

Notice On Public Invitation



for Submission of Expressions of Interest in the Public Tender for the Share Capital Increase in the Company PALOMA D.D.

Ljubljana, 3 February 2015

The management of PALOMA-Sladkogorska tovarna papirja d.d. Sladki Vrh, Sladki Vrh 1, 2214 Sladki Vrh (hereinafter "Paloma" or the "Company") has decided to initiate the process of a capital increase in order to modernize production facilities, increase operating capacity and remove current bottlenecks, thereby enhancing efficiency and financial results.

1. Subject

The subject matter of this Public Invitation is the invitation for submission of non-binding expressions of interest in the capital increase in the amount of EUR 15 million whereby it is foreseen that the existing shareholders' priority rights to subscribe new shares will be excluded (the "Capital Increase Process"). The Capital Increase Process will be run as a two-round international tender process with submission of indicative offers in the first phase and submission of binding offers in the second phase following due diligence (the "Tender Process").

In case of a successful capital increase and if the Investor alone or together with persons acting in concert with him ("the Investor" or "Investors"), obtains at least one third of voting rights in Paloma, the Investor will be obliged to publish a Take-over bid in accordance with the Slovenian Takeover Act (Zakon o prevzemih (ZPre - 1), Official Gazette of the RS, No. 79/06, as amended) (the "Take-over Bid").

The "Transaction" for the purposes of this Public Invitation shall mean the Capital Increase Process and (if applicable) the Capital Increase Process followed by the Take-over Bid.

2. Information on the Company

Paloma is a joint-stock enterprise with 140 years of tradition in the manufacture and trade of hygienic tissue. It is also the market leader in Southeastern Europe. Their products are marketed under the regionally well recognized and established Paloma trademark. Principal brands include Paloma soft touch, Paloma, Paloma junior, Paloma premium, Paloma exclusive, Paloma basic, Paloma natura, Paloma krep and Paloma professional. Paloma manufactures toilet paper, kitchen rolls, napkins, tissues, universal towels, industrial towels, medical towels, folded toilet paper and maxi-roll toilet paper. The product range also includes mother rolls and paper dispensers.

Further information regarding the Company is available on Paloma's webpage:
<http://web.paloma.si/en/>.

3. Overview of Tender Process

A summary briefing document regarding Paloma and containing further information on, and immediate next steps related to, the envisioned Transaction (the »Teaser«) is

available upon request together with a non-disclosure agreement (the »NDA«) from the representatives of the financial advisers of the Company.

Upon signing the NDA, interested parties will receive an information memorandum containing more detailed information on the Company as a basis for preparing indicative offers (the “Information Memorandum”) as well as a first process letter containing, inter alia, the required content of indicative offers, the procedures for submitting indicative offers and the selection criteria for admission to the second phase of the Tender Process as well as other relevant process-related information for the first phase of the Tender Process (the “Process Letter I”).

Indicative offers must be written in English language and received by e-mail (with two originals to follow by regular mail no later than three business days from submission of Indicative Offer by email), by the recipient set out below:

Stevan Radak

Head of Investment Banking Western Balkans
Erste Group Corporate Finance & ECM
Milutina Milankovića 11b
11070 New Belgrade
Email: stevan.radak@erstebank.rs

The deadline for the submission of indicative offers by interested parties is 14:00 CET on 16 March 2015.

Upon review and evaluation of indicative offers received, the Company may invite selected Investors to participate in the second phase of the Tender Process.

In the second phase of the Tender Process, selected Investors will be invited to conduct due diligence on the Company before submitting binding offers. Prior to the start of the second phase of the Tender Process, selected Investors will receive a second process letter containing, inter alia, information on the due diligence process, the deadline for binding offers, the required content of binding offers, the procedures for submitting binding offers and the selection criteria for the winning Investor as well as other relevant process-related information for the second phase of the Tender Process (the “Process Letter II”).

Interested parties are hereby invited to express their interest in participating in the aforementioned Tender Process by requesting the Teaser and NDA from the financial advisers of the Company using the contact information provided below.

4. Additional Information on the Tender Process

Both domestic and foreign legal entities and natural persons may participate in the Tender Process.

The opening, review and evaluation of both the indicative offers and the binding offers will not be public.

The Company reserves the right to, at any time and without giving reasons, neither accept any indicative offers or binding offers received, nor to select any of the Investors to continue with the Tender Process, nor to continue the Tender Process. The Company further reserves the right to restrict the number of Investors invited to participate in the second phase of the Tender Process and to conduct negotiations only with certain individual Investors. The Company also reserves the right to alter the timing of the Tender Process, including with (but not limited to) prolongation of deadline for submission of indicative offers, to amend the terms of the Tender Process or to discontinue the Tender

Process at any time.

Additionally, the Company may ask individual Investors to submit information missing from their indicative offers and/or binding offers and/or to provide additional information related to, or clarifying, certain elements of their indicative offers and/or binding offers.

5. Financial Advisers and Contact Information

Erste Group Bank AG («Erste») and P&S CAPITAL Ltd. («P&S») are acting as exclusive financial advisers to the Company in relation to the Tender Process.

Interested parties should direct all inquiries regarding this public invitation and the Tender Process described herein (including but not limited all requests for the Teaser and NDA) to the following individuals:

Stevan Radak
Head of Investment Banking Western Balkans
Erste Group Corporate Finance & ECM
Tel.: +381 (0)11 220 9180
Email: stevan.radak@erstebank.rs

Urška Podvratnik
Senior Principal Advisor
P&S CAPITAL Ltd
Tel.: +386 (0)1 23 43 317
Email: urska.podvratnik@p-s.com

6. Additional Information

This public invitation was prepared exclusively in order to inform potential Investors of the opportunity to express their interest in the Tender Process and does not in any way oblige the Company to conclude any kind of agreement with any Investor.

The distribution of this invitation and other information referred to herein may be restricted by law in certain jurisdictions and recipients should inform themselves about, and observe any applicable legal or regulatory requirements relating to, the distribution or possession of this invitation. Any failure to comply with these restrictions may constitute a violation of the securities or other laws of any such jurisdiction. Neither the Company, nor the Company's financial advisers, nor their or their affiliates' respective directors, officers or agents, accept any liability to any person in relation to the distribution or possession of this invitation in any jurisdiction. This invitation does not constitute an offer to sell or a solicitation of an offer to subscribe for or purchase any securities by any person in any jurisdiction or an inducement to enter into an investment activity. This public invitation is not an advertisement for the purposes of the Directive 2003/71/EC. This invitation shall be governed by, and construed in accordance with, Slovenian law. The competent court in Ljubljana shall have exclusive jurisdiction over any disputes arising under or in connection with the foregoing.