



1 EARLY PARLIAMENTARY ELECTION CALLED FOR 13th OF JULY 2014

Slovenian President Borut Pahor has dissolved the National Assembly and called an early election for 13th of July 2014. The President's decision was challenged in front of the Constitutional court which then unanimously ruled out objections and confirmed it. It is expected that the new coalition government will be formed and fully operational by the end of September 2014.

Despite Early Election the Government Agenda to Implement Adopted Reforms Continues Without Losing Momentum

2 PRIVATISATION

On 11th of June 2014 a resolution on the registration of the Articles of Association of Slovenian Sovereign Holding (SSH) was issued by the registration court. The continuation of all public powers, competences, rights and obligations held by Slovenska odškodninska družba, d.d. (SOD) until its reformation has been provided for and granted to SSH which has also assumed all tasks previously carried out by SOD. SSH has become fully operational this way.

On 16th of October 2013, an agreement to sell a majority interest in Helios, d.d. was signed by SOD and other major shareholders and the transaction was successfully closed in April 2014. The sales agreement for Fotona, d.d. was signed in January 2014 and closed in March 2014. SSH coordinated the sale of 54% of car parts maker Letrika to Austrian Mahle Holding Austria GmbH. Letrika was established in 1960 (as Iskra Avtoelektrika) as a provider of electrical parts to the automotive industry. Today it masters completely and independently all stages of the business process, including R&D, production and sales. Letrika is therefore a Group trademark that markets high-quality, innovative and cutting-edge products for starters, alternators, electric drive and mechatronic systems.

Regarding Telekom Slovenija, d.d. the deadline for submission of indicative offers for the acquisition 72.75% shares expired on 2nd of June 2014. SOD has received indicative offers from a number of leading strategic and financial investors. Only those investors who submitted the most economically advantageous offers and demonstrate the financial and legal capacity and certainty to acquire the shares will be selected to participate in the next stage of the process. The sale process will continue according to the envisaged time schedule. The selection decision is expected to be communicated to investors in second part of June 2014 and the next stage of the process will commence promptly thereafter.

Additionally, for Aerodrom Ljubljana, d.d. the process of sale of 75% shareholding in Aerodrom Ljubljana, d. d., is in line with the time schedule. Based on non-binding expressions of interest, some investors were invited to participate in the second phase of the sale process. Binding bids are expected to be submitted in July 2014.

On 22nd of May 2014, in line with the envisaged time schedule, the Invitation to Submit an Expression of Interest for the acquisition of a 100% shareholding in Nova KBM, d. d., was published in the Financial Times and Finance by SOD on behalf of the Republic of Slovenia.

For Žito d.d., Cinkarna Celje d.d., and Elan d.d., the agreements on joint sales have been signed between the current owners and financial advisers have been selected. These sales processes will continue according to the timelines, prepared by the financial advisers.

You can find all the latest developments on the privatisation on the Slovenian Sovereign Holding webpage:
<http://www.sdh.si/en-us/privatization>

On the basis of the Bank of Slovenia's opinion, the Government took the decision that Banka Celje is ready to embark on the procedure for implementing measures on the basis of the Act Determining the Measures of the Republic of Slovenia to Strengthen Bank Stability (ZUKSB). The Government thus resolved to continue procedures under the ZUKSB unless Banka Celje undergoes a timely capital increase by private investors. Banka Celje has capital needs estimated at EUR 160 million, and transfer of its bad loans to BAMC is planned. In March 2014, the Government also decided to extend its commitment to carry out a capital increase at Gorenjska banka to 31st of December 2014.

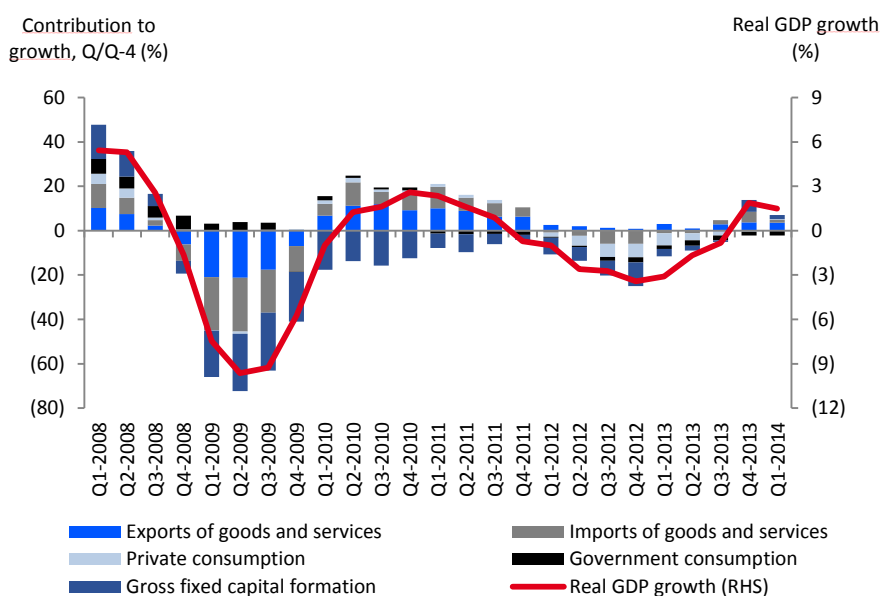
Until now the nominal value of NPL's transferred to Bank Asset Management Company (BAMC) from NLB d.d. and NKBM d.d. amounted to EUR 3.259 bn for which BAMC issued (paid) EUR 1.012 bn bonds. Further series of bond issuances are planned for Abanka d.d. by the end of June 2014, that is soon after restructuring plan is validated and the final approval is received from the European Commission.

SECOND CONSECUTIVE QUARTER OF POSITIVE GDP GROWTH AFTER 8 DECLINING QUARTERS*

In the first quarter of 2014 seasonally adjusted gross domestic product (GDP) increased by 1.5% in comparison with the same quarter of 2013. This was mainly contributed by external demand. Exports increased by 3.6%, mainly due to the increase in export of electrical equipment and motor vehicles. Imports increased by 1.3%, i.e. less than in the previous quarter. This time the import of services increased significantly (by 7.1%), the most the import of business services. The contribution of external trade balance to the economic growth was due to high increase in exports positive.

Domestic consumption in the first quarter remained at approximately the same level as a year before (decrease by 0.2%), and was lower than in the previous quarter. This was mainly due to gross capital formation, which did not increase as much as in the previous quarter. Final consumption remained similar to the previous year. It is still mainly reduced due to savings of the general government. From the production side, value added increased in almost all activities. The largest increase was observed in construction, where value added increased by 13.8%, and in agriculture, forestry and fishing, where the increase was 7.3% mainly due to forestry.

Graph 1: Quarterly Real GDP Contributions to Growth (SA)

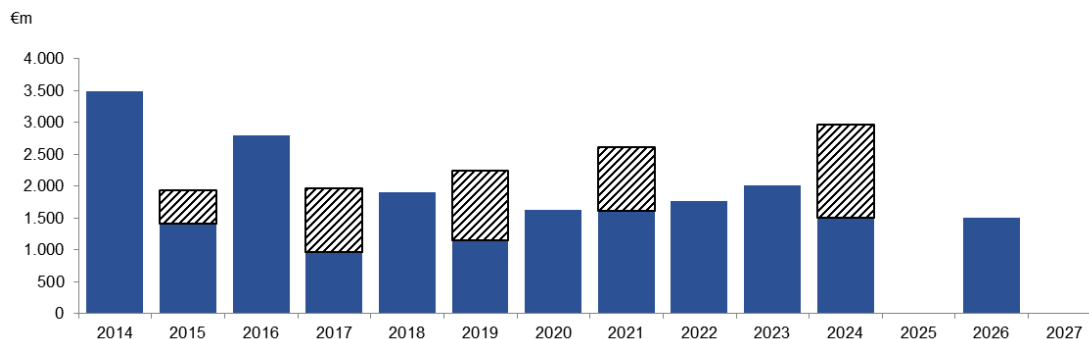


Source: Statistical Office of the Republic of Slovenia, 17th of June 2014

*Note: Unless otherwise specified, all comparisons in this text refer to seasonally adjusted data, to volume or real changes and to changes compared with the same quarter of the previous year.

On the back of US dollar and Euro dual-tranche bond issuances Slovenia completed Financing Programme for 2014 based on the adopted state budget for 2014. Total executed funding amounted EUR 5 bn. Based on the borrowing needs of EUR 3.5 bn for the financing of the 2014 central government budget there is yet EUR 1.5 bn of prefinancing for the year 2015.

Graph 2: Debt Redemption Profile in Optics of Financial Programme 2014 Execution*



Source: Ministry of Finance, 17th of June 2014

*Note: Shapes marked with pattern represent maturing bonds and 12-month Treasury bills issued in 2014.

FITCH AFFIRMS SLOVENIA AT BBB+ AND REVISES OUTLOOK TO STABLE FROM NEGATIVE

On 2nd of May 2014 Fitch Ratings revised the outlook on Slovenia's long-term rating to stable from negative and affirmed the rating BBB+. The stable outlook is driven by the following two key drivers:

- The Government's policy action in late 2013 and early 2014, which reduced risk surrounding the banking sector and thus the sovereign balance sheet. Moreover, the sovereign's access to market funding eased, allowing the Republic to fully finance its 2014 debt redemptions as well as part of its 2015 financing needs.
- The economy is recovering faster than expected (on a yearly basis real GDP contracted by 1.1% in 2013, while the 2013 November's forecast expected 2.4% contraction). Moreover, the positive Eurozone prospects and gradual improvement in domestic demand should support the Slovenian economy.

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