 the Group coverted significant amount of shareholder loan into equity, turning negative equity balance into positive position. The Group’s performance management is focused on generating budgeted earnings before interest, tax, depreciation and amortisation (EBITDA) as well as maintaining overall liquidity position to repay the outstanding financial debt.

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for investors and to maintain an optimal liquidity position.

There were no changes in the Group’s approach to capital management during the year.

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment of goodwill and trademarks

The Group tests annually whether goodwill and trademarks with indefinite useful lives, suffer any impairment in accordance with the Group’s accounting policy. The discounted cash flow method applied for annual impairment testing is based on management assumptions regarding projected revenue growth and liquidity position (note 13).

(b) Useful lives of property, plant and equipment and intangibles

The management estimate useful lives and related depreciation rates for its plant and equipment and intangibles on an annual basis. These estimates are based on technological development, projected growth in customer base and further development of service lines. They are subject to change and influenced by substitutes available on the market. The management will increase the depreciation charge when useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned. There are no residual values on long-term assets. The Group has assessed that the customer relationships for cable and DTH service line have a remaining useful life of 13 and 6 years as at 31 December 2012 respectively.

In thousand of Serbian dinars (RSD)

6 Revenue

	2012	2011
Subscription fee	11,428,933	9,782,478
Connection fee	67,027	49,822
End-user equipment	433,492	375,544
Other revenue	1,265,356	985,014
Total revenue	**13,194,808**	**11,192,858**

Revenus from sale of end-user equipment include sale of equipment to both related parties and external customers.

Other revenue mainly comprises reinvoiced satellite capacity, content and equipment to related parties (note 25).

7 Materials cost

	2012	2011
Installation materials	95,967	76,846
Office supplies	71,247	46,271
Energy and fuel costs	73,911	60,275
Cost of end-user equipment	378,120	348,827
Allowance for impairment of inventories	37,216	13,564
Total material cost	**656,461**	**545,784**

8 Staff costs

	2012	2011
Salaries and social security	970,926	802,040
Part—time employment costs	24,155	34,657
Employee benefit cost	3,310	3,902
Unused vacations	11,995	8,782
Other staff costs	77,654	73,791
Total staff costs	**1,088,040**	**923,173**

During 2012 the Group capitalised staff costs in the carrying value of its property, plant and equipment in the amount of RSD 45,448 thousand (2011: RSD 40,235 thousand).

In thousand of Serbian dinars (RSD)

9 Other operating expenses

	2012	2011
Rent of premises, poles and ducts	324,220	307,013
Marketing and promotion expenses	259,103	183,301
Bank charges	26,912	25,317
Phone and postal expenses	177,729	153,831
Maintenance costs	252,811	136,997
Customer service costs	33,690	31,787
Allowance for impairment of receivables	178,375	114,977
License fees	25,109	24,125
Other expenses	831,679	691,478
Total other operating expenses	**2,109,628**	**1,668,826**

Other expenses mainly relate to media buying costs (CAS Media), office security costs, local administrative charges, property charges, tax expenses, insurance costs, and other miscellaneous costs.

10 Finance income and finance cost

	2012	2011
Related parties—interest expense	2,010,364	2,435,304
Bank borrowings—interest expense	6,620	34,301
Finance leases—interest expense	8,824	6,576
Other finance cost	3,195	6,486
Interest income	(44,183)	(41,248)
Other financial gain	(4,869,938)	(1,950)
Foreign exchange losses	1,857,337	270,585
Foreign exchange gains	(235,528)	(396,014)
Total finance cost—net	**(1,263,309)**	**2,314,040**

Other financial gain relate to income effect of discouting of loans from related parties (note 21). These loans were granted to the Group at below market interest rates over 51 year term period. Related parties financial expenses relate to the interest expense on Shareholder loan, and other intra-group borrowings (note 21).

11 Income tax expense

	2012	2011
Current tax	28,564	35,178
Deferred tax (Note 14)	939,098	(3,292)
Income tax expense	**967,662**	**31,886**

In thousand of Serbian dinars (RSD)

11 Income tax expense (Continued)

The reconciliation of the Group's income tax expense is as follows:

	2012	2011
Profit for the year	2,960,467	414,129
Total income tax expense	967,662	31,886
Profit excluding income tax	**3,928,129**	**446,015**
Income tax using the Company's domestic tax rate (10%)	392,813	44,602
Increase of tax rate	462,118	—
Non-deductible expenses	187,053	121,960
Thin capitalisation (SBB)	132,867	243,530
Effect of tax rates in foreign jurisdictions	28,564	35,178
Effect of tax holiday	(235,753)	(413,384)
Income tax expense	**967,662**	**31,886**
Effective tax rate	24.6%	7.1%

The prevailing tax rate in Serbia is 10% and is used as the domestic tax rate, as primary business operations are within Serbia. However, the Parent company utilises tax holiday rate at 1.01%. It is required, by Serbian CIT law, to recalculate every year the percentage of tax holiday on the basis of CAPEX investments in new equipment. After such calculation has been performed, percentage of 1.01% is established for 2012 (2011: 0.97%).

On 15 December 2012 the Serbian Parliament adopted the Law on Amendments to the Corporate Income Tax Law by which corporate income tax rate is increased from 10% to 15%, effective in 2013. The Group applied 15% for the calculation of deferred taxes for SBB in 2012.

Thin capitalisation for SBB Serbia mainly relates to non-deductible interest expenses from related parties. These interest expenses are non-deductible under the Serbian tax regulation, thus certain share of related party interest expenses can be deductible for tax purposes.

In thousand of Serbian dinars (RSD)

12 Property, plant and equipment

	Buildings	Cable plant and other equipment	Assets under construction	Leasehold improvements	Total
Year ended 31 December 2011					
Cost					
Opening balance	14,585	9,723,690	48,317	79,840	9,866,432
Exchange differences	—	(5,585)	—	—	(5,585)
Acquisitions	6,906	9,827	—	—	16,733
Transfer from work in progress	—	48,317	(48,317)	—	—
Additions	1,040	1,814,138	288,946	9,364	2,113,489
Closing balance	**22,532**	**11,590,387**	**288,947**	**89,204**	**11,991,069**
Depreciation					
Opening balance	1,327	3,619,542	—	35,236	3,656,104
Depreciation for the year	(186)	(1,667,829)	—	(13,343)	(1,681,358)
Closing balance	**1,513**	**5,287,371**	**—**	**48,579**	**5,337,462**
Year ended 31 December 2012					
Cost					
Opening balance	22,532	11,590,387	288,947	89,204	11,991,069
Exchange differences	—	34,579	—	—	34,579
Transfer from work in progress	—	288,946	(288,946)	—	—
Additions	6,906	2,794,175	5,166	1,702	2,807,949
Disposals	—	(15,460)	—	—	(15,460)
Closing balance	**29,438**	**14,692,627**	**5,167**	**90,906**	**14,818,137**
Depreciation					
Opening balance	1,513	5,287,370	—	48,579	5,337,461
Depreciation for the year	(365)	(1,977,199)	—	(15,004)	(1,992,568)
Closing balance	**1,878**	**7,264,569**	**—**	**63,583**	**7,330,029**
Net book value 31 Dec 2012	**27,560**	**7,428,058**	**5,167**	**27,323**	**7,488,108**
Net book value 31 Dec 2011	**21,019**	**6,303,016**	**288,947**	**40,625**	**6,653,607**

The majority of property, plant and equipment relates to cable network (backbone, primary and secondary network, coaxial, fiber and optical equipment) and DTH end user equipment.

Based on the results of annual impairment test of goodwill and trademarks (refer to note 13), the management estimate that no impairment of property, plant and equipment existed as at 31 December 2012.

Leased assets

The Group leases internet protocol equipment, office premises, and transport and passenger vehicles under a number of cancellable finance lease agreements. Majority leases of vehicles provide the Group with the option to purchase the equipment at a beneficial price. All renovations of leased office space are accounted for as leasehold improvements and are depreciated over the period of five years.

In thousand of Serbian dinars (RSD)

12 Property, plant and equipment (Continued)

The carrying value of equipment and vehicles purchased under finance lease agreement is as follows:

	2012	2011
Total cost—capitalised finance leases	236,531	120,860
Accumulated depreciation	(81,230)	(62,197)
Net book amount	**155,301**	**58,663**

Present value of minimum lease payments is as follows:

	2012	2011
Not later than 1 year	59,205	66,174
Between 2 and 5 years	169,469	55,756
Present value of finance lease liability	**228,674**	**121,930**

Minimum lease payments are as follows:

	2012	2011
Not later than 1 year	83,937	69,373
Later than 1 year and not later than 3 years	153,453	60,791
	237,390	130,164
Future finance charges on finance leases	(8,716)	(8,234)
Present value of finance lease liability	**228,674**	**121,930**

Assets provided as security for loans

Bank borrowings provided to parent entity Broadband Investment are secured by the total amount of movable plant and equipment, except for assets held under finance lease which secure the finance lease obligations.

In thousand of Serbian dinars (RSD)

13 Intangible assets

	Software & Licenses	Trademark	Customer Relationship	Other intangibles	Goodwill	Total
Year ended 31 December 2011						
Cost						
Opening book amount	350,752	1,055,400	6,470,947	217,636	3,594,011	11,688,746
Exchange differences	(256)	—	—	—	(84)	(340)
Acquisition of subsidiary	—	—	97,316	—	95,119	192,435
Additions	60,817	—	—	93,158	—	153,975
Closing balance	**411,313**	**1,055,400**	**6,568,263**	**310,794**	**3,689,046**	**12,034,816**
Amortisation						
Opening balance	144,586	—	1,341,564	38,485	—	1,524,635
Amortisation for the year	(67,545)	—	(393,909)	(25,064)	—	(486,518)
Closing balance	**212,131**	**—**	**1,735,473**	**63,549**	**—**	**2,011,153**
Year ended 31 December 2012						
Cost						
Opening book amount	411,313	1,055,400	6,568,263	310,794	3,689,046	12,034,816
Exchange differences	1,631	—	—	—	874	2,505
Additions	126,702	—	—	96,507	—	223,209
Disposals	(441)	—	—	—	—	(441)
Closing balance	**539,205**	**1,055,400**	**6,568,263**	**407,301**	**3,689,920**	**12,260,089**
Amortisation						
Opening balance	212,131	—	1,735,472	63,549	—	2,011,152
Amortisation for the year	(83,138)	—	(393,011)	(32,926)	—	(509,075)
Closing balance	**295,269**	**—**	**2,128,483**	**96,475**	**—**	**2,520,227**
Net book value 31 Dec 2012	**243,936**	**1,055,400**	**4,439,780**	**310,826**	**3,689,920**	**9,739,862**
Net book value 31 Dec 2011	**199,182**	**1,055,400**	**4,832,790**	**247,245**	**3,689,046**	**10,023,663**

Additions to software and licences relate to SAP ERP information system, Video-On-Demand (VOD) information system and Voice-Over-Internet-protocol (VOIP) information systems software. Additions to other intangibles relate to subscriber acquisition costs capitalised as intangibles.

Assets provided as security for loans

As at 31 December 2012 bank loans provided to Group's parent entity Broadband Investment are guaranteed by pledge of trademarks.

Impairment testing for goodwill and trade mark

Due to nature of operations and organisation and the fact that material operations of the Group are in Serbia, the Group as a whole is considered as single CGU for the purpose of annual impairment testing.

The recoverable amount of a CGU is determined using value-in-use calculations. These calculations use pre-tax cash flow projections based on five-year financial budget. Cash flow beyond the five-year period is calculated on perpetuity bases.

Based on the results of impairment testing, the management estimate that no impairment of goodwill and trademark exists as at 31 December 2012.

In thousand of Serbian dinars (RSD)

13 Intangible assets (Continued)

Key assumptions used for discounted cash flow projections

Key assumptions used in the calculation of recoverable amounts are weighted average cost of capital, terminal value growth rate and adjusted operating margin. These assumptions are as follows:

	2012	2011
Adjusted operating margin	43.01%	44.33%
Growth rate[1]	2.00%	2.00%
WACC	12.02%	14.20%

(1) Weighted average growth rate used to extrapolate cash flows beyond the budget period

Budgeted margins are based on past performance and expectations of market development. The weighted average growth rates used are consistent with the forecasts included in the industry reports. The discount rates used are pre-tax and based on industry reports as of 31 December 2012 and leveraged by the debt margin calculated from the parent company's data. The management believes that calculation of debt margin based on the parent's company data is appropriate since capital market data for Serbia does not represent actual cost of funding. Assumptions used for value-in-use calculations (refer to the above table) changed to reflect current business environment as more information became available to the Company.

Reassessment of customer relationship average remaining useful lives

The Group has reviewed customer relationship (cable and DTH) useful lives as at 31 December 2012 since customer relationship valuation is based on churn rates of cable and DTH subscribers. Based on assessment, customer relationship useful lives remained unchanged (13 and 6 years for Cable and DTH customer base respectively).

14 Deferred tax assets and liabilities

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances, is presented below.

	2012	2011
Deferred tax assets		
Settled after more than 12 months	9,619	8,332
To be settled within 12 months	—	—
	9,619	**8,332**
Deferred tax liabilities		
To be settled after more than 12 months	1,411,159	470,654
To be settled within 12 months	—	—
Total	**1,411,159**	**470,654**

The net movement of the deferred income tax is as follows:

	2012	2011
Opening balance	462,321	465,877
Exchange differences	120	(264)
Charge in statement of comprehensive income	939,098	(3,292)
At 31 December	**1,401,539**	**462,321**

In thousand of Serbian dinars (RSD)

14 Deferred tax assets and liabilities (Continued)

	Trademark & Customer base	Accelerated depreciation	Non-current liabilities	Total
Deferred tax liability				
At 1 January 2011	**450,876**	**24,919**	**—**	**475,795**
Charged/(credited) to statement of comprehensive income	(10,271)	5,130	—	(5,141)
At 1 January 2012	**440,605**	**30,049**	**—**	**470,654**
Charged/(credited) to statement of comprehensive income	215,466	(6,651)	730,283	939,098
Exchange differences	—	1,407	—	1,407
At 31 December 2012	**656,071**	**24,805**	**730,283**	**1,411,159**

	Non-current assets	Non-current liabilities	Current assets	Tax loss carried forward	Total
Deferred tax assets					
At 1 January 2011	**1,065**	**6,507**	**541**	**1,806**	**9,918**
Charged/(credited) to statement of comprehensive income	(199)	(1,212)	(101)	(337)	(1,849)
Exchange differences	28	172	15	48	263
At 1 January 2012	**894**	**5,467**	**455**	**1,517**	**8,332**
Charged/(credited) to statement of comprehensive income	—	—	—	—	—
Exchange differences	136	833	69	248	1,287
At 31 December 2012	**1,030**	**6,300**	**525**	**1,765**	**9,619**

15 Inventories

	2012	2011
Materials and end-user equipment	753,017	256,480
Write down of materials	(37,216)	(13,564)
Total inventories	**715,801**	**242,915**

16 Financial instruments

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2012	2011
Long term loans	—	185,908
Trade and other receivables	2,456,747	1,868,128
Short term loans	609,035	204,634
Cash and cash equivalents	703,239	1,054,916
Total	**3,769,021**	**3,313,586**

In thousand of Serbian dinars (RSD)

16 Financial instruments (Continued)

The maximum exposure to credit risk for gross trade receivables at the reporting date by revenue stream generated was:

	2012	2011
Provision of service	3,000,526	2,282,061
Sale of end user equipment	160,740	159,598
Other receivables	44,340	27,243
Provision for impairment	(748,859)	(600,774)
Total	**2,456,747**	**1,868,128**

Impairment losses

The aging of gross trade receivables at the reporting date was:

	31 December 2012		31 December 2011	
	Gross	Impairment	Gross	Impairment
Up to 3 months	2,318,803	—	1,608,603	—
3 to 6 months	171,413	(33,469)	314,936	(55,411)
Over 6 months	715,390	(715,390)	545,363	(545,363)
Total	**3,205,606**	**(748,859)**	**2,468,902**	**(600,774)**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2012	2011
Opening balance	600,774	947,506
Charge for the period	178,375	114,977
Write-off	(30,290)	(439,099)
Collected previously written-off receivables	—	(22,610)
Balance at 31 December	**748,859**	**600,774**

The provision expense for impaired receivables has been included in other operating expenses in the statement of comprehensive income (note 9).

In thousand of Serbian dinars (RSD)

16 Financial instruments (Continued)

Liquidity risk

The following are the undiscounted contractual maturities of financial liabilities:

	Up to 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
31 December 2012				
Borrowings	347,655	679,581	4,200,663	333,038
Future interest payable	287,504	263,490	452,723	—
Finance lease liabilities	59,205	65,211	104,258	—
Trade&interest payables and accruals	3,307,530	—	—	—
Total	**4,001,894**	**1,008,282**	**4,757,644**	**333,038**
31 December 2011				
Borrowings	662,679	2,249,779	17,423,835	—
Future interest payable	2,847,508	3,237,786	4,808,066	—
Finance lease liabilities	66,174	32,650	23,106	—
Trade&interest payables and accruals	2,619,228	—	—	—
Total	**6,195,589**	**5,520,215**	**22,255,007**	**—**

Currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows:

	31 December 2012				
	RSD	EUR	USD	BAM	MKD
Trade receivables	1,311,859	831,241	98,480	189,691	25,476
Short term loans	108,621	478,842	—	21,572	—
Cash and cash equivalents	211,476	311,016	145,083	19,245	16,419
Total	**1,631,956**	**1,621,099**	**243,563**	**230,508**	**41,895**
Trade and other payables	1,840,365	941,335	449,431	59,831	16,568
Loans and borrowings	—	5,560,937	—	—	—
Finance lease liabilites	—	228,674	—	—	—
Total	**1,840,365**	**6,730,946**	**449,431**	**59,831**	**16,568**
Net exposure	**(208,409)**	**(5,109,847)**	**(205,868)**	**170,677**	**25,327**

In thousand of Serbian dinars (RSD)

16 Financial instruments (Continued)

Gross trade receivables which are denominated in foreign currency relate primarily to receivable due from related parties (Note 17) and DTH operating sales, sales of end-user equipment and DTH development support. Other receivables are primarily denominated in RSD.

	31 December 2011				
	RSD	EUR	USD	BAM	MKD
Trade receivables	1,187,131	567,337	21,549	78,313	13,798
Long term loans	—	181,206	—	—	—
Other financial assets	—	4,702	—	18,726	—
Cash and cash equivalents	460,830	401,235	166,911	21,761	4,179
Total	**1,647,961**	**1,154,480**	**188,460**	**118,800**	**17,977**
Trade and other payables	1,562,295	648,851	361,105	38,722	8,255
Loans and borrowings	—	20,336,293	—	—	—
Finance lease liabilites	—	121,930	—	—	—
Total	**1,562,295**	**21,107,074**	**361,105**	**38,722**	**8,255**
Net exposure	**85,666**	**(19,952,594)**	**(172,645)**	**80,078**	**9,722**

The Group's net exposure position in euros remained unchanged reflecting the existing financing structure.

At 31 December 2012, the principal official rates of exchange as determined by the National Bank of Serbia were as follows:

Currency	2012	2011
EUR	113.7183	104.6409
USD	86.1763	80.8662
BAM	58.1432	53.5020
HRK	15.0355	13.9087
MKD	1.8491	(1.7015)

Sensitivity analysis

Currency risk

As at 31 December 2012, if the currency had weakened/strengthened by 10% against the Euro with all the variables held constant, net profit for the year would have been RSD 478,027 thousand higher/lower (2011: RSD 1,995,259 thousand), mainly as a result of foreign exchange losses on translation of Euro denominated trade receivables, trade payables and Euro denominated borrowings.

As at 31 December 2012, if the currency had weakened/strengthened by 10% against the USD with all the variables held constant, net loss for the year would have been RSD 18,528 thousand higher/lower (2011: RSD 17,265 thousand), mainly as a result of foreign exchange losses on translation of USD denominated trade receivables and trade payables.

Interest rate risk

As at 31 December 2012, if interest rates on currency denominated borrowings (with floating rate) had been 1% higher with all other variables held constant, net loss for the year would have been RSD 47,051 thousand higher (2011: RSD 58,766 thousand), mainly as a result of higher interest expense on floating rate borrowings.

In thousand of Serbian dinars (RSD)

16 Financial instruments (Continued)

Fair value estimation

Financial instruments carried in the statement of financial position include cash and bank balances, trade and other receivables, trade and other payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The amounts disclosed in the consolidated financial statements approximate their fair value.

The Group's financial instruments are subject to fluctuations in foreign currency exchange and interest rates. The carrying values less impairment provision of trade receivables are assumed to approximate their fair values.

17 Trade and other receivables

	2012	2011
Trade receivables	2,366,891	1,969,151
Trade receivables—related parties (note 25)	794,375	472,508
Other receivables	44,340	27,243
Provision for impairment	(748,859)	(600,774)
Current portion	**2,456,747**	**1,868,128**

Trade receivables in the amount of RSD 2,123,673 thousand were pledged as collateral for loans granted to the Group's parent entity Broadband Investment.

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 16.

18 Prepayments

	2012	2011
Advance payments and prepaid expenses	602,680	283,041
Accrued income	69,941	48,544
Other prepayments	75,140	49,212
Total prepayments	**747,761**	**380,797**

Prepayments primarily relate to advance payments to local content providers and mobile operator for the construction of a part of backbone network in Serbia.

19 Cash and cash equivalents

Cash and cash equivalents comprise of the following:

	2012	2011
RSD accounts and cash on hand	211,476	460,830
Foreign currency accounts	491,763	594,086
Total cash and cash equivalents	**703,239**	**1,054,916**

The structure of cash held on foreign currency accounts is presented in note 16. Bank borrowings provided to the Group's parent Broadband Investment are secured on the total amount of cash and cash equivalents.

In thousand of Serbian dinars (RSD)

20 Capital and reserves

Registered capital

The Parent Company is a limited liability company and 100% of its registered capital is held by Broadband Investment d.o.o. domiciled in Belgrade, Serbia. Broadband Investment d.o.o. acquired 100% of ownership of 'Serbia Broadband—Srpske kablovske mreže' on 30 November 2012 from Adria Cable BV. The ultimate parent of the Group is Slovenia Broadband S.a.r.l. domiciled in Luxemburg, which controlled by Broadband Investments S.à r.l., which itself is an investee company owned in the majority by funds advised/managed by Mid Europa Partners LLP.

The registered capital of the Group is RSD 15,463,421 thousand (2011: RSD 3,335,691 thousand) comprising of RSD 12,127,769 thousand (2011: RSD 39 thousand) as money and RSD 3,335,652 thousand (2011: RSD 3,335,652 thousand) as contribution in kind as a waiver of liability (debt converted into capital). The Group converted share of shareholder loan and intra-group loans into equity during 2012 in the total amount of RSD 12,127,730 thousand. The Group capital is 100% pledged for the loans provided to parent entity Broadband Investment d.o.o. Belgrade.

21 Loans and borrowings

Long-term borrowings

Long-term borrowings by principal lender may be analysed as follows:

	2012	2011
Borrowings		
Intra Group Loan Tranche 1	—	113,189
Intra Group Loan Tranche 2	—	2,249,779
Intra Group Loan Tranche 3	42,904	2,360,428
Shareholder Loan	—	15,063,407
Shareholder Loan Tranche 3	119,012	—
Intra Group Loan Tranche 1	5,227,899	—
Intra Group Loan Tranche 2	171,122	—
Unicredit Bank—Refinancing	—	290,902
Unicredit Bank—CAPEX	—	227,175
Yapi Kredi Bank	—	31,413
Total borrowings	**5,560,937**	**20,336,293**
Less: current portion	(347,655)	(662,679)
Total long-term borrowings	**5,213,282**	**19,673,614**

Long-term debt by category of loan consists of the following:

Loan description	2012 nominal interest rate	31 December 2012
Shareholder Loan Tranche 3	2% if net profit positive	119,012
Intra Group Loan Tranche 3	2% if net profit positive	42,904
Intra Group Loan Tranche 1	3 month euribor + 5.35%	5,227,899
Intra Group Loan Tranche 2	2% if net profit positive	171,122
Total loans		**5,560,937**

In thousand of Serbian dinars (RSD)

21 Loans and borrowings (Continued)

Loan description	2011 nominal interest rate	31 December 2011
Intra Group Loan Tranche 1	3 month euribor + 2%	113,189
Intra Group Loan Tranche 2	3 month euribor + 2.75%	2,249,779
Intra Group Loan Tranche 3	6 month euribor + 10.75%	2,360,428
Shareholder Loan	fixed − 15.10%	15,063,407
Unicredit loan—Refinancing	1 month euribor + 1.75%	290,902
Unicredit loan—CAPEX	1 month euribor + 1.75%	227,175
Yapi Kredit Bank	3 month euribor + 1.30%	31,413
Total loans		**20,336,293**

Shareholder loan

As of 15 June 2007 the Group entered into a loan facility with its parent company Adria Cable B.V. The facility bears an interest rate per annum equal to 15.10%. All accrued and unpaid interest will be capitalised and added to the principle amount. The loan plus all unpaid interest is repayable in full in a single bullet instalment after 8 years of the facility. The Group may prepay the whole or any part of the facility, including (together with interest accrued thereon and any other amounts due or owing to the parent company Adria Cable B.V. at such time including break funding costs) at any time.

During 2012 the Group converted share of shareholder loan in the total amount of RSD 7,564,465 thousand into equity, and transferred share of shareholder loan to Adria Media B.V. (related party under common control) in the total amount of RSD 7,900,583 thousand through loan assignement agreements. As at 31 December 2012 the total principle amount outstanding of shareholder loan (renamed as Shareholder loan Tranche 3) is RSD 1,858,805 thousand. The loan is repayable in 51 years with interest dependent on net profit. Group made three repayments of shareholder loan during 2012 in the total amount of RSD 525,537 thousand.

Intra-group loans

On 20 June 2007, the Group entered into Intra-Group Loan with its former parent company Adria Cable B.V. for an aggregate principle amount of EUR 5,408,439 (Tranche 1), EUR 21,500,000 (Tranche 2) and EUR 18,000,000 (Tranche 3).

During 2012, the Group repaid Tranche 1 and converted principal amounts of Tranche 2 and Tranche 3 into equity in the total amount of RSD 4,563,265 thousand. Remaining amount of Tranche 3 in the amount of RSD 670,102 thousand was transferred to Adria Media B.V. through loan assignement agreement. Intra-group loan Tranche 1 is repayable in semiannual instalments until December 2017, while other loans are due in November 2063.

Intra-group loans (Shareholder loan 3, Intra-group loan Tranche 2 and Intra-group loan Tranche 3), which are due in 2063, were discounted by market interest rate 5.54%, and relevant present values are disclosed within long-term borrowings.

CAPEX and refinancing loans

Capex, refinancing and Yapi Kredi Bank loans were repaid during 2012.

The maturity of non-current borrowings is presented in note 16. Fair value of all borrowings at inception was calculated and it approximates the carrying amounts shown in the consolidated financial statements. The amortised cost calculation of the borrowings included capitalised interest.

During 2012, SBB repaid bank and shareholder loans in total amount of RSD 1,242,702 thousand and paid interest thereon in the amount of RSD 228,865 thousand.

In thousand of Serbian dinars (RSD)

21 Loans and borrowings (Continued)

Short-term borrowings

Short-term borrowings relates to current portion of Intra-group loan from Adria Media B.V. in the total amount of RSD 347,655 thousand.

22 Employee benefits

Balance sheet obligation for:

	2012	2011
Retirement benefits	24,574	22,123

Statement of comprehensive income charge for:

	2012	2011
Retirement benefits	3,310	8,782

The Group has an obligation under the current legislation to pay the greatest of a) three individual monthly salaries, b) three average monthly salaries in the Company or c) three average monthly salaries in the Republic of Serbia at the time of payment.

The obligation in the amount of RSD 24,574 thousand was calculated on assumptions used by actuary.

The amounts recognised in the balance sheet are determined as follows:

	2012	2011
Present value of retirement benefits	19,759	14,919
	19,759	14,919
Unrecognised net gain	(2,248)	(898)
Unrecognised past service cost	7,063	8,102
Net liability	**24,574**	**22,123**

The movement in the retirement benefits over the year is as follows:

	2012	2011
Net liability at the beginning of the period	22,123	14,468
Benefits paid directly	(859)	(1,127)
Total expense recognised in income statement	3,310	8,782
Net liability before adjustment	24,574	22,123
Actuarial gain		
Net liability	**24,574**	**22,123**

In thousand of Serbian dinars (RSD)

22 Employee benefits (Continued)

The amounts recognised in the statement of comprehensive income are as follows:

	2012	2011
Service cost	3,230	6,024
Interest cost	1,119	1,623
Amortisation of unrecognised actuarial loss/gain	—	265
Amortisation of past service cost	(1,039)	385
Regular charge	3,310	8,297
Settlement/Curtailment/Termination gain	—	485
Total charge	**3,310**	**8,782**

Reconciliation of benefit obligation

	2012	2011
Defined benefit obligation at start of period	14,919	29,044
Service cost	3,230	6,024
Interest Cost	1,119	1,623
Benefits paid directly by the Company	(859)	(1,127)
Extra payments or expenses/income	—	439
Past service cost arising over the past period	—	(12,911)
Actuarial Gain/Loss	1,350	(8,173)
Defined benefit obligation at end of period	**19,759**	**14,919**

The sensitivity of defined benefit obligation to changes in the weighted principal assumptions is as follows:

If the discount rate used was 6.5% (rather than 7.15%) per year, then defined benefit obligation (DBO) would increase by about 13%.

If pay increased by 5.5% (rather than 6.0%) per year in the long term, then defined benefit obligation (DBO) would decrease by about 8.8%.

The principal actuarial assumptions used are presented below:

	2012	2011
Interest rate	7.15%	7.50%
Future salary increases	6.00%	6.00%
Inflation rate	4.00%	4.00%
Employee turnover	0%	0%
Retirement age (male/female)	65/60	65/60
Mortality rate	PA 90 mortality table for male and female adjusted by 2 years	PA 90 mortality table for male and female adjusted by 2 years

23 Deferred revenue

	2012	2011
Up to 1 year	**37,825**	**79,538**
Between 1 and 2 years	63,853	64,986
Between 2 and 5 years	112,905	129,180

In thousand of Serbian dinars (RSD)

23 Deferred revenue (Continued)

	2012	2011
Over 5 years	687,584	672,625
Total over 1 year	**864,342**	**866,791**
Total deferred revenue	**902,167**	**946,329**

Deferred revenue arises from CATV and DTH connection fees and long-term operating lease arrangement with local mobile operators. Connection fees are deferred over the remaining useful life of cable customer base.

24 Trade and other payables

	2012	2011
Trade payables	1,870,929	1,588,955
Trade payables—related parties (note 25)	84,374	30,434
Bills of exchange	795,644	372,092
Received advances	204,597	182,805
Interest payable	26,185	149,551
Accrued liabilities and other creditors	167,640	126,429
Other taxes payable	158,161	168,962
Total trade and other payables	**3,307,530**	**2,619,228**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 16.

Total interest payables in the amount of RSD 26,185 thousand (2011: RSD 147,967 thousand) relate to interest on borrowings from related parties.

25 Related parties

Generally parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosure". In considering each possible related party relationship, attention is focused on the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related parties' relationships for those parties with whom the Group entered into significant transactions or had significant balances outstanding as at 31 December 2012 detailed below. Transactions with related parties were entered into during the ordinary course of business on normal commercial terms.

In thousand of Serbian dinars (RSD)

25 Related parties (Continued)

Balances and transactions with related parties of the Group consist of the following:

i) Balances with related parties

	Relationship	2012	2011
Borrowings			
Adria Cable B.V.	Under common control	161,916	19,786,803
Adria Media B.V.	Under common control	5,399,021	—
		5,560,937	**19,786,803**
Short term loans			
Adria Cable S.a.r.l.	Under common control	—	62,327
Adria Cable B.V.	Under common control	132,184	57,249
Adria Media B.V.	Under common control	69,385	66,332
Telemach d.o.o. Slovenia	Under common control	277,273	—
Telemach d.o.o. Bosnia	Under common control	21,572	18,726
IKO Media d.o.o. Serbia	Under common control	108,621	—
		609,035	**204,634**
Trade receivables			
Totalna televizija d.o.o. Croatia	Under common control	416,762	292,964
Telemach d.o.o. Slovenia	Under common control	44,010	44,477
Telemach d.o.o. Bosnia	Under common control	315,737	116,292
KDS d.o.o. Serbia	Under common control	15,155	12,796
Cinemania d.o.o. Serbia	Under common control	—	4,466
Absolut OK d.o.o. Serbia	Under common control	2,711	1,513
		794,375	**472,508**
Interest receivable			
Adria Cable S.a.r.l.	Under common control	—	392
Adria Cable B.V.	Under common control	734	3,117
Adria Media B.V.	Under common control	471	451
		1,206	**3,960**
Trade payables			
Telemach d.o.o. Slovenia	Under common control	79,363	30,273
Telemach d.o.o. Bosnia	Under common control	5,011	161
		84,374	**30,434**
Interest payable			
Adria Cable B.V.	Under common control	—	149,551
Adria Media B.V.	Under common control	26,185	—
		26,185	**149,551**

In thousand of Serbian dinars (RSD)

25 Related parties (Continued)

ii) Transactions with related parties

	Relationship	2012	2011
Sales			
Totalna televizija d.o.o. Croatia	Under common control	241,858	130,271
Telemach d.o.o. Slovenia	Under common control	619,235	594,722
Telemach d.o.o. Bosnia	Under common control	230,613	95,215
KDS d.o.o. Serbia	Under common control	178,770	13,705
Cinemania d.o.o. Serbia	Under common control	31,979	41,178
Absolut OK d.o.o. Serbia	Under common control	14,826	13,639
		1,317,281	**888,730**
Other operating expenses			
Telemach d.o.o. Slovenia	Under common control	231,026	19,034
Telemach d.o.o. Bosnia	Under common control	23,881	—
		254,907	**19,034**
Materials cost			
Totalna televizija d.o.o. Croatia	Under common control	—	67,607
		—	**67,607**
Interest income			
Adria Cable B.V.	Under common control	734	3,117
		734	**3,117**
Interest expense			
Adria Cable B.V.	Under common control	1,984,193	2,435,304
Adria Media B.V.	Under common control	26,170	—
		2,010,364	**2,435,304**

iii) Directors' compensation

Compensation paid to directors for their services is made up of a contractual salary and a performance bonus depending on operating results. There are no post-employment benefits and termination benefits. Total directors' compensation amounted to RSD 85,853 thousand (2011: RSD 74,581 thousand).

26 Commitments

Capital commitments

As at 31 December the Group has commited to purchase property, plant and equipment in 2013 for RSD 88,594 thousand. The Group do not have any other capital commitments as at balance sheet date.

27 Operating leases

The Group leases various premises under cancellable operating lease agreements. The Group is required to give one to six month notice for the termination of those agreements. The lease expenditure charged to the statement of comprehensive income during the period is disclosed in note 9 under other operating expenses. The Group does not have any contingent rent arrangement.

28 Regulatory and legal matters

Industry regulation

The Group provides large number of channels to its subscribers including foreign satellite channels, national and local channels. Some of these channels are terrestrial, distribution of which is required by law and others are satellite. The Group has signed broadcasting contracts for all channels it broadcasts, except for some channels which have national and regional licence and ones which are free to air for distribution.

Anti-trust regulation

During 2010, the Commission for Protection of the Competition (the ‘‘Commission’’) issued a resolution stating that SBB abused its dominant position on the ‘market of distribution of TV programme. The company appealed to the Supreme Court, on grounds of errors in law and errors in process, which cancelled this resolution. The Commission reissued the same resolution again and SBB made the second appeal to court which has not yet been answered. Management do not expect that effects of this legal action could have material effect on Group’s financial position.

Legal matters

The Group is involved in a number of legal cases in the total amount of RSD 80,807 thousand (2011: RSD 17,685 thousand) for which management believes that there is a remote probability of negative outcome, thus no provision has been recognised.

29 Subsequent events

Subsequent to 31 December 2012 the Group commenced the process of legal merger of SBB with Group’s parent entity Broadband Investment.

The Group’s management holds that they are not aware of any significant post balance sheet events that could affect the financial statements for 2012 or require separate disclosure.

Telemach d.o.o. Sarajevo

Financial Statements

As of December 31, 2011

Contents

Independent Auditors' report to the stakeholders of Telemach d.o.o.

We have audited the accompanying financial statements of Telemach d.o.o. Sarajevo ("the Company"), which comprise the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG B-H d.o.o.
Registered auditors
Zmaja od Bosne 7-7A/III
71000 Sarajevo
Bosnia and Herzegovina

D.O.O. ZA REVIZIJU KPMG B-H 1 SARAJEVO

31 May 2012

Telemach d.o.o. Sarajevo

Statement of comprehensive income

in BAM'000	Note	2011	2010*
Revenue	1.4	**14,726**	**5,873**
Other revenue	1.5	187	34
Content costs		(3,028)	(1,064)
Internet costs		(998)	—
Cost of material and services	1.6	(1,475)	(870)
Staff costs	1.7	(1,760)	(924)
Amortisation and depreciation		(5,123)	(1,424)
Other operating expenses	1.8	(3,209)	(1,216)
Operating result		**(680)**	**409**
Finance income	1.9	119	20
Finance costs	1.9	(510)	(127)
Net finance costs		**(391)**	**(107)**
(Loss) / profit before tax		**(1,071)**	**302**
Income tax expense	1.10	—	(55)
(Loss) / profit for the year		**(1,071)**	**247**
Other comprehensive income		—	—
Total comprehensive (loss) / profit		**(1,071)**	**247**

* Corresponding information do not include Elob CATV and KT Global Net which were merged with Telemach at 1 January 2011.

Telemach d.o.o. Sarajevo

Statement of financial position

in BAM'000	Note	2011	2010*
Assets			
Property, plant and equipment	1.11	22,377	13,312
Intangible assets	1.12	783	629
Deposits (restricted)	1.16	—	150
Non-current assets		**23,160**	**14,091**
Inventories	1.13	115	176
Trade and other receivables	1.14	3,683	2,059
Cash and cash equivalents	1.15	563	173
Deposits (restricted)	1.16	—	2,351
Prepaid income tax		153	153
Current assets		**4,514**	**4,912**
Total assets		**27,674**	**19,003**
Equity			
Registered capital	1.17	65	12
Retained earnings		6,342	5,783
Total equity		**6,407**	**5,795**
Liabilities			
Loans and borrowings	1.18	8,254	3,789
Employee benefits	1.19	20	—
Total non-current liabilities		**8,274**	**3,789**
Loans and borrowings	1.18	3,831	150
Employee benefits	1.19	240	91
Trade and other payables	1.20	8,642	8,958
Provisions	1.21	280	220
Total current liabilities		**12,993**	**9,419**
Total equity and liabilities		**27,674**	**19,003**

* Corresponding information do not include Elob CATV and KT Global Net which were merged with Telemach at 1 January 2011.

Telemach d.o.o. Sarajevo

Statement of changes in equity

in BAM'000	Issued capital	Retained earnings	Total equity
Balance as at 1 January 2010	**12**	**5,536**	**5,548**
Profit for the year	—	247	247
Other comprehensive income	—	—	—
Total comprehensive income for the year	**—**	**247**	**247**
Balance as at 31 December 2010	**12**	**5,783**	**5,795**
Balance as at 1 January 2011	**12**	**5,783**	**5,795**
Effects of merger *(note 1.3)*	53	1,630	1,683
(Loss) for the year	—	(1,071)	(1,071)
Other comprehensive income	—	—	—
Total comprehensive income for the year	**—**	**(1,071)**	**(1,071)**
Balance as at 31 December 2011	**65**	**6,342**	**6,407**

Telemach d.o.o. Sarajevo

Statement of cash flows

in BAM'000	2011	2010*
Cash flows from operating activities		
(Loss) / Profit after tax	(1,071)	247
Adjustments for:		
Amortisation and depreciation	5,123	1,424
Loss on disposal of property, plant and equipment	3	18
Impairment of receivables	163	45
Net finance cost	391	107
Income tax expense	—	55
	4,609	**1,896**
Changes in:		
Trade and other receivables	(1,787)	(1,467)
Trade and other payables	(316)	1,873
Inventories	61	13
Employee benefits	169	91
Provisions	60	220
	2,796	**2,626**
Interest paid	(292)	(7)
Income tax paid	—	(192)
Net cash from operating activities	**2,504**	**2,427**
Cash flows from investing activities		
Interest received	2	2
Purchase of property, plant and equipment	(10,133)	(6,024)
Purchase of intangible assets	(279)	(645)
Net cash used in investing activities	**(10,410)**	**(6,667)**
Cash flows from financing activities		
Dividends paid	—	(209)
Proceeds from loans and borrowings, net	8,146	3,840
Increase / (decrease) in deposits	150	(150)
Net cash used in financing activities	**8,296**	**3,481**
Net increase in cash and cash equivalents	**390**	**(759)**
Cash and cash equivalents as at 1 January	173	932
Cash and cash equivalents as at 31 December	**563**	**173**

* Corresponding information do not include Elob CATV and KT Global Net which were merged with Telemach at 1 January 2011.

1 Notes to financial statements

Reporting entity

Telemach d.o.o. is headquartered in Sarajevo, Bosnia and Herzegovina. The address is at Džemala Bijedića Street 216, Sarajevo, Bosnia and Herzegovina. The principal activity of the Company is provision of cable and digital TV services, internet and fixed telephony.

1.1 Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Management on 31 May 2012.

Basis of measurement

The financial statements have been prepared on the historical cost basis except where stated otherwise.

Functional and presentation currency

These financial statements are prepared in the currency of Bosnia and Herzegovina, Convertible marks (BAM), which is the Company's functional currency. All financial information presented in Convertible marks has been rounded to the nearest thousand.

Merger accounting

Legal entities Elob CATV d.o.o. and KT Global Net d.o.o. merged with the Company at 1 January 2011. Predecessor method of accounting is used to account for the merger of entities under common control. The carrying value of assets and liabilities of the predecessor entities are transferred as balances in the merged entities. Where relevant, the financial statements indicate "the effects of the merger," which reflect the transactions under common control. Furthermore, corresponding figures include financial information of Telemach only and are not adjusted for merger retrospectively. Intercompany transactions and balances are eliminated on the date of merger.

Use of estimates and judgements

The preparation of financial statements requires Management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Going concern

Financial statements have been prepared under the assumption that the Company will continue to operate as a going concern despite negative net working capital, as explained in note 1.25.

1.2 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Certain comparative information has been reclassified to conform to the current year presentation.

1 Notes to financial statements (Continued)

a) Foreign currency transactions

Transactions in foreign currency are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into functional currency at foreign exchange rates ruling at the dates at which the values were determined. Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

b) Financial instruments

Financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, that is, the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents for the purpose of preparation of cash flow statement and balance sheet comprise cash balances and call deposits.

Trade and other receivables are measured at amortised costs less impairment. Trade and other payables are measured at amortised cost. Interest bearing loans and borrowings are recognised initially at fair value of the proceeds received, less attributable transaction costs. In subsequent periods, interest bearing loans and borrowings are stated at amortised cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings on an effective interest basis.

c) Property, plant and equipment

Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Assets in the course of construction are not depreciated.

The estimated useful lives are as follows:

Office premises	33 years
Network infrastructure	10 years
Cable network, equipment and vehicles	5 - 10 years

d) Intangible assets

Intangible assets are measured initially at cost less any accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on capitalised intangible assets is capitalised only if it is probable that it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives are as follows:

Software	5 years
Leasehold improvements	3 years

e) Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Inventories are valued based on purchase price which includes the costs of bringing the inventories in condition ready for use, using the weighted average cost principle.

f) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Leases other than finance leases are classified as operating leases.

g) Impairment

The carrying amounts of the Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss in respect of a held-to-maturity securities or receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

h) Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

i) Revenue

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue generated by the delivery of analogue cable and digital TV services, Internet and telephony are recognised when services have been provided, the costs can be measured reliably and the Company is not obliged to provide further service. All installation fee revenue and related costs with respect to reconnection and disconnection are recognised in the period in which the connection or reconnection occurs.

j) Employee benefits

Liabilities for wages and contributions are recognised as an expense in the statement of comprehensive income as incurred. In accordance with local regulations the Company's employees are entitled to compensation at retirement, which is calculated depending on factors such as age, the years of employment and salaries they receive from the Company. The costs of long-term benefits for employees are calculated at the time they are incurred. The statement of financial position includes the present value of liabilities.

k) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and positive changes in the fair value of financial instruments at fair value through profit or loss. Interest income is recognised as it accrues in statement of comprehensive income, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and negative changes in the fair value of financial instruments at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the statement of comprehensive income using the effective interest method. Foreign currency gains and losses are reported on a gross basis.

l) Income tax

Income tax comprises current tax and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years. Deferred tax is providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements. Management believes that none of these will have a significant effect on the financial statements of the Company in future period.

1.3 Merger

Entities under common control Elob CATV d.o.o. and KT Global Net d.o.o were merged to the Company as at 1 January 2011. On that date following assets and liabilities were merged:

in BAM'000	Elob CATV	KT Global Net	Total
Non-current assets (*note 1.11* and *1.12*)	6,069	146	6,215
Current assets	1,149	446	1,595
Current liabilities	(5,776)	(291)	(6,067)
Provisions (*note 1.21*)	(60)	—	(60)
Total net assets	**1,382**	**301**	**1,683**
Issued capital (*note 1.17*)	51	2	53
Retained earnings	1,331	299	1,630
Total equity	**1,382**	**301**	**1,683**

1 Notes to financial statements (Continued)

1.4 Revenue

in BAM'000	2011	2010
Cable basic and digital TV service and internet	12,306	3,500
Sale of material and equipment	706	447
Administrative customer support services	701	447
Lease of equipment	536	153
Rental of infrastructure and optical network	299	1,219
Connection fees	174	90
Re-connection fees	—	17
Voice services	4	—
Total	**14,726**	**5,873**

1.5 Other revenue

in BAM'000	2011	2010
Written off liabilities	92	2
Other revenue	95	32
Total	**187**	**34**

Other revenue mostly comprises inventory surpluses, penalty fees, reimbursement of damages and other income.

1.6 Cost of material and services

in BAM'000	2011	2010
Material and goods	1,087	536
Energy costs	236	108
External services costs	27	168
Maintenance services costs	125	58
Total	**1,475**	**870**

1.7 Staff costs

in BAM'000	2011	2010
Gross salaries	1,724	771
Food allowance	14	145
Transportation allowance	22	8
Total	**1,760**	**924**

The number of employees at the yearend was 168 (2010: 96 employees). Staff costs comprise BAM 332 thousand (2010: BAM 288 thousand) of defined pension and health contributions paid to Pension Fund of the Federation of Bosnia and Herzegovina. Contributions are calculated as a percentage of employee's gross salaries.

1 Notes to financial statements (Continued)

1.8 Other operating expenses

in BAM'000	2011	2010
Rental costs	453	103
Advertising and marketing costs	367	333
Phone and postal services	338	53
External sevices	270	—
Impairment of receivables	163	45
Bank charges	132	92
Entertainment	88	13
Insurance costs	70	12
Administrative charges	51	21
Consultancy fees	45	108
Other services	54	16
Travel allowances	38	23
Contributions to chambers of commerce	27	61
Spare parts and small inventory	16	7
Loss on disposal of non-current assets	3	18
Other costs	1,094	311
Total	**3,209**	**1,216**

Other costs mostly comprise administrative and other charges, inventory shortages, donations, penalties and similar other costs.

1.9 Finance income and costs

in BAM'000	2011	2010
Interest income	2	2
Foreign exchange gains	117	18
Total finance income	**119**	**20**
Interest costs	(292)	(7)
Foreign exchange losses	(218)	(120)
Total finance costs	**(510)**	**(127)**
Net finance costs	**(391)**	**(107)**

1.10 Income tax

Reconciliation of current income tax expense

in BAM'000	2011	2010
(Loss) / Profit before tax	**(1,071)**	**302**
Tax at statutory rate 10%	(107)	30
Non-deductible expenses	30	25
Tax losses not recognised as tax assets	77	—
Income tax expense	**—**	**55**
Effective tax rate	—	18.3%

Tax losses have not been recognised as a deferred tax asset as it is not certain that future taxable profits will be available to utilise the unused tax losses. Tax losses may be carried forward over a period of five years starting from the year in which the loss was incurred. Tax deductible losses, not recognised as deferred tax assets, in the amount of BAM 77 thousand will expire in 2016.

1 Notes to financial statements (Continued)

1.11 Property, plant and equipment

in BAM'000	Buildings	Network infrastructure	Cable network equipment and vehicles	Assets under construction	Total
Cost					
As at 1 January 2010	**191**	**2,028**	**4,878**	**190**	**7,287**
Additions	—	—	—	10,469	10,469
Transfers	—	(226)	226	—	—
Disposals	—	—	(50)	—	(50)
Transfers	—	646	7,051	(7,697)	—
As at 31 December 2010	**191**	**2,448**	**12,105**	**2,962**	**17,706**
As at 1 January 2011	**191**	**2,448**	**12,105**	**2,962**	**17,706**
Additions	—	—	—	7,851	7,851
Effects of merger *(note 1.3)*	183	9,492	235	330	10,240
Disposals	—	—	(13)	—	(13)
Transfers	—	8,623	316	(8,939)	—
As at 31 December 2011	**374**	**20,563**	**12,643**	**2,204**	**35,784**
Accumulated depreciation and impairment losses					
As at 1 January 2010	**12**	**217**	**2,578**	**—**	**2,807**
Charge for the year	6	188	1,210	—	1,404
Transfers	—	(2)	217	—	215
Disposals	—	—	(32)	—	(32)
As at 31 December 2010	**18**	**403**	**3,973**	**—**	**4,394**
As at 1 January 2011	**18**	**403**	**3,973**	**—**	**4,394**
Charge for the year	11	1,714	3,190	—	4,915
Effects of merger *(note 1.3)*	17	4,091	—	—	4,108
Disposals	—	—	(10)	—	(10)
As at 31 December 2011	**46**	**6,208**	**7,153**	**—**	**13,407**
Carrying value					
As at 1 January 2010	179	1,811	2,300	190	4,480
As at 31 December 2010	173	2,045	8,132	2,962	13,312
As at 1 January 2011	**173**	**2,045**	**8,132**	**2,962**	**13,312**
As at 31 December 2011	**328**	**14,355**	**5,490**	**2,204**	**22,377**

Assets under construction as at 31 December 2011 relate to network equipment which has not been installed.

As at 31 December 2011 equipment with carrying amount of BAM 6,750 thousand (2010: BAM 5,679 thousand) is pledged as collateral to secure general revolving loan agreements with NLB and Hypo bank.

The Company leases certain assets under finance lease agreements. Leased assets secure lease obligation (*note 1.18*). The total carrying value book value of leased equipment and vehicles as at 31 December 2011 amounts to BAM 50 thousand (2010:—).

1 Notes to financial statements (Continued)

1.12 Intangible assets

in BAM'000	Software	Leasehold improvements	Total
Cost			
As at 1 January 2010	**20**	**—**	**20**
Additions	558	87	645
As at 31 December 2010	**578**	**87**	**665**
As at 1 January 2011	**578**	**87**	**665**
Additions	—	279	279
Effects of merger *(note 1.3)*	207	13	220
Transfers	276	(276)	—
As at 31 December 2011	**1,061**	**103**	**1,164**
Accumulated amortisation and impairment losses			
As at 1 January 2010	**16**	**—**	**16**
Charge for the year	18	2	20
As at 31 December 2010	**34**	**2**	**36**
As at 1 January 2011	**34**	**2**	**36**
Charge for the year	189	19	208
Effects of merger *(note 1.3)*	130	7	137
As at 31 December 2011	**353**	**28**	**381**
Carrying value			
As at 1 January 2010	4	—	4
As at 31 December 2010	544	85	629
As at 1 January 2011	**544**	**85**	**629**
As at 31 December 2011	**708**	**75**	**783**

1.13 Inventories

in BAM'000	2011	2010
Material	100	159
Spare parts and tools	15	17
Total	115	176

1.14 Trade and other receivables

in BAM'000	2011	2010
Trade receivables—gross	3,925	887
Trade receivables—impairment	(495)	(63)
Trade receivables—net	**3,430**	**824**
Receivables for VAT and prepayments	103	1,085
Other receivables	150	150
Total	**3,683**	**2,059**

1.15 Cash and cash equivalents

in BAM'000	2011	2010
Cash with banks	549	168
Cash in hand	14	5
Total	**563**	**173**

1 Notes to financial statements (Continued)

1.16 Deposits (restricted)

in BAM'000	2011	2010
Non-current deposits	—	150
Curent deposits with bank	—	2,351
Total	**—**	**2,501**

Restricted deposits were given as security for bank loans and issued letters of credit.

1.17 Equity

in BAM'000	2011	2010
Issued capital	12	12
Effects of merger *(note 1.3)*	53	—
Total	**65**	**12**

Parent company Bosnia Broadband S.a.r.l., Luxembourg is the 100% owner of equity in Telemach and is controlled by Slovenia Broadband S.à r.l., which is controlled by Broadband Investments S.à r.l., which itself is an investee company owned in the majority by funds advised/managed by Mid Europa Partners LLP.

1.18 Loans and borrowings

in BAM'000	2011	2010
Non-current		
Loans from related parties—unsecured(i)	8,229	3,789
Finance lease(iv)	25	—
Total	**8,254**	**3,789**
Curent		
Loans from bank—secured(ii)	3,365	150
Borrowings from related parties—(iii)	450	—
Finance lease(iv)	16	—
Total	**3,831**	**150**
Total	**12,085**	**3,939**

(i) The long term unsecured loans from parent company are denominated in EUR, due in 2020 and bear annual interest rate of 5% starting from 2012.

(ii) Revolving loan tranches from Hypo Alpe-Adria bank (approved in the total amount of BAM 3 million) and NLB Tuzlanska bank (approved in the total amount of BAM 2 million) are due in September 2012 and November 2013 respectively. Variable interest rate on Hypo-Alpe-Adria bank exposure is 8.5% and on NLB Tuzlanska bank exposure 8.35%. The loans are secured by equipment pledge *(note 1.11)*.

(iii) Borrowings from related parties relate to TOTAL TV BH in the amount of BAM 350 thousand and Monet in the amount of BAM 100 thousand. Borrowings are unsecured and bear annual interest of 5%.

(iv) The company has three active finance lease agreements in 2011 with UniCredit leasing. Repayment schedule as at 31 December 2012 is presented below:

in BAM'V00	Repayment	Principal	Interest
Up to one year	18	16	2
From 1 to 5 years	28	25	3
Total	**46**	**41**	**5**

1 Notes to financial statements (Continued)

1.19 Employee benefits

in BAM'000	2011	2010
Severance—non-current portion	20	—
Liabilities for salaries—current portion	240	91
Total	**260**	**91**

The company used actuarial calculations for determination of present value of severance payments to employees. Main assumptions are:

- Discount rate: 7.5%
- Long term inflation rate: 4%
- Average growth of monthly salaries: 6%
- Age of retirement: 65 years for men and 60 for women
- Adjustment for staff fluctuation was not considered due to lack of historical data.

1.20 Trade and other payables

in BAM'000	2011	2010
Trade payables	4,021	8,005
Liabilities to related parties	3,838	436
Accrued liabilities	651	437
Other liabilities	132	80
Total	**8,642**	**8,958**

1.21 Provisions

in BAM'000	2011	2010
Opening balance as at 1 January	220	—
Effects of merger *(note 1.3)*	60	—
Recognised as expense	—	220
Balance as at 31 December	**280**	**220**

The Company had provided for amounts based on its best estimate of additional liabilities that may likely arise from contractual and other obligations.

1.22 Financial instruments

The Company has exposure to the following financial risks from its use of financial instruments:

- credit risk
- liquidity risk and
- market risk.

The Company's risk management policy is focused on minimisation of potential adverse impacts on Company's financial position and operations in the environment of unpredictable financial markets.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arrises principally from the Company's cash and cash equivalents, bank deposits and receivables from legal entities and natural persons.

1 Notes to financial statements (Continued)

The company has established procedures for managing credit risk on entity level. The amount of credit exposure for each customer is managed through disconnection of service.

The total net book value of financial assets presents the maximum credit exposure. The maximum credit exposure as at the reporting date is as follows:

in BAM'000	2011	2010
Cash and cash equivalents (*note 1.15*)	549	168
Trade and other receivables (*note 1.14*)	3,683	2,059
Deposits—restricted (*note 1.16*)	—	2,501
Total	**4,232**	**4,728**

Trade receivables

The company has limited exposure to individual customers due to serving large subscriber base (physical persons and legal entities) whose individual amounts of receivables do not affect the general credit risk exposure.

Impairment of receivables

Ageing structure of trade receivables is presented below:

in BAM'000	2011	2010
Not past due	2,197	1,729
Past due 0 - 90 days	1,074	248
Past due 91 - 180 days	177	66
Past due 181 - 360 days	235	16
Total	**3,683**	**2,059**

Movement in impairment of receivables is as follows:

in BAM'000	2011	2010
Opening balance at 1 January (including effects of merger)	427	18
Expense in income statement *(note 1.8)*	163	45
Amounts written off	(95)	—
Total	**495**	**63**

Market risk

Interest rate risk

The company is exposed to various risks when changes in interest rates affect its financial position and cash flows. Company operations are affected by changes in interest rates on interest bearing assets (including investments) as well as the amount and timing of repayments of interest bearing liabilities.

1 Notes to financial statements (Continued)

The following table presents the exposure to interest bearing risk:

in BAM'000	2011	2010
Fixed rate instruments		
Financial assets	—	2,501
Financial liabilities	8,679	3,789
Total	**8,679**	**6,290**
Variable rate instruments		
Financial assets	—	—
Financial liabilities	3,406	150
Total	**3,406**	**150**

The Company's interest rate risk derives from bank loans. The loans were approved with variable interest rates and expose the Company to changes in cash flows. During 2011, the total loan liabilities bore fixed and variable interest rate linked to Euribor. Loans from parent entity, denominated in foreign currency, bear fixed interest rate.

The Company constantly monitors and analyses exposure to interest rate risk taking into account the alternative sources of financing and refinancing, primarily for bank loans as the most significant interest bearing liability. Risk management activities and policies aims to minimise net interest costs, taking that market interest rates are in line with Company's business and financial strategy.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset, and inability to realise the financial asset at reasonable price in reasonable time period.

The Company's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due. The Company constantly monitors and analyses exposure to liquidity risk through identification and monitoring of changes in sources of financing required for the implementation of business strategy.

The Company has access to various sources of financing. The funds are sourced through short and long term loans.

The following table presents the maturity of assets and liabilities, with amounts due, as at 31 December 2011:

in BAM'000	Up to 1 year	From 2 to 3 years	Over 3 years	Total
31 December 2011				
Property, plant and equipment	—	—	22,377	22,377
Intangible assets	—	—	783	783
Inventories	115	—	—	115
Cash and cash equivalents	563	—	—	563
Trade and other receivables	3,683	—	—	3,683
Prepaid income tax	153	—	—	153
Total	**4,514**	**—**	**23,160**	**27,674**
Equity	—	—	6,407	6,407
Loans and borrowings	3,831	25	8,229	12,085
Employee benefits	240	—	20	260
Provisions	280	—	—	280
Trade and other payables	8,642	—	—	8,642
Total	**12,993**	**25**	**14,656**	**27,674**
Maturity gap as at 31 December	**(8,479)**	**(25)**	**8,504**	**—**

1 Notes to financial statements (Continued)

The Company has short term negative current assets due to the structure of financing. It has the following approved, but unused, credit lines and mechanisms to manage short term liquidity:

- unused amount of BAM 1,040 thousand approved from local banks,
- ability to prolong payments to related parties in the total amount of BAM 3,838 thousand (*note 1.23*),
- additional available income and cash generating capacities derived from prospective merger of entities under common control (*note 1.27*).

The following table presents the maturity of assets and liabilities, with amounts due, as at 31 December 2010:

in BAM'000	Up to 1 year	From 2 to 3 years	Over 3 years	Total
31 December 2010				
Property, plant and equipment	—	—	13,312	13,312
Intangible assets	—	—	629	629
Inventories	176	—	—	176
Cash and cash equivalents	173	—	—	173
Trade and other receivables	2,059	—	—	2,059
Prepaid income tax	153	—	—	153
Deposits—restricted	2,501	—	—	2,501
Total	**5,062**	**—**	**13,941**	**19,003**
Equity	—	—	5,795	5,795
Loans and borrowings	150	—	3,789	3,939
Provisions	220	—	—	220
Employee benefits	91	—	—	91
Trade and other payables	8,958	—	—	8,958
Total	**9,419**	**—**	**9,584**	**19,003**
Maturity gap as at 31 December	**(4,357)**	**—**	**4,357**	**—**

Currency risk

The Company is exposed to currency risk during purchase of goods and services and on interest bearing liabilities denominated in foreign currency.

	2011			
in BAM'000	BAM	EUR	USD	Total
Cash and cash equivalents	563	—	—	563
Trade and other receivables	3,668	15	—	3,683
Total	**4,231**	**15**	**—**	**4,246**
Loans and borrowings	3,831	8,254	—	12,085
Trade and other payables	2,924	4,626	1,092	8,642
Total	**6,755**	**12,880**	**1,092**	**20,727**
Net exposure as at 31 December	**(2,524)**	**(12,865)**	**(1,092)**	**(16,481)**

in BAM'000	2010 BAM	2010 EUR	2010 USD	2010 Total
Cash and cash equivalents	173	—	—	173
Trade and other receivables	1,968	91	—	2,059
Deposits (restricted)	—	241	2,260	2,501
Total	**2,141**	**332**	**2,260**	**4,733**
Loans and borrowings	150	3,789	—	3,939
Trade and other payables	5,484	922	2,552	8,958
Total	**5,634**	**4,711**	**2,552**	**12,897**
Net exposure at 31 December	**(3,493)**	**(4,379)**	**(292)**	**(8,164)**

The following exchange rates were used during the year:

	Average rate		Rate at 31 December	
	2011	2010	2011	2010
EUR	1.95583	1.95583	1.95583	1.95583
USD	1.49210	1.41838	1.51157	1.47276

Determination of fair values

The Company's business policy is to disclose information about fair value of assets and liabilities for which published market information exists, and when the fair value significantly differs from book value. In Bosnia and Herzegovina there is no sufficient market experience, nor stability and liquidity for the purchase and sale of receivables and other financial assets and liabilities, since published market information is not readily available. Hence, fair value cannot be reliably determined in the absence of an active market. The Management assesses the risk and, in cases where it is estimated that the value of assets stated in the books will not be recoverable, accounts for impairments.

The Management believes that the amounts in the accompanying financial statements reflect the value that is in the circumstances the most valid and useful for reporting purposes.

1.23 Related parties

In the normal course of business the Company realised transactions with related parties. The company provides services to related parties such as procurement of content and equipment. Relations between the Company and its related entities are regulated on a contractual basis and on market conditions.

Related parties with whom the Company entered into transactions as at 31 December 2011 are: parent entity Bosnia Broadband S.a.r.l. Luxembourg, Telemach d.o.o. Ljubljana, Serbia Broadband—Srpske kablovske mreže d.o.o. Belgrade, Monet d.o.o. Mostar, Monet CATV d.o.o. Mostar and TOTAL TV BH d.o.o. Banja Luka. Bosnia Broadband is controlled by Slovenia Broadband S.à r.l., which is controlled by Broadband Investments S.à r.l., which itself is an investee company owned in the majority by

1 Notes to financial statements (Continued)

funds advised/managed by Mid Europa Partners LLP. Significant related party transactions and balances are as follows:

in BAM'000		2011	2010
Trade receivables	**Relationship**		
SBB d.o.o. Belgrade	Under common control	3	—
Monet d.o.o. Mostar	Under common control	62	—
Monet CATV d.o.o. Mostar	Under common control	6	—
Total		**71**	**—**
Loans and borrowings			
Bosnia Broadband S.a.r.l	Parent company	8,229	3,789
Total TV BH d.o.o. Banjaluka	Under common control	350	—
Monet d.o.o. Mostar	Under common control	100	—
Total		**8,679**	**3,789**
Trade payables			
SBB d.o.o. Belgrade	Under common control	1,437	149
Total TV BH d.o.o. Banjaluka	Under common control	813	—
Telemach d.o.o. Ljubljana	Under common control	1,075	287
Monet d.o.o. Mostar	Under common control	513	—
Total		**3,838**	**436**

Transactions with related parties

in BAM'000		2011	2010
Operating revenue	**Relationship**		
SBB d.o.o. Belgrade	Under common control	3	—
Monet d.o.o. Mostar	Under common control	1,057	—
Monet CATV d.o.o. Mostar	Under common control	217	—
Total		**1,277**	**—**

Cost of material and services		2011	2010
SBB d.o.o. Belgrade	Under common control	1,128	149
Telemach d.o.o. Ljubljana	Under common control	630	287
Monet d.o.o. Mostar	Under common control	351	—
Total TV BH d.o.o. Banjaluka	Under common control	695	—
Total		**2,804**	**436**

Remuneration paid by the Company to key management for the year was BAM 314 thousand (2010: BAM 71 thousand) and is included within the staff costs.

1.24 Contingencies

The Company has provided for the amounts in the statement of financial position based on its best estimate of additional liabilities that may likely arise from contractual and other regulatory claims made against the Company. The Company may have additional liabilities due to past and current actions and breaches of contractual and regulatory obligations which have not been recorded and could not be estimated with certainty. However, the Management believes that likelihood is not such to require additional provisions nor disclosures.

1 Notes to financial statements (Continued)

1.25 Key accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors including the expectations of future events that are believed to be reasonable under the circumstances.

Certain accounting estimates in applying the Company's accounting policies are described below:

Going concern

Financial statements have been prepared under the assumption that the Company will continue to operate as a going concern. Despite negative net working capital the management believes the Company will realise sufficient cash flows from operations which along with unused loan facilities, as discussed in note 1.22, will enable timely settlement of current liabilities

Estimated useful life of property, plant and equipment and intangibles

The Management determines the estimated useful lives and related depreciation charges based on expected useful lives of plant and equipment

Impairment of plant and equipment

During 2010 and 2011 the Company has invested significantly in plant and equipment (note 1.11). The Company believes it will recover these additions through increasing the number of cable and digital TV and Internet subscribers by extending the service range and increasing the quality of service.

Impairment of receivables

Trade receivables are estimated on each reporting date and are impaired according to the estimate of the probability of collection. Each customer is valuated separately based on the ageing of the amount due and estimated probability of collection of the outstanding amount

Income tax

Tax calculations are performed based on the Company's interpretation of current tax laws and regulations. Income tax calculation reported in the tax return may be subject to review and approval by the local tax authority.

1.26 Commitments

The Company has licences for providing telecommunication services, which are subject to annual renewal and has office and commercial space under operating lease. Operating lease is payable as follows:

Ageing of liabilies for licences in BAM'000	**2011**	**2010**
Up to one year	37	37
From 2 to 5 years	148	148
Total	**185**	**185**

Operating lease in BAM'000	**2011**	**2010**
Up to one year	320	342
From 2 to 5 years	1,264	1,256
Over 5 years	27	27
Total	**1,611**	**1,625**

1 Notes to financial statements (Continued)

1.27 Events after the statement of financial position date

Acquisition of Telekabel d.o.o. Zenica

The Company acquired 100% of equity of cable operator Telekabel d.o.o on 10 February 2012 to further increase market share in Bosnia and Herzegovina. The total value of transaction was BAM 15.6 million.

The Company did not perform allocation of purchase price until the date of issue of financial statements. Based on preliminary results the main adjustment of fair value is expected on intangible assets.

In 2011, Telekabel d.o.o. recorded unaudited revenue of BAM 4,972 thousand (2010: BAM 4,235 thousand), unaudited net profit of BAM 1,229 thousand (2010: BAM 1,241 thousand), and on the reporting date had unaudited net assets of BAM 3,732 thousand.

The Company expects positive synergy effects in the operating business segments.

Raising long term debt

The Company entered into the agreement with European Bank for Reconstruction and Development (EBRD) for the total loan amount of EUR 25,000 thousand for acquisition of cable operators in Bosnia and Herzegovina.

The management believes that there are no any other significant events which could affect the financial statements for 2011 or require separate disclosure.

Reorganisation

Parent entity Bosnia Broadband adopted reorganisation plan where entities under common control (KIT, Monet and Monet CATV) will be merged with the Company during 2012. The Company expect that this merger will result in increase of the net assets by approximately BAM 11 million.

Contents

Independent Auditors' report to the stakeholders of Telemach d.o.o.

We have audited the accompanying consolidated financial statements of Telemach d.o.o. Sarajevo (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, consolidated changes in equity and consolidated cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG B-H

D.O.O. ZA REVIZIJU KPMG B-H SARAJEVO

KPMG B-H d.o.o. za reviziju
Registered auditors

Zmaja od Bosne 7-7A/III
71000 Sarajevo
Bosnia and Herzegovina

31 May 2013

Telemach d.o.o. Sarajevo

Consolidated statement of comprehensive income

in BAM'000	Note	2012	2011*
Revenue	7	**26,334**	**14,726**
Other revenue	8	115	187
Content costs		(4,853)	(3,028)
Internet costs		(2,115)	(998)
Cost of material and services	9	(1,345)	(1,475)
Staff costs	10	(2,792)	(2,127)
Amortisation and depreciation		(8,728)	(5,123)
Other operating expenses	11	(7,085)	(2,842)
Results from operating activities		**(469)**	**(680)**
Finance income	12	278	119
Finance costs	12	(4,247)	(510)
Net finance costs		**(3,969)**	**(391)**
Loss before tax		**(4,438)**	**(1,071)**
Income tax benefit	13	109	—
Loss for the year		**(4,329)**	**(1,071)**
Other comprehensive income		—	—
Total comprehensive income for the year		**(4,329)**	**(1,071)**

* Corresponding information do not include results of KIT BH, Monet and Monet CATV which were merged into Telemach as of 31 October 2012. The results of these entities for the ten-month period were recognised within retained earnings as explained in the *note 5*.

Telemach d.o.o. Sarajevo

Consolidated statement of financial position

in BAM'000	Note	2012	2011*
Assets			
Property, plant and equipment	14	37,546	22,377
Intangible assets	15	11,385	783
Investments	16	13	—
Deferred tax assets	24	50	—
Non-current assets		**48,994**	**23,160**
Inventories	17	167	115
Trade and other receivables	18	7,440	3,683
Cash and cash equivalents	19	2,149	563
Deposits (restricted)	20	3,838	—
Prepaid income tax		363	153
Current assets		**13,957**	**4,514**
Total assets		**62,951**	**27,675**
Equity			
Registered capital	21	11,439	65
Retained earnings		1,933	6,342
Merger reserves	5	(8,770)	—
Total equity		**4,602**	**6,407**
Liabilities			
Loans and borrowings	22	32,706	8,254
Employee benefits	23	29	20
Deferred tax liabilities	24	1,223	—
Total non-current liabilities		**33,958**	**8,274**
Loans and borrowings	22	1,933	3,831
Employee benefits	23	242	240
Trade and other payables	25	18,138	8,642
Liabilities related to subsidiaries acquired	26	3,838	—
Provisions	27	240	280
Total current liabilities		**24,391**	**12,994**
Total liabilities		**58,349**	**21,268**
Total equity and liabilities		**62,951**	**27,675**

* Corresponding information do not include balances of KIT, Monet and Monet CATV which were merged with Telemach at 31 October 2012.

Telemach d.o.o. Sarajevo

Consolidated statement of changes in equity

in BAM'000	Issued capital	Retained earnings	Merger reserves	Total equity
Balance as at 1 January 2011	**12**	**5,783**	**—**	**5,795**
Effects of merger *(note 5 (a))*	53	1,630	—	1,683
Loss for the year	—	(1,071)	—	(1,071)
Other comprehensive income	—	—	—	—
Total comprehensive income for the year	**—**	**(1,071)**	**—**	**(1,071)**
Balance as at 31 December 2011	**65**	**6,342**	**—**	**6,407**
Balance as at 1 January 2012	**65**	**6,342**	**—**	**6,407**
Effects of merger *(note 5 (b))*	**11,374**	**(80)**	**(8,770)**	**2,524**
Loss for the year	—	(4,329)	—	(4,329)
Other comprehensive income	—	—	—	
Total comprehensive income for the year	—	**(4,329)**	**—**	**(4,329)**
Balance as at 31 December 2012	**11,439**	**1,933**	**(8,770)**	**4,602**

Telemach d.o.o. Sarajevo

Consolidated statement of cash flows

in BAM'000	Note	2012	2011*
Cash flows from operating activities			
Loss after tax		(4,329)	(1,071)
Adjustments for:			
Amortisation and depreciation		8,728	5,123
Gain / loss on disposal of plant and equipment	8, 11	(27)	3
Impairment of receivables	11	1,047	163
Net finance cost	12	3,969	391
		9,388	**4,609**
Changes in:			
—Trade and other receivables		(4,111)	(1,787)
—Trade and other payables		7,644	(316)
—Inventories		(52)	61
—Employee benefits		11	169
—Provisions		(40)	60
		12,840	**2,796**
Interest paid		(2,941)	(292)
Income tax paid		(91)	—
Net cash from operating activities		**9,808**	**2,504**
Cash flows from investing activities			
Interest received		4	2
Proceeds from sale of disposal of property and plant		38	—
Acquisition of subisidiaries, net of cash acquired (including restricted deposits)		(17,378)	—
Purchase of property, plant and equipment		(12,966)	(10,133)
Purchase of intangible assets		(474)	(279)
Net cash used in investing activities		**(30,776)**	**(10,410)**
Cash flows from financing activities			
Proceeds from loans and borrowings		45,074	8,146
Repayment of loans and borrowing		(22,520)	—
Increase in deposits		—	150
Net cash from financing activities		**22,554**	**8,296**
Net increase in cash and cash equivalents		**1,586**	**390**
Cash and cash equivalents as at 1 January		563	173
Cash and cash equivalents as at 31 December	19	**2,149**	**563**

* Corresponding information do not include results of KIT BH, Monet and Monet CATV which were merged with Telemach as of 31 October 2012. The results of those entities for the ten months periods were merged through retained earnings as explained in *Note 5.*

Notes to the consolidated financial statements

1 Reporting entity

Telemach d.o.o. is headquartered in Sarajevo, Bosnia and Herzegovina. The address is at Džemala Bijedića Street 216, Sarajevo, Bosnia and Herzegovina. The principal activity of the Company is provision of cable and digital TV services, internet and fixed telephony. The consolidated financial statements of the Company as at and for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group"). The subsidiaries are Telekabel d.o.o. Zenica, Teleinvest d.o.o Ljubljana and VI-NET d.o.o. Visoko.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by management on 31 May 2013.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for available-for-sale financial assets measured at fair value.

(c) Functional and presentation currency

These financial statements are prepared in the currency of Bosnia and Herzegovina, Convertible marks (BAM), which is the Group's functional currency. All financial information presented in Convertible marks has been rounded to the nearest thousand.

(d) Merger accounting

Legal entities KIT BH d.o.o. ("KIT"), MoNET CATV d.o.o. ("MoNET CATV") and MONET d.o.o. ("MONET") merged with the Company at 31 October 2012. Predecessor method of accounting is used to account for the merger of entities under common control. The carrying value of assets and liabilities of the predecessor entities are transferred to the merged entities. Where relevant, the financial statements indicate "the effects of the merger," which reflect the merger transaction under common control. Furthermore, corresponding figures include financial information of Telemach only and are not adjusted for merger retrospectively. Intercompany balances are eliminated on the date of merger.

(e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

(f) Going concern

Financial statements have been prepared under the assumption that the Group will continue to operate as a going concern despite negative net working capital, as explained in note 31.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date—i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currency are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3 Significant accounting policies (Continued)

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into functional currency at foreign exchange rates ruling at the dates at which the values were determined. Non-monetary assets and items that are measured in terms of historical cost of a foreign currency are not retranslated.

(c) Financial instruments

Financial instruments comprise trade and other receivables, cash and cash equivalents, available for sale financial instruments, loans and borrowings, and trade and other payables.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, that is, the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled. Cash and cash equivalents for the purpose of preparation of cash flow statement and balance sheet comprise cash balances and call deposits.

Trade and other receivables are measured at amortised costs less impairment allowance. Trade and other payables are measured at amortised cost. Interest bearing loans and borrowings are recognised initially at fair value of the proceeds received, less attributable transaction costs. In subsequent periods, interest bearing loans and borrowings are stated at amortised cost using the effective interest method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings on an effective interest basis.

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as in any of the above categories of the financial assets. Available-for-sale financiaial assets are recognised initially at fair value and plus any directly attirubutable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserves in the equity. When an investment is derecongised, the gain or loss accumulated in equity is reclassified in profit and loss.

(d) Property, plant and equipment

Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Assets in the course of construction are not depreciated.

Subsequent expenditure is capitalised only when it is probable intangible assets is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

The estimated useful lives applied consistently during 2012 and 2011 are as follows:

Buildings	33 years
Network infrastructure, cable network and other equipment	5 - 10 years

3 Significant accounting policies (Continued)

(e) Intangible assets

(i) Goodwill

The Group recognises goodwill as the result of the acquisition of a business. Goodwill is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

After initial recognition, the Group measures goodwill acquired in a business combination at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised. Instead, the Group tests it for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

(ii) Other intangible assets

Intangible assets are measured initially at cost less any accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on capitalised intangible assets is capitalised only if it is probable that it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

Except for goodwill, amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives are as follows:

Software	5 years
Customer base	8 years
Leasehold improvements	3 years

(f) Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and are not recognised in the Group's statement of financial position.

(g) Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Inventories are valued based on purchase price which includes the costs of bringing the inventories in condition ready for use, using the weighted average cost principle.

(h) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each statement of financial position date.

An impairment loss in respect of a held-to-maturity securities or receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

3 Significant accounting policies (Continued)

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(j) Revenue

Revenue consists mainly from provision of digital and analogue cable TV services, internet and telephony, lease of infrastructure, services sale of goods and similar.

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue generated by the delivery of analogue cable and digital TV services, internet and telephony are recognised when services have been provided, the costs can be measured reliably and the Group is not obliged to provide further service. Revenue is measured based on the fair value of the service provided. All installation fee revenue and related costs with respect to reconnection and disconnection are recognised in the period in which the connection or reconnection occurs.

(k) Employee benefits

(i) Long term employee benefits

In accordance with local regulations the Group's employees are entitled to compensation at retirement, which is calculated depending on factors such as age, the years of employment and salaries they receive from the Company. The costs of long-term benefits for employees are calculated at the time they are incurred. The statement of financial position includes the present value of liabilities.

(ii) Short term employee benefits

Liabilities for wages and contributions are recognised as an expense in the statement of comprehensive income as incurred and are measured on an undiscounted basis.

(l) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and positive changes in the fair value of financial instruments at fair value through profit or loss. Interest income is recognised as it accrues in statement of comprehensive income, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and negative changes in the fair value of financial instruments at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the statement of comprehensive income using the effective interest method. Foreign currency gains and losses are reported on a gross basis.

(m) Income tax

Income tax comprises current tax and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years. Deferred tax is providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent

3 Significant accounting policies (Continued)

that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(n) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. Management believes that none of these will have a significant effect on the financial statements of the Group in future period.

4 Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) On call bank deposits

The carrying value of on call bank deposits approximate their fair value due to their proximity in nature to cash.

(ii) Trade and other receivables / payables

The current value of trade and other receivables/payables is estimated to be a reasonable estimation of their fair value due to short-term nature of those instruments.

(iii) Loans and borrowings

The interest rates on loans and borrowings correspond to market interest rates.

(iv) Customer base

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

(v) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which property could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

5 Merger

(a) Merger in 2011

Entities under common control Elob CATV d.o.o. and KT Global Net d.o.o were merged into Telemach as of 1 January 2011. On that date the following assets and liabilities were merged:

in BAM'000	Elob CATV	KT Global Net	Total
Non-current assets (*note 14, 15*)	6,069	146	6,215
Current assets	1,149	446	1,595
Current liabilities	(5,776)	(291)	(6,067)
Provisions (*note 27*)	(60)	—	(60)
Total net assets	**1,382**	**301**	**1,683**
Issued capital (*note 21*)	51	2	53
Retained earnings	1,331	299	1,630
Total equity	**1,382**	**301**	**1,683**

(b) Merger in 2012

Entities under common control KIT and its fully owned subsidiaries Mo NET and Mo NET CATV were merged to Telemach as at 31 October 2012. On that date the following assets and liabilities were merged:

in BAM'000	KIT BH d.o.o.	Mo NET d.o.o.	Mo NET CATV d.o.o.	Elimination	Merged as
Investment in subsidiaries	11,171	—	—	(11,171)	—
Property, plant and equipment *(note 14)*	—	2,186	—	—	2,186
Intangible assets *(note 15)*	—	248	—	—	248
Related party loans receivables	146	—	200	(346)	—
Current assets	1	615	604	(123)	1,097
Related party loans and borrowings	(23)	(346)	—	346	(23)
Current liabilities	(1)	(607)	(499)	123	(984)
Total net assets	**11,294**	**2,096**	**305**	**(11,171)**	**2,524**
Registered capital *(note 21)*	11,374	67	8	(75)	11,374
Retained earnings	(80)	2,029	297	(2,326)	(80)
Merger reserves	—	—	—	(8,770)	(8,770)
Total equity and retained earnings	**11,294**	**2,096**	**305**	**(11,171)**	**2,524**

The Group consistently with previously elected accounting policy for mergers has merged the abovementioned entities based on their carrying values as reported in their separate financial statements. Had the Company elected to merge the entities based on the consolidated financial statements as of 31 October 2012 of KIT BH, the merger would result in higher value of property, plant and equipment by BAM 1.3 million, higher value of intangible assets by BAM 5.6 million, higher deferred tax liability by BAM 0.7 million and lower reserves balance by BAM 6.2 million. However, management believes that elected accounting policy is most consistent with tax and other regulatory requirements. In arriving at the appropriate accounting policy management considered impact and compliance of Bosnia Broadband S.a.r.l., Luxembourg which has not prepared consolidated financial statements in accordance with IFRS and whose special purpose financial statements were primarily based on the carrying value of the assets and liabilities.

6 Acquisition of subsidiaries

(i) Business combination

During 2012 the Company acquired the entire stake in Telekabel d.o.o. Zenica, Teleinvest d.o.o. Ljubljana, Slovenia and VI-NET d.o.o. Visoko. All companies are involved in the cable TV and internet providing business.

Taking control over these entities would further enable the Group to gain market share, increase its network coverage, increase home pass and further broadens variety of service it offers.

Acquisition of Telekabel and Teleinvest

On 10th February 2012 the Company signed a share purchase agreement on acquiring a 100% interest in Telekabel d.o.o. The acquisition was achieved by acquiring 58% directly from the previous owners and by acquiring 42% indirectly by acquiring the entire stake of holding company Teleinvest (holder of remaining 42%). Total consideration paid and or payable amounted to BAM 15,575 thousand (inclusive of net debt adjustment). The date of acquisition was considered to be 31 March 2012, the date when the Company assumed financial and operational control over the subsidiaries. In the nine-month period between 31 March 2012 to 31 December 2012 Telekabel d.o.o. contributed loss of BAM 50 thousand and revenue of BAM 3,841 thousand to the Group's results. Simulteneously, Teleinvest d.o.o. contributed loss of BAM 7 thousand and had no revenue.

Had the business combination been effected as of 1 January 2012, the combined revenue of the Group would have been higher by BAM 1,367 thousand and the loss for the year would have been lower by BAM 475 thousand. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2012.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

In BAM'000	Note	Pre-acquisition carrying amount	Fair value adjustments	Recognised values on acquisition
Plant and equipment	*14*	3,528	2,405	5,933
Investments	*16*	13	—	13
Intangible assets—customer base	*15*	—	6,961	6,961
Current assets		2,794	—	2,794
Current liabilities		(716)	—	(716)
Deferred tax liabilities	*24*	—	(936)	(936)
Net identifiable assets and liabilities		5,619	8,430	14,049
Goodwill on acquisition	*15*			1,526
Consideration paid and payable				15,575
Consideration outstanding	*26*			(2,625)
Cash acquired				(1,967)
Net cash outflow				10,983

The Group has agreed to pay the selling shareholders the amount of BAM 2,625 thousand which is being deposited on the restricted bank account controlled by the Group as disclosed in Note 20. The corresponding liability is included in note 26.

Acquisition of Vi-NET

On 1 November 2012 the Company signed a share purchase agreement for the acquisition of entire stake in Vi-NET d.o.o. The date of acquisition was determined to be 23 December 2012, the date the

6 Acquisition of subsidiaries (Continued)

Company assumed financial and operational control over the subsidiary. The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

In BAM'000	Note	Pre-acquisition carrying amount	Fair value adjustments	Recognised values on acquisition
Plant and equipment	*14*	126	1,559	1,685
Intangible assets—customer base	*15*	—	2,216	2,216
Current assets		292	180	472
Current liabilities		(152)	—	(152)
Deferred tax liabilities	*24*	—	(396)	(396)
Net identifiable assets and liabilities		266	3,559	3,825
Goodwill on acquisition	*16*			215
Consideration paid and payable				4,040
Consideration outstanding	*26*			(1,213)
Cash acquired				(270)
Net cash outflow				2,557

Identifiable assets and liabilities assumed

In the period between acquisition date 23 December 2012 and 31 December 2012 no revenue and profits are recognized in the consolidated financial statements in relation to VI-NET.

Had the business combination been effected as of 1 January 2012, the consolidated revenue of the Group would have been higher by approximately BAM 1.3 million.

The Group has agreed to pay the selling shareholders the amount of BAM 1,213 thousand which is being deposited on the restricted bank account controlled by the Group as disclosed in Note 20. The corresponding liability is included in Note 26.

Goodwill

If the new information obtained within one year from the acquisition date about the facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the acquisition accounting will be revised.

Acquisition-related-costs

The Group incurred acquisition related costs of BAM 1,589 thousand related to due diligence and external legal and other advisory / consultancy costs. These costs were recognized within other operating costs in the Group's consolidated income statement.

7 Revenue

in BAM'000	2012	2011
Cable basic&digital TV service, internet and telephony	24,185	12,480
Sale of material and equipment	315	706
Administrative customer support services	1,020	701
Rental of infrastructure and optical network	812	835
Voice services	—	4
Total	**26,334**	**14,726**

8 Other revenue

in BAM'000	2012	2011
Profit on disposal of property and plant	27	—
Written off liabilities	—	92
Other revenue	88	95
Total	**115**	**187**

Other revenue, similarly to 2011, mostly comprises surpluses, penalty fees and other income.

9 Cost of material and services

in BAM'000	2012	2011
Material used and goods sold	759	1,087
Energy	378	236
External services	57	27
Maintenance services	151	125
Total	**1,345**	**1,475**

10 Staff costs

in BAM'000	2012	2011
Net salaries	1,389	1,020
Taxes and contributions	911	704
Food and transportation allowance	490	403
Other	2	—
Total	**2,792**	**2,127**

The number of employees of the Group at the yearend was 163 (2011: 168 employees). Staff costs comprise BAM 424 thousand (2010: BAM 332 thousand) of defined pension and health contributions paid to Pension Fund of the Federation of Bosnia and Herzegovina. Contributions are calculated as a percentage of employee's gross salaries.

11 Other operating expenses

in BAM'000	2012	2011
Intellectual services	1,819	45
Rental costs	857	453
Advertising and marketing costs	621	367
Impairment of receivables	1,047	163
Phone and postal	122	338
External services	294	270
Sales agents' fees	291	85
Bank charges	225	132
Entertainment	48	88
Insurance costs	156	70
Other services	498	54
Travel allowances	55	38
Contributions and other taxes	614	27
Loss on disposal of non-current assets	—	3
Other costs	438	704
Total	**7,085**	**2,842**

Intellectual services mainly relate to acquisition related costs and additional consulting costs.

Other costs mostly comprise administrative and other charges, shortages, donations, penalties and similar other costs.

12 Finance income and costs

in BAM'000	2012	2011
Interest income	4	2
Foreign exchange gains	237	117
Other finance income	37	—
Total finance income	**278**	**119**
Interest costs	(1,709)	(292)
Foreign exchange losses	(51)	(218)
Other finance costs	(2,487)	—
Total finance costs	**(4,247)**	**(510)**
Net finance costs	**(3,969)**	**(391)**

During 2012 **the Group incurred interest and other finance costs** (relating to front-end **and early termination fees) in the amount of BAM 2,560 thousand relating to loans taken from EB**RD which was **prematurely repaid** in the same period.

13 Income tax

in BAM'000	2012	2011
Loss before tax	**(4,438)**	**(1,071)**
Tax at statutory rate 10%	(444)	(107)
Non-deductible expenses	40	30
Effect of different tax rate	50	—
Reversal of temporary difference	(159)	—
Tax losses not recognised as deferred tax assets	260	77
Income tax benefit	**(109)**	**—**
Effective tax rate	0%	0%

Tax losses have not been recognised as a deferred tax asset as it is not certain that future taxable profits will be available to utilise the unused tax losses. Tax losses may be carried forward over a period of five years starting from the year in which the loss was incurred. Tax deductible losses, not recognised as deferred tax assets, in the amount of BAM 77 thousand will expire in 2016. Tax deductible losses, not recognised as deferred tax assets, in the amount of BAM 260 thousand will expire in 2017.

14 Property, plant and equipment

in BAM'000	Buildings	Network infrastructure, cable network and other equipment	Assets under construction	Total
Cost				
At 1 January 2011	**191**	**14,553**	**2,962**	**17,706**
Additions	—	—	7,851	7,851
Effects of merger (note 5 (a))	183	9,727	330	10,240
Disposals	—	(13)	—	(13)
Transfers	—	8,939	(8,939)	—
At 31 December 2011	**374**	**33,206**	**2,204**	**35,784**
At 1 January 2012	**374**	**33,206**	**2,204**	**35,784**
Additions	—	—	12,966	12,966
Effects of merger (note 5 (b))	72	6,768	488	7,328
Acquisitions (note 6)	29	8,490	—	8,519
Disposals	—	(39)	—	(39)
Transfers	—	11,851	(11,751)	100
At 31 December 2012	**475**	**60,276**	**3,907**	**64,658**
Accumulated depreciation and impairment losses				
At 1 January 2011	**18**	**4,376**	**—**	**4,394**
Expense for the year	11	4,904	—	4,915
Effects of merger (note 5 (a))	17	4,091	—	4,108
Disposals	—	(10)	—	(10)
At 31 December 2012	**46**	**13,361**	**—**	**13,407**
At 1 January 2012	**46**	**13,361**	**—**	**13,407**
Expense for the year	14	7,676	—	7,690
Effects of merger (note 5 (a))	6	5,136	—	5,142
Acquisitions (note 6)	—	901	—	901
Disposals	—	(28)	—	(28)
At 31 December 2012	**66**	**27,046**	**—**	**27,112**
Carrying value				
At 1 January 2011	173	10,177	2,962	13,312
At 31 December 2011	328	19,845	2,204	22,377
At 1 January 2012	**328**	**19,845**	**2,204**	**22,377**
At 31 December 2012	**409**	**33,230**	**3,907**	**37,546**

Assets under construction as at 31 December 2012 relate to network and end-user equipment which has not been installed. Property plant and equipment, other than the equipment explained on the next page secure syndicated loan exposure disclosed in the note 22.

As at 31 December 2012 the equipment with carrying amount of BAM 4,233 thousand (2011: BAM 6,750 thousand) was pledged as collateral to secure general revolving loans with a commercial bank.

The Company leases certain assets under finance lease agreements. Leased assets secure lease obligation (note 22). The total carrying value book value of leased equipment and vehicles as at 31 December 2012 amounts to BAM 37 thousand (2011: BAM 50 thousand).

15 Intangible assets

in BAM'000	Software	Customer base	Leasehold improvements	Goodwill	Total
Cost					
At 1 January 2011	**578**	**—**	**87**	**—**	**665**
Additions	—	—	279	—	279
Effect of merger (note 5 (a))	207	—	13	—	220
Transfers	276	—	(276)	—	—
At 31 December 2011	**1,061**	**—**	**103**	**—**	**1,164**
At 1 January 2012	**1,061**	**—**	**103**	**—**	**1,164**
Additions	474	—	—	—	474
Effect of merger (note 5 (b))	—	541	39	—	580
Acquisitions (note 6)	—	9,177	—	1,741	10,918
At 31 December 2012	**1,535**	**9,718**	**142**	**1,741**	**13,136**
Accumulated amortisation and impairment losses					
At 1 January 2011	**34**	**—**	**2**	**—**	**36**
Expense for the year	189	—	19	—	208
Effect of merger (note 5 (a))	130	—	—	—	137
At 31 December 2011	**353**	**—**	**28**	**—**	**381**
At 1 January 2012	**353**	**—**	**28**	**—**	**381**
Expense for the year	225	794	19	—	1,038
Effect of merger (note 5 (b))	—	332	—	—	332
At 31 December 2012	**578**	**1,126**	**47**	**—**	**1,751**
Carrying value					
At 1 January 2011	544	—	85	—	629
At 31 December 2011	708	—	75	—	783
At 1 January 2012	**708**	**—**	**75**	**—**	**783**
At 31 December 2012	**957**	**8,592**	**95**	**1,741**	**11,385**

Goodwill

Goodwill was allocated to cable TV and internet cash generating unit. The recoverable amount of goodwill is determined based on the calculation of value in use. The calculation of value in use uses cash flow projections based on a five-year business plan approved by Bosnia Broadband S.a.r.l Luxembourg.

A pre-tax discount rate of 13.3% was used in discounting the projected cash flows. The recoverable amount of cash-generating unit exceeds its carrying amount.

Key assumptions used in the calculation of recoverable amounts apart from discount rates were also EBITDA margins. Budgeted EBITDA is expressed as key performance indicator rate in the initial five years of the plan used for impairment testing and has been based on the following assumptions:

- In the business plan revenue was projected using the rate of compound annual growth rate in cable TV business of 18.8%, cable internet of 22.6% and telephony 38.8%.
- The projected increase in sales is planed based on growth in number of subscribers and increases in prices and resulting from the investment in the network infrastructure and equipment in the earlier periods and synergies stemming from the expansion into new geographic locations.
- EBITDA margin expected to increase from 45% in 2013 to 51% in year 2017.
- Growth rate to perpetuity is estimated at 2%.

15 Intangible assets (Continued)

Sensitivity to changes in the assumptions

The estimated recoverable amount of the cable, digital TV and internet unit significantly exceed its carrying amount. As a result, the management believes that there is no key financial or commercial assumption whose adverse change may cause the carrying amounts to exceed the recoverable amount of the cash generating unit of the assets.

16 Investments

in BAM'000	2012	2011
	13	—
Total	**13**	**—**

The Group owns 260 shares in Nova KBM d.d., Slovenia.

17 Inventories

in BAM'000	2012	2011
Material	137	100
Spare parts and tools	30	15
Total	**167**	**115**

18 Trade and other receivables

in BAM'000	2012	2011
Trade receivables—gross	8,484	3,925
Trade receivables—impairment allowance	(1,682)	(495)
Trade receivables—net	**6,802**	**3,430**
Receivables for VAT and prepayments	356	103
Other receivables	137	150
Prepayments	142	—
Receivables from employees	2	—
Total	**7,439**	**3,683**

Trade receivables secure loan exposure as disclosed in Note 21.

19 Cash and cash equivalents

in BAM'000	2012	2011
Bank balances	2,130	549
Cash in hand	19	14
Total	**2,149**	**563**

Cash and cash equivalents secure loan exposure disclosed in note 21.

20 Deposits (restricted)

in BAM'000	2012	2011
Depository account for acquisition of Telekabel & Teleinvest	2,625	—
Depository account for acquisition of Vi-NET	1,213	—
Total	**3,838**	**—**

T**he Group**, **signed an agreement with depositary agent** (in accordance with share purchase agreement with the sellers of subsidiaries **Telekable, Teleinvest and Vi-NET**) on opening restricted bank account. The

20 Deposits (restricted) (Continued)

Group has a control over the account but the accounts are restricted by former sellers of acquired subsidiaries. The corresponding equalling liability is included in the note 26. Subsequent to reporting date BAM 884 thousand was released to the seller and the amount of liability was decreased in the same amount.

21 Equity

in BAM'000	2012	2011
Issued capital	65	12
Effects of merger *(note 5 (a))*	—	53
Effects of merger *(note 5 (b))*	11,374	—
Total	**11,439**	**65**

The parent company Bosnia Broadband S.a.r.l., Luxembourg is the 100% owner of equity in Telemach, and is controlled by Slovenia Broadband S.à r.l., which is controlled by Broadband Investments S.à r.l., which itself is an investee company owned in the majority by funds advised/managed by Mid Europa Partners LLP.

22 Loans and borrowings

in BAM'000	2012	2011
Non-current		
Loans from related parties—unsecured (i)	8,818	8,229
Facility A (ii)	7,664	—
Facility B (ii)	10,267	—
Capex facility (ii)	5,867	—
Leasing (iii)	90	25
	32,706	**8,254**
Current		
Loans from bank—secured (iv)	1,000	3,365
Borrowings from related parties (v)	350	450
Facility A (ii)	546	—
Leasing (iii)	37	16
	1,933	**3,831**
Total	**34,639**	**12,085**

(i) Loans from related parties

The long term unsecured loans from parent company are denominated in EUR, due in 2020 and bear annual interest rate of 5%. Interest is capitalised to the principle starting from 1st January 2012.

(ii) Bank loans

On 10 December 2012 the Group with the related entities SBB from Serbia and Telemach in Slovenia arranged a syndicated loan framework with a bank consortium led by a commercial bank in the total aggregate principal amount of EUR 290,000 thousand, divided into Facility A (EUR 102,200 thousand), Facility B (EUR 127,800 thousand), Capex facility (EUR 40,000 thousand) and a revolving facility (EUR 20,000 thousand) on a group level. A portion of each line was withdrawn by the Group.

Facility A loan bears an interest rate of margin of 5.35% plus Euribor rate of 3 months. This loan is repayable in semi-annual variable instalments within 5 years. Interest is repayable on a quarterly basis.

Facility B loan bears an interest rate of 6.10% plus Euribor rate of 3 month. This loan is repayable in full on 20 December 2018. Interest is repayable on a quarterly basis.

Capex facility and revolving credit facility (RCF) bears an interest rate of 5.35% plus 3 month Euribor. Interest is repayable on a quarterly basis.

22 Loans and borrowings (Continued)

The maturity of non-current borrowings is presented in Note 28. Management estimates that fair value of all borrowings at inception approximates the carrying amounts shown in these consolidated financial statements.

Security

The loans are secured by a pledge on property, plant and equipment (note 14), cash accounts (note 19), trade receivables outstanding (note 18) and insurance claims. Telemach has assigned its insurance policies to Bank syndicate as additional debt collateral.

(iii) Finance leases

The company has 4 active finance lease agreements as at 31 December 2012. The repayment schedule is presented below:

2012	Future minimum lease payments	Present value of minimum lease payments	Interest
Up to one year	44	37	7
From 1 to 5 years	109	90	19
Total	253	127	26

2011	Total	Principle	Interest
Up to one year	18	16	2
From 1 to 5 years	28	25	3
Total	46	41	5

(iv) Loans from banks

Revolving loan tranches from NLB Tuzlanska bank are due in September 2012 and November 2013 respectively. Interest rate of 8.35% apply on NLB Tuzlanska bank exposure. The loans are secured by equipment pledge (*note 14*).

(v) Borrowings from related parties

Borrowings from related parties relate to TOTAL TV BH in the amount of BAM 350 thousand. Borrowings are unsecured and bear annual interest rate of 5%.

23 Employee benefits

in BAM'000	2012	2011
Severance—*non-current portion*	29	20
Liabilities for salaries—*current portion*	242	240
Total	**271**	**260**

The Group used actuarial calculations for determination of present value of severance payments to employees. Main assumptions are:

- Discount rate: 7.15% (2011: 7.5%)
- Long term inflation rate: 4% (2011: 4%)
- Average increase of monthly salaries: 6% (2011: 6%)
- Age of retirement: 65 years for men and 60 for women
- Adjustment for staff fluctuation was not considered due to lack of historical data.

23 Employee benefits (Continued)

Sensitivity

If the discount rate used was 6.5% (rather than 7.15%) per year, the past service liability would increase by about 15.3%.

If pay increased by 5.5 (rather than 6.0%) per year in the long term, then the past service liability would decrease by approximately 10.2%.

24 Deferred tax

in BAM'000	2012	2011
Deferred tax assets	50	
Deferred tax liability	(1,223)	—
Total	**(1,173)**	**—**

Deferred tax assets are attributable to the following

in BAM'000	31 Dec 2011	Recognized in profit and loss	31 Dec 2012
Trade receivables	—	(50)	50
Total	**—**	**(50)**	**50**

Deferred tax liabilities are attributable to the following:

in BAM'000	31 Dec 2011	Acquired in business combination	Recognized in profit and loss	31 Dec 2012
Property, plant and equipment	—	396	(44)	352
Intangible assets	—	918	(65)	853
Trade receivables	—	18	—	18
Total	**—**	**1,332**	**(109)**	**1,223**

25 Trade and other payables

in BAM'000	2012	2011
Trade payables	7,466	4,021
Liabilities to related parties	7,443	3,693
Advances received	565	461
Accrued liabilities	2,267	190
Other liabilities	397	132
Total	**18,138**	**8,642**

Accrued liability mainly relate to accrued interest on loans and borrowings, accruals for content and internet providers, accruals for consulting services received and other.

26 Liabilities related to subsidiaries acquired

in BAM'000	2012	2011
To owners of Telekabel & Teleinvest	2,625	—
To owners of Vi-NET	1,213	—
Total	**3,838**	**—**

27 Provisions

in BAM'000	2012	2011
Opening balance as at 1 January	280	220
Effects of merger *(note 5 a))*	—	60
Releases	(40)	—
Balance as at 31 December	**240**	**280**

The Group had provided for amounts based on its best estimate of additional liabilities that may likely arise from breaches of contractual and other obligations. (please refer also to the note 30).

28 Financial instruments

The Group has exposure to the following financial risks from its use of financial instruments:

- credit risk
- liquidity risk and
- market risk.

The Group's risk management policy is focused on minimisation of potential adverse impacts on Company's financial position and operations in the environment of unpredictable financial markets.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's cash and cash equivalents, bank deposits and receivables from legal entities and physical persons.

The Group has established procedures for managing credit risk on entity level. The amount of credit exposure for each customer is managed through disconnection of service.

The total carrying value of financial assets presents the maximum credit exposure. The maximum credit exposure as at the reporting date is as follows:

in BAM'000	2012	2011
Cash and cash equivalents (*note 19*)	2,130	549
Trade and other receivables (*note 18*)	7,439	3,683
Investments *(note 16)*	13	—
Deposits—restricted (*note 20*)	3,838	—
Total	**13,420**	**4,232**

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

28 Financial instruments (Continued)

Impairment of receivables

Ageing structure of trade receivables is presented below:

in BAM'000	2012	2011
Not past due	2,133	2,197
Past due 0 - 90 days	2,116	821
Past due 91 - 180 days	2,634	177
Past due 181 - 360 days	504	235
Over 360 days	1,097	495
Total	**8,484**	**3,925**

Movement in impairment allowance of trade receivables is as follows:

in BAM'000	2012	2011
Opening balance at 1 January	495	427
Imapirment losses recognised (*note 11*)	1,047	163
Effects of merger	59	—
Impairment allowance recognised on acquisition	81	—
Amounts written off	—	(95)
Total	**1,682**	**495**

Market risk

Interest rate risk

The Group is exposed to various risks when changes in interest rates affect its financial position and cash flows. The Group's operations are affected by changes in interest rates on interest bearing assets (including investments) as well as the amount and timing of repayments of interest bearing liabilities.

The following table presents the exposure to interest bearing risk:

in BAM'000	2012	2011
Fixed rate instruments		
Financial liabilities	10,168	8,679
Total	**10,168**	**8,679**
Variable rate instruments		
Financial liabilities	24,471	3,406
Total	**24,471**	**3,406**

The Group's interest rate risk derives from bank loans. The loans were approved with variable interest rates and expose the Group to changes in cash flows. During 2012, the total loan liabilities bore variable interest rate linked to Euribor. Loans from parent entity, denominated in foreign currency, bear fixed interest rate.

The Group constantly monitors and analyses exposure to interest rate risk taking into account the alternative sources of financing and refinancing, primarily for bank loans as the most significant interest bearing liability. Risk management activities and policies aims to minimise net interest costs, taking that market interest rates are in line with the Group's business and financial strategy.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset, and inability to realise the financial asset at reasonable price in reasonable time period.

28 Financial instruments (Continued)

The Group's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due. The Group constantly monitors and analyses exposure to liquidity risk through identification and monitoring of changes in sources of financing required for the implementation of business strategy.

The Group has access to various sources of financing. The funds are sourced through short and long term loans.

The following table presents the maturity of liabilities, with amounts due, as at 31 December 2012, excluding interest:

in BAM'000	Up to 1 year	From 2 to 3 years	Over 3 years	Total
31 December 2012				
Loans and borrowings	1,933	5,163	27,543	34,639
Liabilities relating to subsidiaries acquired	3,838	—	—	3,838
Trade and other payables	18,138	—	—	18,138
Total	**23,909**	**5,163**	**27,543**	**56,615**

The Group has short term negative current assets due to the structure of financing. It has the following approved, but unused, credit lines and mechanisms to manage short term liquidity:

- unused amount of BAM 400 thousand of overdraft approved from local bank at 31 December 2012,
- ability to prolong payments to related parties disclosed in *Note 25*,
- Investments in property and plant included in the assets under construction relating to the-end-user equipment which is expected to be install in 2013 resulting in increased cash generating capacity.

The following table presents the maturity of liabilities, with amounts due, as at 31 December 2011, excluding interest:

in BAM'000	Up to 1 year	From 2 to 3 years	Over 3 years	Total
31 December 2011				
Loans and borrowings	3,831	25	8,229	12,085
Trade and other payables	8,642	—	—	8,642
Total	**12,473**	**25**	**8,229**	**20,727**

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group undertakes certain transactions in foreign currencies. All of these are denominated or linked to Euros to which the Convertible Mark has been pegged since its introduction as a currency in 2002. As long as BAM is pegged to EUR management considers that the Group is not exposed to the risk of changes in foreign exchange rates.

Capital management

The Group monitors capital using net debt to equity ratio. For this purpose, net debt is defined as total liabilities (which includes interest bearing loans and borrowings and obligations under finance leases) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted equity comprises all components of equity other than amounts recognised in equity relating to merger reserves, less unaccrued proposed dividends.

28 Financial instruments (Continued)

The Group's adjusted net debt to equity ratio at the end of the reporting period was as follows.

in BAM'000	2012	2011
Total liabilities	**58,349**	21,268
Less: cash and cash equivalents	**(2,149)**	(563)
Net debt	**56,200**	20,705
Equity	**4,602**	6,702
Adjusted equity	**4,602**	6,702
Total	**8.2**	3.1

29 Related parties

In the normal course of business the Group realised transactions with related parties. The Group consumes services from related parties such as procurement of content and equipment. Relations between the Group and its related entities are regulated on a contractual basis and on market conditions.

Related parties with whom the Company entered into transactions as at 31 December 2012 are: parent entity Bosnia Broadband S.a.r.l. Luxembourg, Telemach d.o.o. Ljubljana, Serbia Broadband—Srpske kablovske mreže d.o.o. Belgrade, and TOTAL TV BH d.o.o. Banja Luka and Mid Europa Partners LLP. Bosnia Broadband is controlled by Slovenia Broadband S.à r.l., which is controlled by Broadband Investments S.à r.l., which itself is an investee company owned in the majority by funds advised/managed by Mid Europa Partners LLP. Significant related party transactions and balances are as follows:

in BAM'000		2012	2011
Trade receivables	**Relationship**		
SBB d.o.o. Belgrade	Under common control	43	3
Monet d.o.o. Mostar		—	62
Monet CATV d.o.o. Mostar		—	6
Total		**43**	**71**
Loans and borrowings			
Bosnia Broadband S.a.r.l	Parent company	8,818	8,229
Total TV BH d.o.o. Banjaluka	Under common control	350	350
Monet d.o.o. Mostar		—	100
Total		**9,167**	**8,679**
Trade payables			
SBB d.o.o. Belgrade	Under common control	2,850	1,437
Total TV BH d.o.o. Banjaluka	Under common control	2,664	813
Telemach d.o.o. Ljubljana	Under common control	1,929	1,075
Monet d.o.o. Mostar		—	367
Mid Europa Partners LLP	Ultimate parent	127	—
Total		**7,570**	**3,692**

29 Related parties (Continued)

Transactions with related parties

in BAM'000		2012	2011
Operating revenue	**Relationship**		
SBB d.o.o. Belgrade	Under common control	43	3
Monet d.o.o. Mostar*	Under common control	850	1,057
Monet CATV d.o.o. Mostar*	Under common control	240	217
Total		**1,133**	**1,277**

* Transactions before the merger

Cost of material and services		2012	2011
SBB d.o.o. Belgrade	Under common control	2,124	1,128
Telemach d.o.o. Ljubljana	Under common control	789	630
Monet d.o.o. Mostar	Under common control	224	351
Total TV BH d.o.o. Banjaluka	Under common control	1,800	695
Mid Europa Partners LLP	Ultimate parent	127	—
Total		**5,064**	**2,804**

In 2012 the Group recognised interest expense on the related party borrowings in the total amount of BAM 1,196 thousand.

Remuneration paid by the Company to key management for the year was BAM 314 thousand (2011: BAM 314 thousand) and is included within the staff costs.

30 Contingencies

The Group has provided for the amounts in the statement of financial position based on its best estimate of additional liabilities that may likely arise from contractual and other regulatory claims made against the Company. The Group may have additional liabilities due to past and current actions and breaches of contractual and regulatory obligations which have not been recorded and could not be estimated with certainty. However, the Management believes that likelihood is not such to require additional provisions nor disclosures.

31 Key accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors including the expectations of future events that are believed to be reasonable under the circumstances. In addition, the Group has experienced rapid growth organically and vial acquisitions, and has invested heavily in the past couple of years. In arriving at the estimates the Group still does not have sufficient historical information and relies on the best practice used across the industry and operations which may or may not be applicable in the market it operates due to different stage of development.

Certain accounting estimates in applying the Group's accounting policies are described below:

Going concern

Financial statements have been prepared under the assumption that the Group will continue to operate as a going concern. Despite negative net working capital the management believes the Group will realise sufficient cash flows from operations which along with unused loan facilities, as discussed in Note 28, will enable timely settlement of current liabilities.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the

31 Key accounting estimates and judgements (Continued)

value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was BAM 1,741 thousand (2011:—). More details are given in Note 15.

Estimated useful life of property, plant and equipment and intangibles

The Management determines the estimated useful lives and related depreciation charges based on expected useful lives of plant and equipment

Impairment of plant and equipment

During 2011 and 2012 the Company has invested significantly in plant and equipment (note 14). The Company believes it will recover these additions by increasing the number of cable, digital TV and internet subscribers by extending the service range and increasing the quality of service.

Impairment of receivables

Trade receivables are estimated on each reporting date and are impaired according to the estimate of the probability of collection. The customers are valuated separately based on the ageing of the amount due and estimated probability of collection of the outstanding amount

Income tax

Tax calculations are performed based on the Company's interpretation of current tax laws and regulations. Income tax calculation reported in the tax return may be subject to review and approval by the local tax authority.

32 Commitments

The Group has licences for providing telecommunication services, which are subject to annual renewal and has office and commercial space under operating lease. Operating lease is payable as follows:

Ageing of liabilies for licences in BAM'000	2012	2011
Up to one year	226	37
From 2 to 5 years	176	148
Total	**402**	**185**

Most of the regulatory agency licences are renewed annualy, apart for some frequency licences.

33 Group entities

Significant subsidiaries

in BAM'000	Note	Place of incorporation	Effective ownership interest 2012	2011
Telekabel	*6*	Zenica	100%	—
Teleinvest	*6*	Ljubljana	100%	
Vi-NET	*6*	Visoko	100%	—

34 Subsequent events

Acquisition of ART-NET d.o.o. Kiseljak ("ART-NET")

The Group signed a share purchase agreement on acquiring 100% of equity of cable operator ART-NET d.o.o on 24 December 2012 to further increase market share in Bosnia and Herzegovina. The

34 Subsequent events (Continued)

total value of transaction, net of debt was BAM 4.6 million. The transaction was not completed as of 31 December 2012 nor was the controlled assumed as of 31 December 2012. The control was assumed as of 31 Jan 2013.

The Group did not perform allocation of purchase price until the date of issue of financial statements. Based on preliminary results the main adjustment of fair value is expected on intangible assets and property, plant and equipment.

In 2012, Art-NET recorded unaudited revenue of BAM 2,784 thousand (2011: BAM 2,400 thousand), unaudited net profit of BAM 204 thousand (2011: BAM 119 thousand), and on the reporting date had unaudited net assets of BAM 1,987 thousand.

The Company expects positive synergy effects in the operating business segments.

Reorganisation

Parent company Bosnia Broadband adopted reorganisation plan where subsidiary entities (ART-NET and Vi-NET) will be merged into Telemach during 2013.

CONDENSED SLOVENIA BROADBAND S.A.R.L. GROUP

CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED

30 JUNE 2013

SLOVENIA BROADBAND S.A.R.L.GROUP

Condensed Consolidated Interim Financial Statements for six months ended 30 June 2013

In thousands of EUR

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Independent Auditors' Report on Review of Interim Financial Information

TO THE OWNERS

SLOVENIA BROADBAND S.A.R.L

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Slovenia Broadband S.a.r.l and its subsidiaries (hereinafter: The Group) as at 30 June 2013, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with lAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2013 and for the six months period then ended is not prepared, in all material respects, in accordance with lAS 34, "Interim Financial Reporting".

Other Matter

We draw attention to the fact that we have not audited or reviewed the accompanying condensed consolidated statement of financial position of the Group as at 31 December 2012 and as at 1 January 2012, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months period ended 30 June 2012, or any of the related notes and accordingly, we do not express an opinion on them.

Belgrade, 11 October 2013

KPMG d.o.o. Beograd

KPMG d.o.o. Beograd

Matični broj: 17148656
PIB: 100058593
Račun: 265-1100310000190-61
KPMG d.o.o. Beograd je jednočlano društvo.

SLOVENIA BROADBAND S.A.R.L.GROUP

Condensed Consolidated Interim Financial Statements for six months ended 30 June 2013

In thousands of EUR

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For six months ended 30 June 2013	For six months ended 30 June 2012
Revenue	8	116,295	41,214
Other income		1,839	2,005
Content cost		(23,321)	(10,570)
Satellite capacity cost		(3,652)	—
Internet link cost		(3,346)	(563)
Materials cost	9	(3,449)	(1,381)
Staff costs	10	(10,796)	(4,137)
Depreciation cost		(23,471)	(8,739)
Amortisation of intangible assets		(9,052)	(2,139)
Other operating expenses	11	(26,074)	(9,186)
Results from operating activities		14,973	6,504
Finance income		1,632	25
Finance cost		(10,691)	(2,817)
Net finance cost	12	(9,059)	(2,792)
Profit before tax		5,914	3,712
Income tax expense	13	(1,743)	(420)
Profit for the period		4,171	3,292
Other comprehensive income			
Currency translation differences		(2,481)	53
Other comprehensive income for the period, net of tax		(2,481)	53
Total comprehensive income for the period		1,690	3,345
Profit attributable to			
Owners' of the Group		3,986	3,317
Non-controlling interest		185	(25)
Total Profit for the period		4,171	3,292
Comprehensive income attributable to			
Owners' of the Group		1,505	3,370
Non-controlling interest		185	(25)
Total Comprehensive income for the period		1,690	3,345

This condensed consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements.

SLOVENIA BROADBAND S.A.R.L.GROUP

Condensed Consolidated Interim Financial Statements for six months ended 30 June 2013

In thousands of EUR

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2013	31 December 2012	1 January 2012
Property, plant and equipment	14	197,434	190,389	72,703
Goodwill	16	386,026	372,809	88,634
Intangible assets	15	124,320	109,564	22,768
Investment property		608	633	683
Deferred costs		—	108	448
Other financial assets		1,012	8,066	—
Deferred tax assets		1,774	1,831	267
Non-current assets		711,174	683,400	185,503
Programming rights held for sale	20	—	5,654	—
Inventories		178	—	—
Trade and other receivables	19	44,735	36,986	16,302
Short term loans receivables		869	5,754	307
Prepayments	21	12,521	6,945	66
Income tax receivables		626	658	171
Cash and cash equivalents	22	16,221	15,193	5,494
Current assets		75,150	71,190	22,340
Total assets		786,324	754,590	207,843
Issued and fully paid share capital		200	200	17
Share premium		1,800	1,800	—
Preferred equity		277,060	276,918	101,736
Translation reserves		(4,095)	(226)	—
Contribution by the owner		168,379	168,379	—
Accumulated profits/(losses)		(924)	(4,910)	(1,830)
Equity attributable to owners of the Group		442,420	442,161	99,923
Non-controlling interests		9,201	8,250	9,967
Total equity	23	451,621	450,411	109,890
Loans and borrowings	24	228,690	214,093	48,440
Long term provisions		2,161	1,970	3,510
Deferred revenue	26	7,514	7,762	567
Finance lease liabilities	14	2,802	1,536	898
Deferred tax liabilities		16,264	14,276	540
Employee benefits	25	633	540	309
Non-current liabilities		258,064	240,177	54,264
Trade and other payables	27	64,361	56,199	18,806
Current tax liabilities		381	103	153
Loans and borrowings	24	10,220	5,253	23,347
Deferred revenue	26	1,094	1,025	521
Finance lease liabilities	14	583	1,422	862
Current liabilities		76,639	64,002	43,689
Total liabilities		334,703	304,179	97,953
Total equity and liabilities		786,324	754,590	207,843

This condensed consolidated statement of financial position is to be read in conjunction with the notes to the financial statements.

These financial statements have been approved for issue by the Board of Managing Directors on 11 October 2013 and signed on their behalf:

Manager
Antonio Longo

Manager
Alan Dundon

Represented by Alan Dundon by virtue of a proxy given in Luxembourg on October 4, 2013.

SLOVENIA BROADBAND S.A.R.L.GROUP

Condensed Consolidated Interim Financial Statements for six months ended 30 June 2013

In thousands of EUR

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013	Share Capital	Share premium	Preferred equity	Translation reserves	Contribution by the owner	Accumulated profits/ (losses)	Total	Non-controlling interest	Total equity
Balance at 1 January 2012	**17**	**—**	**101,736**	**—**	**—**	**(1,830)**	**99,923**	**9,967**	**109,890**
Total comprehensive income for the period									
Profit for the year	—	—	—	—	—	3,317	3,317	(25)	3,292
Total other comprehensive income	—	—	—	53	—	—	53	—	53
Total comprehensive income for the year	**—**	**—**	**—**	**53**	**—**	**3,317**	**3,370**	**(25)**	**3,345**
Translation difference on equity items	—	—	—	(406)	—	406	—	—	—
Balance at 30 June 2012	**17**	**—**	**101,736**	**(353)**	**—**	**1,893**	**103,293**	**9,942**	**113,235**

For the six months ended 30 June 2013	Share Capital	Share premium	Preferred equity	Translation reserves	Contribution by the owner	Accumulated profits/ (losses)	Total	Non-controlling interest	Total equity
Balance at 1 January 2013	**200**	**1,800**	**276,918**	**(226)**	**168,379**	**(4,910)**	**442,161**	**8,250**	**450,411**
Total comprehensive income for the period									
Profit for the period	—	—	—	—	—	3,986	3,986	185	4,171
Total other comprehensive income	—	—	—	(2,481)	—	—	(2,481)	—	(2,481)
Total comprehensive income for the period	**—**	**—**	**—**	**(2,481)**	**—**	**3,986**	**1,505**	**185**	**1,690**
Acquisition of TV Kanal Ultra	—	—	—	—	—	—	—	670	670
Translation difference on equity items	—	—	—	(1,388)	—	—	(1,388)	96	(1,292)
Other changes in equity	—	—	142	—	—	—	142	0	142
Total Contributions by and distributions to Owners	**—**	**—**	**142**	**(1,388)**	**—**	**—**	**(1,246)**	**766**	**(480)**
Balance at 30 June 2013	**200**	**1,800**	**277,060**	**(4,095)**	**168,379**	**(924)**	**442,420**	**9,201**	**451,621**

This condensed consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.

SLOVENIA BROADBAND S.A.R.L.GROUP

Condensed Consolidated Interim Financial Statements for six months ended 30 June 2013

In thousands of EUR

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For six months ended 30 June 2013	2012
Cash flows from operating activities			
Profit before tax		5,914	3,712
Adjustments for:			
Depreciation		23,471	8,739
Amortisation		9,052	2,139
Impairment on receivables	11	2,743	446
Impairment on property plant and equipment	11	840	—
Gain on revaluation of investment as a part of step acquisition	17	(1,051)	—
Unrealised net finance cost		6,025	2,873
Operating cash flows before working capital changes		**46,994**	**17,909**
Changes in working capital:		**(17,725)**	**(574)**
(Increase) in trade and other receivables		(4,541)	(2,008)
Increase in provision and deferred income		260	5,863
Decrease in deferred costs		108	448
Decrease/(Increase) in other current assets		7,636	(1,086)
Increase in other current liabilities		(157)	5
Increase in prepayments		(5,576)	(103)
Decrease in trade and other payables		(15,455)	(3,693)
Cash generated from operations		**29,269**	**17,335**
Interest paid		(7,338)	(2,817)
Income tax paid		(1,213)	76
Net cash from operating activities		**20,718**	**14,594**
Purchase of property, plant and equipment	14	(25,302)	(9,935)
Purchase of intangible assets	15	(530)	(1,876)
Acquisition of subsidiaries	17	(15,416)	(5,616)
Increase of non-current financial assets		(1,535)	(14,356)
Repayment of financial assets		4,885	2,501
Net cash used in investing activities		**(37,898)**	**(29,282)**
Proceeds from borrowings	24	20,208	68,993
Repayment of borrowings	24	(2,000)	(50,717)
Net cash from financing activities		**18,208**	**18,276**
Net increase in cash and cash equivalents		**1,028**	**3,588**
Cash and cash equivalents at 1 January	22	**15,193**	**5,494**
Cash and cash equivalents at 30 June	22	**16,221**	**9,082**

This condensed consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

Slovenia Broadband S.a.r.l. is a company domiciled in Luxembourg registered on 21st of April 2009. The consolidated interim financial statements of the company as at and for the six months ended 30 June 2013 comprise the Company (Slovenia Broadband S.a.r.l. Luxembourg) and its subsidiaries (together referred to as the „Group"). The Group is primary involved in providing of Video, Data and Voice services to subscribers. Through its subsidiaries, the Group's activities are based in Serbia, Slovenia, Montenegro, Bosnia and Herzegovina, Macedonia, Croatia and Cyprus.

During December 2012, the Group had a significant acquisition of entities (Adria Cable BV Group and Adria Media BV Group), of which Serbia Broadband—Srpske kablovske mreže d.o.o, (SBB) was the main operating entity. As a result of SBB being acquired, Group operations have increased accordingly as outlined in Operating Segments primarily related to Serbia (Note 7).

Broadband Investments S.a.r.l. Luxembourg is the ultimate parent company, which owns 100% of Slovenia Broadband S.a.r.l. Luxembourg.

Ownership structure

The Company—Slovenia Broadband S.a.r.l. Luxembourg

Subsidiaries:

- Adria Cable B.V. (100%)
- Bosnia Broadband S.a.r.l. (100%)
- Adria Media B.V. (100%)
- Adria Media Limited (100%)
- KDS NS d.o.o. (100%)
- Absolut OK d.o.o. (100%)
- Beogrid d.o.o. (100%)
- Serbia Broadband—Srpske kablovske mreže d.o.o, (SBB)
- Totalna televizija d.o.o. Croatia (100%)
- Total TV d.o.o. Slovenia (100%)
- Total TV Montenegro d.o.o (100%)
- Total TV d.o.o. Bosnia and Herzegovina (100%)
- Total TV d.o.o. Macedonia (75%)
- CAS Media d.o.o. Serbia (100%)
- JET TV d.o.o. Serbia (100%)
- Adria DTH B.V. Netherlands (100%)
- TV Kanal Ultra d.o.o Serbia (75%)
- Cinemania d.o.o. Serbia (100%)
- Telemach d.o.o. Slovenia (100%)
- Telemach Rotovž.o.o. Slovenia (77.69%)
- Telemach Tabor d.o.o. Slovenia (60.91%)
- Telemach Tezno d.o.o. Slovenia (46.52%)*
- Telemach Pobrežje d.o.o. Slovenia (62.06%)
- Kabel TV d.o.o. Slovenia (100%)
- Telemach d.o.o. Bosnia and Herzegovina (100%)
- Telekabel d.o.o. Bosnia and Herzegovina (100%)
- Teleinvest d.o.o. Slovenia (100%)
- ViNet d.o.o. Bosnia and Herzegovina (100%)
- Art Net d.o.o. Bosnia and Herzegovina (100%)
- S.C. IKO Balkan S.R.L.
- IKO Media Pro Slovenia (100%)
- IKO Media d.o.o., Croatia (100%)
- IKO Media d.o.o., Serbia (100%)

* based on consideration of other factors, such as Board appointment, control is deemed even if ownership is 46.52%

2. Basis of preparation

a) Statement of compliance

The consolidated interim financial statements of the Group have been prepared in accordance with IAS 34 Interim Financial Reporting and accounting policies set out in Note 3 to the consolidated interim financial statements. The financial statements and comparative information are unaudited but the condensed consolidated interim financial statements for the six months ended 30 June 2013 have been reviewed by the independent auditors.

2. Basis of preparation (Continued)

These are the Group's first IFRS consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

The consolidated interim financial statements were authorised for issue by the Board of Directors on 11 October 2013.

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value and
- available for sale financial assets are measured at fair value.

c) Going concern

The consolidated financial statements are prepared in accordance with the going concern concept, which assumes that the Group will continue its operations in the foreseeable future.

d) Functional and presentation currency

These consolidated interim financial statements are presented in Euros, which is the Group's presentation currency. All financial information presented in Euros has been rounded to the nearest thousand. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

e) Use of estimates and judgements

The consolidated interim financial statements require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Note 3 (d,e)—useful life of plant, equipment and intangibles,

Note 16—goodwill and trademark impairment (key assumptions used in discounted cash flow method),

Note 30—Regulatory and legal matters.

3. Significant accounting policies

a) Basis of consolidation

Business combinations

The Group has performed acquisitions during the current and the comparative periods that have been described in details in Note 17.

3. Significant accounting policies (Continued)

Business combinations are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, any non-controlling interest in the acquiree is measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. Consideration transferred includes any contingent consideration measured at its acquisition date fair value. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that qualifies for classification as equity is not re-measured until it is finally settled. Acquisition costs incurred are expensed.

Any excess of the cost of the acquisition over the net identifiable assets acquired is recognised as goodwill in the balance sheet. If the cost is lower than the net identifiable assets acquired, the difference is recognised in profit or loss.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated interim financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Special purpose entities

In case the Group established special purpose entities (SPEs) for investment purposes, these are consolidated if, based on an evaluation of the substance of its relationship the Group is entitled to the SPE's risks and rewards. Currently the group does not need to consolidate any SPEs.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated interim financial statements.

b) Adoption of new and revised Standards

Standards, amendments and interpretations effective in 2013 and relevant for the Group

—IAS 1 (amended). The IASB published amendments to IAS 1 Presentation of Financial Statements in June 2011. The amendments to IAS 1 retain the 'one or two statement' approach at the option of the entity and only revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be reclassified to the profit or loss section of the income statement (recycled) and those elements that will not. The application of the amendment is required for annual periods beginning on or after July 1, 2012. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements of the Group.

3. Significant accounting policies (Continued)

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

—IAS 32 (amended). The IASB published amendments to IAS 32—Financial Instruments: Presentation in December 2011. The amendments to IAS 32 clarify the IASB's requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32. The pronouncement clarifies:

- the meaning of "currently has a legally enforceable right of set off the recognized amounts"; and
- that some gross settlement systems may be considered equivalent to net settlement.

The application of the amendment is required for annual periods beginning on or after January 1, 2014. A reporting entity must apply the amended standard retrospectively. We do not expect that the adoption of the amended standard would result in significant changes in the financial statements of the Group.

—IFRS 9 Financial Instruments—The standard forms the first part of a three-phase project to replace IAS 39 (Financial Instruments: Recognition and Measurement) with a new standard, to be known as IFRS 9—Financial Instruments. IFRS 9 prescribes the classification and measurement of financial assets and liabilities. The remaining phases of this project, dealing with the impairment of financial instruments and hedge accounting, as well as a further project regarding derecognition, are in progress.

Financial assets—At initial recognition, IFRS 9 requires financial assets to be measured at fair value. After initial recognition, financial assets continue to be measured in accordance with their classification under IFRS 9. Where a financial asset is classified and measured at amortized cost, it is required to be tested for impairment in accordance with the impairment requirements in IAS 39. IFRS 9 defines the below rules for classification.

- IFRS 9 requires that financial assets are classified and subsequently measured at either amortized cost or fair value. There are two conditions needed to be satisfied to classify financial assets at amortized cost: (1) The objective of an entity's business model for managing financial assets has to be to hold assets in order to collect contractual cash flows; and (2) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Where either of these conditions is not satisfied, financial assets are classified at fair value.
- Fair Value Option: IFRS 9 permits an entity to designate an instrument, that would otherwise have been classified in the amortized cost category, to be at fair value through profit or loss if that designation eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch').
- Equity instruments: The default category for equity instruments is at fair value through profit or loss. However, the standard states that an entity can make an irrevocable election at initial recognition to present all fair value changes for equity investments not held for trading in other comprehensive income. These fair value gains or losses are not reported as part of a reporting entity's profit or loss, even when a gain or loss is realized. Only dividends received from these investments are reported in profit or loss.
- Embedded derivatives: The requirements in IAS 39 for embedded derivatives have been changed by no longer requiring that embedded derivatives be separated from financial asset host contracts.
- Reclassification: IFRS 9 requires reclassification between fair value and amortized cost when, and only when there is a change in the entity's business model. The 'tainting rules' in IAS 39 have been eliminated.

3. Significant accounting policies (Continued)

Financial liabilities—IFRS 9 "Financial Instruments" sets the requirements on the accounting for financial liabilities and replaces the respective rules in IAS 39 "Financial Instruments: Recognition and Measurement". The new pronouncement

- Carries forward the IAS 39 rules for the recognition and derecognition unchanged.
- Carries forward most of the requirements in IAS 39 for classification and measurement.
- Eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.
- Changes the requirements related to the fair value option for financial liabilities to address own credit risk.

The IASB issued amendments to IFRS 9 in December 2011 and deferred the mandatory effective date of IFRS 9 from January 1, 2013 to January 1, 2015. The deferral will make it possible for all phases of the IFRS 9 project to have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The adoption of the new standard will likely result in changes in the financial statements of the Group, the exact extent of which we are currently analyzing.

—IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended) and IAS28 (amended)—The IASB published IFRS 10—Consolidated Financial Statements, IFRS 11—Joint Arrangements, IFRS 12—Disclosures of Interests in Other Entities and amendments to IAS 27—Separate Financial Statements and IAS 28—Investments in Associates and Joint Ventures in May 2011.

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31—Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement, whereby the parties that have joint control have rights to the net assets.

IFRS 12 will require enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27—Separate Financial Statements. The other portions of IAS 27 are replaced by IFRS 10.

3. Significant accounting policies (Continued)

IAS 28—Investments in Associates and Joint Ventures is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

The IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 in June 2012. The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements and provide additional transition relief in IFRS 10, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.

An entity shall apply this package of five new and revised standards for annual periods beginning on or after January 1, 2014. The Group does not have significant joint arrangements and the proportionately consolidated companies does not represent significant portion of the Group, therefore we do not expect that the adoption would result in significant changes in the financial statements of the Group. The management of the Group does not anticipate that any consolidation decision would be different under the new standard.

—IFRS 13 The IASB published IFRS 13—Fair Value Measurement in May 2011in order to replace the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'.

The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorized into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgment). The new standard should be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. We do not expect that the adoption of the new standard would result in significant changes in the financial statements of the Group, the exact extent of which we are currently analyzing.

—IFRIC 21—Levies—The interpretation provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognized progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

c) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at

In thousands of EUR

3. Significant accounting policies (Continued)

that date. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the reporting date,
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of transactions) and,
- all resulting exchange differences are recognised in other comprehensive income and presented as a separate component of equity

Applied foreign exchange rates

Exchange rates applied during the compilation of the IFRS consolidated interim financial statements are as follows:

Currency	1 January 2012	31 December 2012	30 June 2013	6 months ending 30 June 2012	6 months ending 30 June 2013
RSD	104.640	113.718	114.172	110.889	111.927
USD	1.294	1.320	1.306	1.296	1.313
BAM	1.956	1.956	1.956	1.956	1.956
HRK	7.523	7.563	7.451	7.539	7.568
MKD	61.499	61.500	61.682	61.548	61.622

d) Financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. Significant accounting policies (Continued)

Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment losses.

Trade and other receivables

Short-term trade and other receivables with no stated interest rate are measured at the original invoice amount. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables should be impaired. The amount of the allowance is recognised in the statement of profit or loss within 'other operating expenses'.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Non-derivative financial liabilities

The Group initially recognises financial liabilities on the date that they are originated. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities comprise loans and borrowings, bank overdrafts, finance lease liabilities, trade and other payables.

Borrowings

Borrowings are recognised initially at fair value (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price). In subsequent periods, borrowings are carried at amortised cost using the effective interest method; any difference between fair value of the proceeds and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Trade and other payables

Short-term payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3. Significant accounting policies (Continued)

Derivative financial instruments

Derivatives are classified as a current asset or liability. The Group does not apply hedge accounting and hence, gains and losses from fair value revaluation are recognised in the profit or loss.

e) Property, plant and equipment

Recognition and measurement

Property, plant and equipment comprise mainly cable network (coaxial and optical primary and secondary network and backbone) and customer premise equipment (CPE—receivers and modems). Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Major renovations are depreciated over shorter of remaining useful life of an asset or period until new renovation. All other repairs and maintenance are recognized in profit or loss during the financial period in which they are incurred.

Depreciation

Depreciation is based on the depreciable amount of an asset. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative periods are as follows:

	Number of years
Buildings	10 - 40
Cable network	10
Vehicles	4 - 5
Head-end and optical equipment	3 - 5
Computer equipment	3

3. Significant accounting policies (Continued)

f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

g) Intangible assets

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Trademarks

Trademarks are acquired in a business combination and are recognised at fair value at the acquisition date. Due to current trend of fast technological and market changes in telecommunication industry, the Group decided to start to amortize trademarks over 15 year period from 1 January 2013. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks are amortised over their useful lives, unless it is indefinite, where they are carried at cost less accumulated impairment losses.

Trademarks include three trade names: SBB, Total TV and Sport Klub.

Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Software is recognized at cost less accumulated amortisation and accumulated impairment. Cost includes expenditure to acquire software and directly attributable costs to prepare it for its intended use.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the relevant criteria are satisfied.

Directly attributable costs, capitalised as part of the software product, includes software development employee cost and appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives, which usually does not exceed 5 years.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3. Significant accounting policies (Continued)

Amortisation

Amortisation is based on the depreciable amount of an asset and is calculated using straight line method to allocate their cost over their estimated useful lives as follows:

	Number of years
Trademark	15
Customer relationship—Cable	8 - 14
Customer relationship—DTH	7
Software & licences	3 - 5

The useful lives of customer relations for cable and DTH are estimated through valuation exercise using the income approach based upon current market conditions.

Amortisation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

h) Leased assets

Finance lease

Leases of property, plant and equipment, where the Group as the lessee has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance costs is charged to the statement of income over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease. The Group leases mainly premises under operating lease contracts.

i) Programming rights held for sale

Programming rights include licensed program rights for various sport events. These rights are expensed at the moment of sale.

j) Impairment of non-financial assets

Non-financial assets, except deferred tax assets, income tax receivable and inventories are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Impairment losses are recognised in the statement of profit or loss. Non-financial assets, excluding goodwill, that suffered impairment, are reviewed for possible reversal of the impairment at each reporting date.

Goodwill is reviewed annually for impairment.

3. Significant accounting policies (Continued)

k) Employee benefits

In accordance with the regulations prevailing in the countries where the Group operates, the Group has an obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. Entities within the Group are also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

The Group does not operate any private pension scheme or post retirement defined contribution plan except the state mandatory pension scheme in each country of operation.

The calculation of retirement benefits is performed annually by a qualified actuary using the projected unit credit method.

Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, if it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Accumulating compensated absences may be carried forward and used in future periods if the current period's entitlement has not been fully used. The expected cost of accumulated compensated absences is recognised in the amount that is expected to be paid as a result of the unused entitlement that has accumulated as of the consolidated statement of financial position date.

In the instance of non-accumulating compensated absences no liability or expense is recognised until the time of the absence.

l) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

m) Revenue

Services

Revenue from services rendered is recognised within the profit or loss in proportion to the service period provided (subscription fee) at the reporting date.

The Group generates four main service revenue streams which are recognised in the period when the service is provided: Cable TV (CATV), Digital TV (D3), cable and fibre Internet service, and satellite TV (Direct to Home—DTH). Additionally, corporate and retail telecommunication service revenue (Voice-Over-Internet-Protocol—VOIP) is recognised in the period in which these are provided. The rental of carriage services to local TV stations are charged and recognised in the month when service is provided.

3. Significant accounting policies (Continued)

Carriage fee

Carriage fee revenue relates to sales of content to cable operators. Revenue is recognised on straight line basis over the sales contract period.

Other revenue

Other revenue mainly arises from sales of programming rights, advertising and lease of cable network.

n) Costs

Content, satellite capacity and internet links costs are recorded as the services are provided.

Content costs

Content cost relates to royalty fees paid to broadcasting organisations for their TV content. The Group has separate contracts with broadcasting organisations which define conditions under which programs will be broadcasted.

Satellite capacity and internet link costs

Satellite capacity and internet link costs are recorded based on the Group's contractual agreements with its vendors for satellite and internet link capacity.

o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

p) Finance income and finance costs

Finance income comprises interest income on funds invested (including short-term bank deposits), and foreign currency gains. Interest income is recognised as it accrues in profit or loss.

Finance costs comprise interest expense on borrowings and foreign currency losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

q) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

In thousands of EUR

3. Significant accounting policies (Continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The prevailing corporate tax rates are:

Country	Tax rate in 2013	Tax rate in 2012
Luxembourg	21%	21%
Serbia	15%	10%
Montenegro	9%	9%
Slovenia	17%	18%
Macedonia	10%	10%
Bosnia & Herzegovina	10%	10%

On 15 December 2012 the Serbian Parliament adopted the Law on Amendments to the Corporate Income Tax Law by which corporate income tax rate is increased from 10% to 15%, effective in 2013.

r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses that relate to transactions with any of the Group's other components, it is reviewed by the Group's chief operating decision makers and for which discrete financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

4. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

4. Financial risk management (Continued)

Risk management framework

The Group's top management has overall responsibility for the establishment and oversight of the Group's risk management framework, and development and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The finance function monitors compliance with the Group's risk management policies and procedures, and provide top management with feedback regarding the performance of the framework in relation to the risk faced by the Group.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group assess that it has no significant concentration of credit risk due to its exposure to a broad customer base in each service line (CATV&DTH). No concentration of credit risk on a geographical basis is assessed as material. The Group has policies that limit the amount of credit exposure for each customer including services disconnection procedure.

Credit risk exposure is disclosed in Note 18.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific provision that relates to individually significant exposures, and a general provision established for mass billing customers in respect of losses that have been incurred but not yet identified. The general allowance is determined based on Group's provisioning policy for mass billing customers.

Cash and cash equivalents

The Group held cash and cash equivalents of EUR 16,221 thousand as 30 June 2013 (31 December 2012: EUR 15,193 thousand) with reputable local commercial banks, which represents its maximum credit exposure on these assets. The Group limits its exposure to credit risk by making short term deposits. Management actively monitors credit risk exposure and given that the Group only has invested in bank deposits management does not expect any counterparty to fail to meet its obligations.

b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

4. Financial risk management (Continued)

The Group's policy on liquidity is to maintain sufficient liquid resources to meet its obligations as they fall due, which has been achieved through appropriate bank arrangements. Typically the Group ensures that it has sufficient cash on demand to meet expected current liabilities as they fall due, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, the Group use ancillary facility for working capital purposes.

Refer to Note 18 for the analysis of liquidity risk.

c) Market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

i. Currency risk

Currency risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the functional currency of the Group entity holding the asset or obligation.

The Group is mainly exposed to currency risk on purchases and borrowings which are denominated in Euros and US dollars, while the major share of revenue is denominated in Serbian dinars. The Group has exposure to currency fluctuation of RSD (Serbian dinar) to Euro given that it's most significant operations are with SBB Serbia for which RSD is functional currency. The Group's currency risk policy is implemented through regular price adjustments on the Serbian market, following the depreciation of Serbian dinar against euro.

The Group's financial assets and liabilities are included in the table categorised by currency at their carrying amount.

Refer to Note 18 for the analysis of currency risk.

ii. Price risk

The Group is not exposed to material price risks on its financial instruments. The Group periodically reviews financial position of the subsidiaries.

iii. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows relating to financial assets are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings issued at variable rates. The Group closely monitors current market rates in order to minimise negative effects of significant movements in market rates.

The Group uses interest rate swaps as a means of managing interest rate risk associated with outstanding debt entered into in the normal course of business. The Group does not use these instruments for speculative purposes. Interest rate derivative financial instruments are measured at fair value at each reporting date with changes in fair value recorded in profit or loss for the period.

Refer to Note 18 for the analysis of interest rate risk.

4. Financial risk management (Continued)

Capital management

Due to the structure of long-term financing through leveraged buyout arrangement, the management policy is to maintain a stable return on investment so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group's performance management is focused on generating budgeted adjusted operating results as well as maintaining overall liquidity position to repay the financial debt.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for investors and to maintain an optimal liquidity position.

There were no changes in the Group's approach to capital management during the year.

5. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment of goodwill and trademark

The Group tests annually whether goodwill and trademark with indefinite useful lives, suffer any impairment in accordance with the Group's accounting policy. Discounted cash flow method for annual impairment testing is based on management assumptions on projected revenue growth and liquidity position (Note 16).

b) Useful lives of property, plant and equipment and intangibles

The management estimate useful lives and related depreciation rates for its plant and equipment and intangibles on an annual basis. These estimates are based on technological development, projected growth in customer base and further development of service lines. They are subject to change and influenced by substitutes available on the market. The management will increase the depreciation charge when useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned. There are no residual values on long-term assets. The Group has assessed that the customer relationships have a useful economic life of between 7 and 14 years.

6. Explanation of transition to IFRSs

As stated in note 2(a) these are the Group's first consolidated interim financial statements prepared in accordance with IAS 34.

The Group's IFRS transition date is 1 January 2012. The accounting policies set out in note 3 have been applied in preparing the interim financial statements for the six months ended 30 June 2013, the comparative information for the statement of financial position as of 31 December 2012 and as of 1 January 2012 and the comparative information for the consolidated statement of profit or loss and consolidated statement of cash flow for the six months ended 30 June 2012.

The Group applied IFRS 1 in preparing these consolidated interim financial statements.

Subject to certain exceptions, IFRS 1 requires retrospective application of the version of IFRS effective for the first reporting year under IFRS. In preparing these interim IFRS financial statements, the Group has applied the mandatory exceptions full retrospective application of IFRS that are expected to be effective at 31 December 2013.

6. Explanation of transition to IFRSs (Continued)

Exceptions from retrospective application which are mandatory under IFRS 1 are:

(a) **Derecognition of financial assets and liabilities exception.** Financial assets and liabilities derecognised before the date of the transition are not re-recognised under IFRS. Management did not choose to apply the IAS 39 derecognition criteria from an earlier date.

(b) **Hedge accounting exception.** The Group does not apply hedge accounting.

(c) **Non-controlling interest exception.** The Group elected not to restate business combinations. The balance of non-controlling interests under previous GAAP is not changed other than for adjustments made as part of the transition to IFRS. This means that the following specific requirements of IFRS in relation to non-controlling interests are applied prospectively from the date of transition:

- the attribution of total profit or loss between non-controlling interests and the owners of the parent;
- the accounting for changes in ownership interests without the loss of control; and
- the accounting for loss of control in a subsidiary.

If a subsidiary is being consolidated for the first time, the non-controlling interests are recognised as part of the initial consolidation adjustment.

(d) **Estimates exception.** Estimates under IFRS at 1 January 2012 and 31 December 2012 should be consistent with estimates made for the same dates under previous GAAP, unless there is evidence that those estimates were in error. There were no errors in the estimations made under previous GAAP at the date of transition, so no adjustment is needed under IFRS

(e) **Classification and measurement of financial assets.** Classification and measurement of financial assets are based on facts and circumstances existing at the transition date.

The company has applied the following transition exemptions to full retrospective application of IFRS:

(a) **Exemption from IFRS 3 retrospective application:** IFRS 1 Appendix C provides an election for the first time adopter to apply the regulations of IFRS 3 only for business combination occurring after the transition date, that is 1 January 2012.

(b) **Subsidiary exemption based on IFRS 1 D17:** Based on this requirement, since many of the subsidiaries and subgroups of the Group has applied IFRS prior to 1 January 2012, the assets and liabilities of these subsidiaries have been consolidated based on their IFRS accounting value after adjusting for the effect of business combination and consolidation adjustments.

As a result of the first consolidation at the date of transition, the Group recognised goodwill of EUR 55,864 thousand.

(c) **IFRS exemption related to translation of foreign operations:** Based on IFRS D13 the Group as the first time adopter the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRSs, that is 1 January 2012.It also means that the gain or loss on a subsequent disposal of any foreign operation exclude translation differences that arose before the date of transition to IFRSs and include later translation differences.

The parent company Slovenia Broadband S.a.r.l. did not issue consolidated financial statements based on Luxembourg GAAP for the comparative periods, therefore direct comparison of the previous GAAP information and IFRS is not possible. Providing a comparison between the parent company's standalone previous GAAP accounts and the IFRS consolidated figures would not be meaningful, since the parent company does not represent a major part of the Group's operation. The group does not have a single dominant subsidiary or a subgroup that would be a suitable and meaningful basis of comparison as

6. Explanation of transition to IFRSs (Continued)

previous GAAP information. As a result of that the Group does not present comparison with previous GAAP in the consolidated interim financial statements.

7. Operating segments

Operating segments are components that engage in business activities that may earn revenues or incur expenses as a result of the services provided. Segment information is provided on the basis of geographic areas, being the basis on which the Group manages its interests. Operating results of countries are regularly reviewed by the chief operating decision maker (CODM) and discrete financial information is available on that level. Revenue is attributed to a country based on the location of the Group's company reporting the revenue.

The functions of CODM are performed by the Board of Directors of the Group.

The Group has four reportable segments, three in cable and one in media business line, which are the Group's strategic divisions. Cable strategic divisions for each of key markets, offer similar services and are managed jointly since they have unified service development and marketing strategy. For each of the strategic divisions, the CODM reviews internal management reports on at least monthly basis. Revenue is attributed to a country based on the location of the Group's company reporting the revenue. The following summary describes the operations in each of the Group's reportable segments.

- SBB Group includes cable operations in Serbia and DTH (satellite TV) operations in region (Slovenia, Croatia, Bosnia, Serbia, Montenegro and Macedonia)
- Telemach Slovenia Group includes cable operations in Slovenia
- Telemach Bosnia Group includes cable operations in Bosnia and Herzegovina
- Adria Media Group includes content operations in region

Information regarding the results of each reportable segment is included below. Performance is measured based on segment earnings before interest, tax, depreciation and amortisation (EBITDA), as included in the internal management reports that are reviewed by the Group's management. Segment EBITDA, prepared based on local GAAP adjusted to meet the requirements of internal reporting, is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

(a) Description of products and services from which each reportable segment derives its revenue

The Group's main activities are providing of Video, Data and Voice services to subscribers in the countries of South-East Europe. The Group operates in Serbia providing Video, Data and Voice services, as well as in five other countries: Slovenia, Bosnia and Herzegovina, Croatia, Montenegro and Macedonia providing Video and Data services.

Video service include provision of TV channel mix and IP Video streaming services, which is marketed into basic, extended and premium packages. TV mix range from 60 to over 100 TV channels.

Data service comprise internet packages for residential and business customers, as well as various supplementary services for business customers (connectivity and managed services, data center and cloud services).

Voice service includes fixed and mobile services to residential and business customers.

Overall operations grew in 2012 mostly through acquisitions of Adria Cable Group and Adria Media Group.

For detailed explanation of revenue streams please see Note 8.

In thousands of EUR

7. Operating segments (Continued)

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic business units segmented by countries. They are managed separately because each business unit requires different marketing strategies and service level.

(c) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on local GAAP adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

i. consolidation adjustments can differ from the ones required by IFRS

ii. non-IFRS profit measures (such as earnings before income tax, depreciation and amortization—EBITDA) are also included in the segment report

iii. segment financial information does not include any figures other than operating profit and loss of the segment (such as assets or liabilities etc.)

CODM evaluates performance of each segment based on revenue, gross profit and other key performance indicators (e.g. average revenue per user) and does not regularly review assets and liabilities of the segments.

(d) Information about reportable segment profit or loss

Segment information after elimination of inter-company transactions for the reportable segments for the 6 months ended 30 June 2013 is set out below:

(Segment information below has been derived from unaudited non-IFRS GAAP management accounts prepared for CODM evaluation purposes.)

	Slovenia	Serbia	Bosnia	Other*	Total
REVENUES FROM THIRD PARTIES	35,377	62,991	9,065	7,826	115,259
TOTAL DIRECT COSTS	9,427	23,701	2,633	7,540	43,301
TOTAL FIXED—OPERATING EXPENSES	9,290	13,659	2,548	3,268	28,765
Total EBITDA before M&O	16,660	25,630	3,885	6,519	52,694
EBITDA	16,230	25,630	3,885	6,519	52,264
EBT	2,825	2,394	246	755	6,220
Net income	1,691	2,383	246	442	4,762

* Countries of operations include Croatia, Macedonia, Montenegro; Column other includes intercompany eliminations.

In thousands of EUR

7. Operating segments (Continued)

(Segment information below has been derived from unaudited non-IFRS GAAP management accounts prepared for CODM evaluation purposes.)

	Slovenia	Serbia*	Bosnia	Other	Total
REVENUES FROM THIRD PARTIES	32,111		6,352	2,768	41,231
TOTAL DIRECT COSTS	8,214		1,761	1,024	10,999
TOTAL FIXED—OPERATING EXPENSES	7,694		1,837	586	10,117
Total EBITDA before M&O	16,203		2,755	1,158	20,116
EBITDA	16,055		2,755	1,158	19,968
EBT	5,030		(511)	895	5,414
Net income	4,305		(511)	864	4,658

* Segment for Serbia contains Adria Cable B.V. Group that was not part of the Group in previous year; therefore there is no comparable data available.

(e) Reconciliation of operating segment revenue and profit

	Six months ended 30 June 2013
Total reportable segment revenue	**115,259**
Differences due to consolidation adjustments	1,036
Net sales revenue	**116,295**

	30 June 2013
Total reportable segment profit	**4,762**
Differences due to consolidation adjustments	(591)
Profit for the year	**4,171**

(g) Major customers

The Group provides its services to individual and corporate customers; each customer does not exceed 10% of the total revenues. Revenue includes operating revenue.

(h) Geographical segments

Segment information above is already provided on the basis of geographic areas, being the basis on which the Group manages its interests.

8. Revenue

For six months ended 30 June	2013	2012
Subscription fee	101,000	38,027
Carriage fee	10,591	37
Other revenue	4,704	3,150
Total revenue	**116,295**	**41,214**

In thousands of EUR

9. Materials cost

For six months ended 30 June	2013	2012
Installation materials	754	139
Office supplies	360	70
Energy and fuel costs	1,415	700
Cost of end-user equipment	920	472
Total materials costs	**3,449**	**1,381**

10. Staff costs

For six months ended 30 June	2013	2012
Salaries and social security	9,189	3,317
Part—time employment costs	455	—
Employee benefit cost	465	374
Unused vacations	122	122
Other staff costs	565	324
Total staff costs	**10,796**	**4,137**

11. Other operating expenses

For six months ended 30 June	2013	2012
Rent of premises, poles and ducts	4,956	2,713
Management fees	2,430	—
Marketing and promotion expenses	2,443	882
Bank charges	316	156
Legal and administrative fee	3,076	878
Phone and postal expenses	1,362	573
Maintenance costs	2,251	985
Customer service costs	829	374
Trade receivable impairment allowance	2,743	446
License fees	417	56
Impairment of property, plant and equipment	840	—
Other expenses	4,411	2,123
Total other operating expenses	**26,074**	**9,186**

Other expenses in the six months ending 30 June 2013 include advisory fees of EUR 472 thousand, donations of EUR 163 thousand, withholding tax penalty of EUR 253 thousand, amortisation of financing fees of EUR 288 thousand, legal consultancy fees of EUR 170 thousand, consultancy fees related to distribution rights of Premier League of EUR 221 thousand and EUR 183 thousand loss on sale of materials.

In thousands of EUR

12. Finance income and finance cost

For six months ended 30 June	2013	2012
Interest expense	7,245	2,615
Other finance cost	1,650	158
Other financial gain	(46)	—
Foreign exchange losses	1,796	44
Foreign exchange gains	(1,586)	(25)
Total finance cost—net	**9,059**	**2,792**

13. Income tax expense

For six months ended 30 June	2013	2012
Current tax	467	34
Deferred tax	1,276	386
Income tax expense	**1,743**	**420**

14. Property, plant and equipment

The majority of property, plant and equipment relates to cable network (backbone, primary and secondary network, coaxial, fiber and optical equipment) and DTH end-user equipment.

Acquisitions and disposals

During the six months ended 30 June 2013, the Group acquired assets with a cost of EUR 25,302 thousand (six months ended 30 June 2012: EUR 9,935 thousand).This amount excludes assets acquired through a business combination (see Note 17) of EUR 4,763 thousand (six months ended 30 June 2012: EUR 3,033 thousand).

Capital commitments

During the six months ended 30 June 2013, the Group entered into agreement to buy property, plant and equipment for EUR 4,792 thousand (year ended 31 December 2012: EUR 2,548 thousand). Delivery is expected during the second half of 2013.

Assets provided as security for loans

All property, plant and equipment are pledged as security for the Group's loan and borrowings.

Leased assets

The Group leases internet protocol equipment, office premises, and transport and passenger vehicles under a number of cancellable finance lease agreements. Majority leases of vehicles provide the Group with the option to purchase the equipment at a beneficial price. All renovations of leased office space are accounted for as leasehold improvements and are depreciated over the period of five years.

The carrying value of equipment and vehicles purchased under finance lease agreement is as follows:

	30 June 2013	31 December 2012
Total cost—capitalised finance leases	5,552	3,824
Accumulated depreciation	(1,460)	(1,367)
Net book amount	**4,092**	**2,457**

In thousands of EUR

14. Property, plant and equipment (Continued)

Present value of minimum lease payments is as follows:

	30 June 2013	31 December 2012
Not later than 1 year	583	1,422
Between 2 and 5 years	2,802	1,536
Present value of finance lease liability	**3,385**	**2,958**

Minimum lease payments are as follows:

	30 June 2013	31 December 2012
Not later than 1 year	1,068	1,685
Later than 1 year and not later than 3 years	2,435	1,349
	3,503	3,034
Future finance charges on finance leases	(118)	(76)
Present value of finance lease liability	**3,385**	**2,958**

15. Intangible assets (other than goodwill)

Intangible assets mainly include customer relationship, trademarks and licenses.

Acquisitions and disposals

During the six months ended 30 June 2013, the Group acquired assets with a cost of EUR 530 thousand (six months ended 30 June 2012: EUR 1,876 thousand).

This amount excludes intangible assets acquired through a business combination (see Note 17) of EUR 23,277 thousand (six months ended 30 June 2012: EUR 3,559 thousand).

Additions to software and licences relate to SAP ERP information system, Video-On-Demand (VOD) information system and Voice-Over-Internet-protocol (VOIP) information systems software.

Intangible assets provided as security for loans

As at 30 June 2013 syndicated loans are guaranteed by pledge on trademarks. Total value of trademarks under pledge as at 30 June 2013 amounts to EUR 30,444 thousand.

Capital commitments

During the six months ended 30 June 2013, the Group entered into agreement to buy intangible assets for EUR 37,767 thousand.

In thousands of EUR

16. Goodwill

The following schedule summarises the movements in the balance of goodwill.

	30 June 2013	31 December 2012
Cost		
Balance at beginning of period	372,809	88,634
Acquisition through business combination	13,217	284,175
Balance at end of period	**386,026**	**372,809**
Impairment losses		
Balance at beginning of period	—	—
Impairment losses	—	—
Balance at end of period	**—**	**—**
Carrying amounts		
Balance at beginning of period	372,809	88,634
Balance at end of period	**386,026**	**372,809**

The changes during the period ending 30 June 2013 comprise of the following items (for the derivation of goodwill recognised on the subsidiaries acquired in the period ending 30 June 2013, refer to Note 17):

	30 June 2013
Art-net, Bosnia and Herzegovina	434
Kabel TV, Slovenia	3,814
IKO Balkan, Romania	6,676
Jet TV, Serbia	1,821
IKO Media, Serbia	379
TV Kanal Ultra, Serbia	1,213
Translation difference on goodwill of foreign subsidiaries	(1,120)
Total	**13,217**

Impairment testing for goodwill

Due to nature of operations and organisation, the Group is divided into four operating entities (SBB, Telemach Slovenia, Telemach Bosnia and Adria Media) which reflect four cash generating units (CGU) for the purpose of annual impairment testing.

The recoverable amount of a CGU is determined using value-in-use calculations. These calculations use pre-tax cash flow projections based on five-year financial budget. Cash flow beyond the five-year period is calculated on perpetuity bases.

Based on the results of impairment testing, the management estimate that no impairment of goodwill and trademark exists as at 30 June 2013.

In thousands of EUR

16. Goodwill (Continued)

Goodwill is allocated per four identified CGUs in following way:

	30 June 2013
Adria Cable BV Group and Adria Media BV Group	282,142
Telemach Slovenia Group	66,490
Telemach BH Group	14,021
Adria Media Ltd Group	7,065
Other	16,308
Total	**386,026**

Key assumptions used for discounted cash flow projections

Key assumptions used in the calculation of recoverable amounts are weighted average cost of capital, terminal value growth rate and adjusted operating margin. These assumptions are as follows:

	2013	2012
Adria Cable BV Group		
Adjusted operating margin	41.00%	43.01%
Growth rate(1)	2.00%	2.00%
WACC	12.63%	12.63%
Telemach Slovenia Group		
Adjusted operating margin	48.00%	49.23%
Growth rate(1)	2.00%	2.00%
WACC	11.95%	11.95%
Telemach BH Group		
Adjusted operating margin	46.76%	40.49%
Growth rate(1)	2.00%	2.00%
WACC	16.29%	16.29%
Adria Media Ltd Group		
Adjusted operating margin	37.98%	n/a
Growth rate(1)	2.00%	n/a
WACC	13.98%	n/a

(1) Weighted average growth rate used to extrapolate cash flows beyond the budget period

Budgeted margins are based on past performance and expectations of market development. The weighted average growth rates used are consistent with the forecasts included in the industry reports.

The discount rates used are pre-tax as of both 30 June 2013 and 31 December 2012 and leveraged by the debt margin. Assumptions used for value-in-use calculations (refer to the above table) changed to reflect current business environment as more information became available to the Group.

17. Business combinations

During the first six months of 2013, the Group acquired several companies across the region, extending its cable footprint and gaining control over strategic content offer.

In thousands of EUR

17. Business combinations (Continued)

During the six months ended 30 June 2013, the Group completed the following acquisitions:

Company	Purchase price	Share of ownership	Country	Industry	Control assumed
IKO Balkan*	8,066	100%	Romania	Media	1 January 2013
Art-Net	3,000	100%	Bosnia	Cable	1 January 2013
Jet TV	4,000	100%	Serbia	Cable	1 January 2013
Kabel TV	8,000	100%	Slovenia	Cable	1 March 2013
Ultra TV**	2,000	75%	Serbia	Media	5 March 2013
IKO Media Serbia	350	100%	Serbia	Media	30 June 2013

* present in Slovenia and Croatia with subsidiary entites

** step acquisition of additional 25% stake

The following schedule summarises the fair value of assets acquired and liabilities assumed at the acquisition date.

Identifiable assets acquired and liabilities assumed of Art-Net, Kabel TV and IKO Balkan:

	Art Net	Kabel TV	IKO Balkan
Property, plant and equipment	2,000	60	21
Intangible assets	1,048	4,208	14,944
Other financial assets	—	—	150
Inventory	3	332	4
Receivables	174	1,218	4,723
Cash and cash equivalents	28	—	1,616
Short term financial investments	136	—	—
Trade and other payables	(617)	(1,025)	(19,003)
Deferred tax assets/liabilities	(149)	(607)	(1,065)
Loan and borrowings	(57)	—	—
Total identifiable net assets	**2 566**	**4,186**	**1,390**

	Art Net	Kabel TV	IKO Balkan
Fair value of consideration transferred	3,000	8,000	8,066
Fair value of identifiable net assets	(2,566)	(4,186)	(1,390)
Goodwill	**434**	**3,814**	**6,676**

Acquired net assets and purchase price of other entities

	Jet TV	IKO Media Serbia	TV Kanal Ultra*
Fair value of consideration transferred	4,000	350	3,574
Fair value of identifiable net assets	(2,179)	29	(2,361)
Goodwill	**1,821**	**379**	**1,213**

* The total consideration includes EUR 2,000 thousand cash transfer and additional EUR 1,574 thousand, which is the fair value of 50% of net assets previously owned by the Group. The Group has realised EUR 1,051 thousand income on the revauation of its pre-acquisition interest as Other income.

In thousands of EUR

17. Business combinations (Continued)

The Group acquired EUR 1,844 thousand cash and cash equivalents during the acquisitions of Jet TV, IKO Media Serbia and TV Kanal Ultra.

In the period following their acquisition, the newly acquired companies contributed revenue of EUR 13,723 thousand and profit of EUR 435 thousand to the Group's results.

The fair value of intangible assets (customer relationships) has been determined provisionally. The valuation of identifiable intangible assets and property, plant and equipment involved management judgement and was performed with the assistance of valuation experts.

The Group has acquired Adria Cable BV Group and Adria Media BV Group during December 2012. In accordance with IFRS 3, the management made a provisional assessment of the consideration transferred and the fair value of assets acquired and liabilities assumed as at the acquisition date. Final assessments will be made for the purpose of preparing the full year 2013 accounts.

Fair value of consideration transferred was assessed at the level of EUR 346,956 thousand, whereas fair value of identifiable net assets was assessed at the level of EUR 64,814 thousand. Total goodwill calculated on the acquisition amounts to EUR 282,142 thousand (note 16).

18. Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	30 June 2013	31 December 2012
Long term other financial assets	1,012	8,066
Short term loan receivables	869	5,754
Trade and other receivables	44,735	36,986
Cash and cash equivalents	16,221	15,193
Total	**62,837**	**65,999**

The maximum exposure to credit risk for gross trade receivables at the reporting date by revenue stream generated was:

	30 June 2013	31 December 2012
Provision of service	56,843	42,456
Other receivables	—	3,568
Allowance for impairment	(12,108)	(9,038)
Total	**44,735**	**36,986**

The aging and impairment of gross trade receivables as at 30 June 2013 is presented in the following schedule:

	30 June 2013		31 December 2012	
	Gross	Impairment	Gross	Impairment
Up to 3 months	39,280	(148)	31,907	(178)
3 to 6 months	5,604	(2,472)	6,342	(1,136)
Over 6 months	11,959	(9,488)	7,775	(7,724)
Total	**56,843**	**(12,108)**	**46,024**	**(9,038)**

In thousands of EUR

18. Financial instruments (Continued)

The movement in the allowance for impairment in respect with trade receivables during period ending 30 June 2013 was as follows:

	30 June 2013	31 December 2012
Opening balance	9,882	6,845
Charge for the period	2,743	2,405
Write-off	(472)	(108)
Currency difference	(45)	(104)
Balance at 30 June	**12,108**	**9,038**

The allowance for impaired receivables has been included in other operating expenses in the statement of profit or loss (Note 11).

Liquidity risk

The following are the undiscounted contractual maturities of financial liabilities:

30 June 2013	2013 Up to 1 year	2014 - 2017 Between 2 and 5 years	2018 Over 5 years	Total	Carrying amount
Loans and borrowings	26,230	153,341	131,632	311,203	238,910
Finance lease liabilities	1,068	2,435	—	3,503	3,385
Trade and other payables	64,361	—	—	64,361	64,361
Total	**91,659**	**155,776**	**131,632**	**379,067**	**306,656**

31 December 2012	2013 Up to 1 year	2014 - 2017 Between 2 and 5 years	2018 Over 5 years	Total	Carrying amount
Loans and borrowings	21,513	142,499	135,464	299,476	219,346
Finance lease liabilities	1,684	1,349	—	3,033	2,958
Trade and other payables	56,199	—	—	56,199	56,199
Total	**79,396**	**143,848**	**135,464**	**358,708**	**278,503**

In thousands of EUR

18. Financial instruments (Continued)

Currency risk

Group's overview of financial instruments by currency denomination was as follows:

	30 June 2013			
	EUR	**RSD**	**USD**	**Other**
Long term other financial assets	1,012	—	—	—
Trade and other receivables	22,610	12,572	1,075	8,478
Short term loan receivables	599	270	—	—
Cash and cash equivalents	8,977	2,554	1,590	3,100
Total	**33,198**	**15,396**	**2,665**	**11,578**
Trade and other payables	31,959	17,099	8,934	6,369
Borrowings	238,322	—	—	588
Finance lease liabilites	3,099	—	—	286
Total	**273,380**	**17,099**	**8,934**	**7,243**
Net exposure	**(240,182)**	**(1,703)**	**(6,269)**	**4,335**

	31 December 2012			
	EUR	**RSD**	**USD**	**Other**
Long term other financial assets	8,066	—	—	—
Trade and other receivables	16,892	12,972	1,313	5,809
Short term loan receivables	4,607	958	—	189
Cash and cash equivalents	10,502	2,166	1,276	1,249
Total	**40,067**	**16,096**	**2,589**	**7,247**
Trade and other payables	27,957	16,956	7,044	4,242
Borrowings	218,830	—	—	516
Finance lease liabilites	2,893	—	—	65
Total	**249,680**	**16,956**	**7,044**	**4,823**
Net exposure	**(209,613)**	**(860)**	**(4,455)**	**2,424**

Sensitivity analysis

Currency risk

Currency risk mainly arises from operations in Serbia for which functional currency is Serbian Dinar. Sensitivity analysis reflects the risk of foreign exchange losses on translation of Euro and USD denominated trade receivables, trade payables and borrowings into RSD.

As at 30 June 2013, if the RSD had weakened by 10% against the Euro with all the variables held constant, net profit for the year would have been EUR 19,172 thousand lower (31 December 2012: EUR 4,226 thousand lower).

As at 30 June 2013, if the RSD had weakened by 10% against the USD with all the variables held constant, net profit for the year would have been EUR 259 thousand lower (31 December 2012: EUR 164 thousand lower).

In thousands of EUR

18. Financial instruments (Continued)

Interest rate risk

As at 30 June 2013, if interest rates on currency denominated borrowings (with floating rate) had been 1% higher with all other variables held constant, net profit for the year would have been EUR 1,992 thousand lower (31 December 2012: EUR 1,845 thousand).

Fair value estimation

Financial instruments carried in the consolidated statement of financial position include cash and bank balances, trade and other receivables, trade and other payables and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The amounts disclosed in the consolidated financial statements approximate their fair value.

The Group's financial instruments are subject to fluctuations in foreign currency exchange and interest rates. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

19. Trade and other receivables

	30 June 2013	31 December 2012
Trade receivables	56,843	42,456
Other receivables	—	3,568
Allowance for impairment	(12,108)	(9,038)
Total	**44,735**	**36,986**

Trade receivables primarily relate to receivables from cable and DTH operations. The Group's trade receivables were pledged as collateral for syndicated loans.

The Group's exposure to credit and currency risks, and impairment allowances related to trade and other receivables are disclosed in Note 18.

20. Programming rights held for sale

The balance of Programming rights held for sale have decreased to nil as of 30 June 2013. EUR 5,654 thousand as of 31 December 2012 relate to content rights for sport events acquired and held for sale. These programming rights held for sale have been sold in the 6 months ending 30 June 2013.

21. Prepayments

	30 June 2013	31 December 2012
Advance payments and prepaid expenses	10,541	5,804
Accrued income	1,449	615
Other prepayments	531	526
Total prepayments	**12,521**	**6,945**

Prepayments primarily relate to advance payments to content providers.

In thousands of EUR

22. Cash and cash equivalents

	30 June 2013	31 December 2012
Cash on hand	340	112
Bank	15,881	15,081
Total cash and cash equivalents	**16,221**	**15,193**

The structure of cash held on foreign currency accounts is presented in Note 18. Bank borrowings are secured on the total amount of cash on bank accounts.

Out of total cash and cash equivalents, EUR 1,370 thousand (30 December 2012: EUR 1,962 thousand) is restricted as a security for payment of second tranche for acquired companies in Bosnia.

23. Capital and reserves

Registered capital

The authorised share capital of Slovenia Broadband S.a.r.l., consisting of 200,000 ordinary shares with a par value of EUR 1 each, amounts to EUR 200 thousand. As at statement of financial position date 200,000 (31 December 2012: 200,000) ordinary shares are issued and fully paid up, amounting to EUR 200 thousand (31 December 2012: EUR 200 thousand). The immediate parent of the Group is Broadband Investments II S.a.r.l. domiciled in Luxemburg. The ultimate controlling party of Broadband Investments II S.a.r.l. is Broadband Investments S.a.r.l. Luxembourg (100% of ownership).

Other equity and reserves (preferred equity)

Other equity and reserves (preferred equity) in the amount of EUR 277,060 thousand (31 December 2012: 276,918 thousand) relates to profit participating preferred certificates and yield free convertible loan notes issued to the parent company Broadband Investments II S.a.r.l. on 13 December 2012.

Yield free convertible loan notes comprise of convertible notes that are classified as equity as they can be converted to share capital at the option of the Company with the number of the shares to be issued is fixed. Repayment term of the convertible loan is 31 December 2087.

Profit participating preferred certificates are classified as equity as they are redeemable only at the Company's option and distributions of yield are discretionary.

Translation reserves

Subsidiaries of the Slovenia Broadband S.a.r.l. have EUR, BAM, RSD and HRK as functional currency. As EUR is selected to be the presentation currency of the consolidated financial statement, differences arising on translating the financial statements of the subsidiaries to EUR are recorded under translation reserves. Translation reserves are recorded in the amount of EUR (4,095) thousand as of 30 June 2013 (31 December 2012: EUR (226) thousand).

In thousands of EUR

24. Loans and borrowings

Long-term borrowings

Long-term borrowings and facilities by principal lender are as follows:

	30 June 2013	31 December 2012
Facility A	100,156	102,201
Facility B	127,800	127,799
Capex facility	19,700	3,000
Revolving facility	4,511	511
Total borrowings at nominal amount	252,167	233,511
Less: current portion	(10,220)	(5,253)
Adjustment for amortized cost	(13,257)	(14,165)
Total long-term borrowings	**228,690**	**214,093**

Adjustment to the nominal amount of loan is necessary because they are recorded at amortised cost. Based on this, upon origination of the loan, transaction costs were included in the financial liabilities recognized. Interest expense recorded includes amortisation of these transaction costs deferred at initial recognition to maturity amount using the effective interest method. Accrued interest expense, including both accrued coupon and amortised premium (including fees deferred at origination), is not presented separately and is included in the carrying values of the borrowings (as a reducing item).

The bank loan facilities have been secured by a pledge on 100% of the shares of Slovenia Broadband S.a.r.l. and direct subsidiary entities.

Bank loan

The Group has on 10 December 2012 arranged syndicated loan framework with bank consortium led by Unicredit bank in the total aggregate available amount of EUR 290,000 thousand, divided into Facility A (EUR 102,200 thousand), Facility B (EUR 127,800 thousand), capital expenditure (Capex in the amount of EUR 40,000 thousand) and Revolving (EUR 20,000 thousand).

Syndicated loan summary

	Facility A	Facility B	Total	Capex	RCF	Total
Slovenia Broadband Sarl	29,768	37,223	**66,991**	—	—	**66,991**
SBB	33,251	41,580	**74,831**	—	10,000	**84,831**
Telemach Slo	23,875	29,856	**53,731**	20,000	10,000	**83,731**
Telemach BiH	4,198	5,249	**9,447**	20,000	—	**29,447**
Adria Cable BV	11,109	13,891	**25,000**	—	—	**25,000**
Total	**102,201**	**127,799**	**230,000**	**40,000**	**20,000**	**290,000**

Facility A loan bears an interest rate of margin of 5.35% plus three-month Euribor rate. This loan is repayable in semi-annual variable instalments within 5 years, with the last repayment on 10 December 2017. Interest is repayable on a quarterly basis.

Facility B loan bears an interest rate of margin of 6.10% plus three-month Euribor rate. This loan is repayable in full on 20 December 2018. Interest is repayable on a quarterly basis.

Capex facility and revolving credit facility (RCF) bears an interest rate of 5.35% plus three-month Euribor rate. Interest is repayable on a quarterly basis.

In thousands of EUR

24. Loans and borrowings (Continued)

The Group withdrew EUR 19,700 thousand of Capex facility as of 30 June 2013 (EUR 3,000 thousand as of 31 December 2012) for acquisition and capital investment purposes.

The maturity of non-current borrowings is presented in Note 18. Management estimates that fair value of all borrowings at inception approximates the carrying amounts shown in the consolidated financial statements.

Security

Syndicated loan framework agreement is secured by a pledge on property, movable plant and equipment (Note 14), cash accounts, trade receivables outstanding (Note 19), insurance claims and trademark (Note 15). The Group has assigned its insurance policies to Bank syndicate as additional debt collateral.

Short-term borrowings

Major share of short-term borrowings relates to current portion of long-term debt. The current portion of Facility A and Facility B of the long term bank loan is EUR 7,224 thousand as of 30 June 2013 (EUR 5,253 thousand as of 31 December 2012).

As at 30 June 2013 and 31 December 2012 there were no short term loans withdrawn from the Revolving facility and the Capex facility.

25. Employee benefits

Provisions for employee benefits were formed on the basis of the actuarial calculation prepared by an authorised actuary for three major operating entities as at 31 December 2012 (SBB, Telemach Slovenia and Telemach Bosnia).

	30 June 2013	31 December 2012
Charge for the period	**25**	**49**
Provision	**633**	**540**

Assumptions used in the actuarial calculation:

SBB and Telemach Bosnia	
Interest rate	7,15%
Future long-term salary growth	6,00%
Long term inflation rate	4,00%
Employee turnover rate	0%
Retirement age (male/female)	65/60
Telemach Slovenia	
Interest rate	3,60%
Future long-term salary growth	3,00%
Long term inflation rate	2,50%
Employee turnover rate	2.5% - 7.0%
Retirement age (male/female)	65/63

Mortality rate tables used is PA 90 mortality table for male and female adjusted by 2 years.

Actuarial assumptions have not changed in the period ending 30 June 2013.

In thousands of EUR

26. Deferred revenue

	30 June 2013	31 December 2012
Non-current deferred revenue	7,514	7,762
Current deferred revenue	1,094	1,025
Total deferred revenue	**8,608**	**8,787**

Deferred revenue refers to subscriber connection fees and network operating lease arrangements with mobile operators.

27. Trade and other payables

	30 June 2013	31 December 2012
Trade payables	43,033	32,655
Received advances	1,847	2,074
Accrued liabilities	11,326	18,180
Other liabilities	8,155	3,290
Total trade and other payables	**64,361**	**56,199**

28. Related parties

Generally parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is focused on the substance of the relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related parties' relationships for those parties with whom the Group entered into significant transactions or had significant balances outstanding as at 30 June 2013 detailed below. Transactions with related parties were entered into during the ordinary course of business on normal commercial terms.

In thousands of EUR

28. Related parties (Continued)

Balances and transactions with related parties of the Group consist of the following:

i) Balances with related parties

	Relationship	30 June, 2013	31 December 2012
Trade and other receivables			
Broadband Investment S.a.r.l.	Parent	—	23
		—	**23**
Short term loan receivable			
Gerrard Enterprises LLC	Related party	143	143
Gerrard Consultancy Services Ltd	Related party	—	2,000
		143	**2,143**
Interest receivable			
Broadband Investment S.a.r.l.	Parent	40	15
		40	**15**
Trade payables			
Broadband Investment S.a.r.l.	Parent	10	10
Mid Europa Fund III LP	Related party	3	3
		13	**13**

ii) Transactions with related parties

	Relationship	30 June 2013	31 December 2012
Interest expense			
Broadband Investment S.a.r.l.	Parent	142	—
		142	**—**

		30 June 2013	31 December 2012
Other operating expenses			
Gerrard Consultancy Services Ltd	Related party	2,000	—
		2,000	**—**

iii) Directors' compensation

During the six months ended 30 June 2013, compensation paid to directors for their services is made up of a contractual salary and a performance bonus depending on operating results. Total directors' compensation amounted to EUR 413 thousand. There are no post-employment and termination benefits for the members of the management.

29. Operating leases

The Group leases various premises under cancellable operating lease agreements. The Group is required to give one to six month notice for the termination of those agreements. The Group does not have any contingent rent arrangement.

30. Regulatory and legal matters

Industry regulation

The Group provides large number of channels to its subscribers including foreign satellite channels, national and local channels. Some of these channels are terrestrial, distribution of which is required by law and others are satellite. The Group has signed broadcasting contracts for all channels it broadcasts, except for some channels which have national and regional licence and ones which are free to air for distribution.

Anti-trust regulation

Serbian Commission for Protection of the Competition (the "Commission") issued a resolution stating that SBB abused its dominant position on the 'market of distribution of TV programme. Commission has rendered the decision on competition protection and penalty in amount of EUR 551 thousand. SBB has launched the administrative petition against this decision to the Supreme Court, who annulled the decision on penalty. Management does not expect that effects of this legal action could have material effect on Group's financial position.

National competition authority opened investigation against SBB for the alleged abuse of dominant position and restrictive agreements in granting sport content to third parties. Theoretically, up to 10% of the SBB's turnover; in practice a fine above EUR 500 thousand would be highly unlikely, thus no provision was recognized in the consolidated financial statements. The national competition authority does not have a developed and coherent decisional practice, so the outcome of the proceeding is hard to anticipate. The Group does not appear to hold dominant position based on the presumption threshold. Claimants' allegations are unclear and contradictory.

Legal matters

As at 30 June 2013, the Group is involved in a number of legal cases in the total amount of EUR 1,704 thousand. The Group has recognised provisions in the total amount of EUR 830 thousand as at 30 June 2013. Management believes, supported by legal teams, that, for the disputes which have not been provided for, there is remote probability of negative outcome.

31. Subsequent events

Subsequent to 30 June 2013, the Group utilized two additional tranches of CAPEX facility in the total amount of EUR 31,000 thousand for acquisition purposes, and revolving facility of EUR 6,640 thousand.

On 21 August 2013, the Group has acquired of Solford Trading Limited, international TV-over-internet business, for the total consideration of EUR 30,000 thousand.

On 27 September 2013, the Group has acquired Elektro Turnšek, a Slovenian cable company, for the total consideration of EUR 25,500 thousand.

During third quarter of 2013, the Group set up news channel business in cooperation with CNN International, covering region of South-East Europe.

The Group's management holds that they are not aware of any significant post balance sheet events that could affect the consolidated financial statements for 30 June 2013 or require separate disclosure.

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