

ANNUAL REPORT
2017



DARS





BUSINESS REPORT

FINANCIAL REPORT

DARS





BUSINESS REPORT



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ACRONYMS AND ABBREVIATIONS

ABC	Automatic non-cash toll collection
MW	Motorway
RDB	Road database
DARS d. d.	Družba za avtoceste v Republiki Sloveniji d.d. (Motorway Company in the Republic of Slovenia)
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation
ETS	Electronic Tolling System
GRI GS	Global Reporting Initiative Global Standards
PD	Preliminary Design
EW	Express way
ITS	Intelligent Transportation Systems
IBCP	International Border Crossing Point
MI	Ministry of Infrastructure
NMCP	National Motorway Construction Programme in the Republic of Slovenia
BPD	Building Permit Design
TIC	Traffic Information Centre for Public Roads
AADT	Average Annual Daily Traffic
FTF	Free Traffic Flow
ED	Executive Design
R3	Motor vehicles having two or three axles with maximum permissible weight exceeding 3,500kg and groups of motor vehicles having two or three axles with maximum permissible weight exceeding 3,500kg.
R4	Motor vehicles having more than three axles with maximum permissible weight exceeding 3,500kg and groups of motor vehicles having more than three axles with maximum permissible weight exceeding 3,500kg.
RS	Republic of Slovenia
SSH	Slovenian Sovereign Holding
TCMS	Traffic Control and Management System
SAS	Slovenian Accounting Standards 2006
ZDARS	Motorway Company in the Republic of Slovenia Act (ZDARS-UPB 1) (Official Gazette of the Republic of Slovenia, No. 20/2004)
ZDARS-1	Motorway Company in the Republic of Slovenia Act (Official Gazette of the Republic of Slovenia, No. 97/2010-ZDARS-1)
ZGD-1	Companies Act (Official Gazette of the Republic of Slovenia, No. 65/2009 – official consolidated text, 33/11, 91/11, 32/12, 57/12, 44/13 – CC dec. and 82/13, 55/15 and 15/17)
ZUJF	Fiscal Balance Act (Official Gazette of the Republic of Slovenia, No. 40/2012)

STATEMENT ON THE MANAGEMENT'S RESPONSIBILITY

Members of the Management Board of DARS d.d. who are responsible for compiling the Annual Report of DARS d.d. for 2017 guarantee that this Annual Report with all component parts, including the Corporate Governance Statement, are to the best of our knowledge drawn up and published in compliance with the Companies Act, Financial Instruments Market Act and Slovenian Accounting Standards.

The Annual Report of DARS d.d. including financial statements and notes gives a true and fair overview of the assets and liabilities, financial position, and profit or loss of DARS d.d.

Furthermore, the Management Board declares that the Company's financial statements have been prepared under the assumption of a going concern, that the selected accounting policies have been used consistently, and that any changes to them have been disclosed.

Tomaž Vidic, PhD
Chairman of the Board



Gašper Marc, MSc
Member of the Board



Vili Žavrlan
Member of the Board



Marjan Sisinger
Labour Manager / Member of
the Board





I.1 INFORMATION ABOUT THE COMPANY AND KEY BUSINESS DATA

NAME	Družba za avtoceste v Republiki Sloveniji d.d. (Motorway Company in the Republic of Slovenia) DARS d.d.
REGISTERED OFFICE	Ulica XIV. divizije 4, 3000 Celje Phone: (03) 426 40 71 Fax: (03) 544 20 01
BRANCH OFFICE	Dunajska 7, 1000 Ljubljana Phone: (01) 300 99 00 Fax: (01) 300 99 01
WEBSITES	www.dars.si www.promet.si
YEAR OF ESTABLISHMENT	1993
REGISTER ENTRY NUMBER	1/06158/00, District Court of Celje
FOUNDER	Republic of Slovenia
SHAREHOLDER	Republic of Slovenia
REGISTRATION NUMBER	5814251000
VAT ID NUMBER	SI92473717
SHARE CAPITAL	€2,322,284,139.63
NO. OF SHARES ISSUED	55,650,231 no par value shares

DARS d.d. was established in 1993 based on ZDARS and started operating on 1 January 1994. Until 31 December 2003, it had the status of a public undertaking in the form of a public limited company and, since 1 January 2004, it has been a public limited company in the form of a company. The sole founder and shareholder of DARS d.d. is the Republic of Slovenia, which is represented by the Slovenian Sovereign Holding (SSH) pursuant to the Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 25/2014; ZSDH-1). DARS d.d. operates in compliance with the Corporate Governance Code for Companies with Capital Assets of the State as adopted by SSH and the Recommendations and Expectations of SSH as the manager of the State capital assets, which are aimed at improving the corporate governance system for capital assets of the State, company organisation and, consequently, company performance.

ZDARS-1 entered into force at the end of 2010 and on its basis DARS d.d.:

- performs individual tasks relating to spatial planning and locating motorways in the environment, and tasks relating to real estate acquisition for the purposes of motorway construction on behalf of the Republic of Slovenia and for its account;
- builds motorways on its own behalf and for its own account;
- manages and maintains motorway sections based on the granted construction concessions.

The State maintains strategic supervision over motorway development through development documents laying down new sections and deadlines for putting the newly built sections into service.

ZDARS-1 lays down the status, tasks and obligations of DARS d.d. and regulates legal property relations in connection with motorways. Pursuant to the Act, DARS d.d. was transformed into a concessionaire that was awarded the right of superficies for the term of the concession relating to land where it will build, and has taken over all financial obligations related with the construction of new motorway sections. ZDARS-1 also stipulates that DARS d.d. performs individual tasks relating to spatial planning and locating motorways in the environment, and tasks relating to real estate acquisition for the purposes of motorway construction on behalf of the Republic of Slovenia and for its account. The Act also stipulates that DARS d.d. must continue building motorways and express ways that commenced prior to the enforcement of ZDARS-1, and managing and maintaining the existing motorways and express ways in the Republic of Slovenia.

According to the ZUJF, which entered into force in 2012, the right of superficies established for the benefit of DARS d.d. is payable.

Table 1: Key performance data by year

Key performance data by year	2013	2014	2015	2016	2017	2017/2016 index
Revenue	327,666,309	365,358,022	373,067,610	399,300,535	458,871,408	115
Expenses	271,187,458	280,937,651	300,621,245	276,830,211	285,046,526	103
Net sales revenues	315,640,478	354,455,753	360,880,094	372,161,638	442,244,312	119
Operating revenues	323,741,607	361,316,158	370,468,252	397,249,272	453,654,877	114
Operating expenses	220,741,765	222,867,533	250,917,003	233,666,223	242,973,453	104
Operating profit or loss	102,999,842	138,448,626	119,551,249	163,583,049	210,681,424	129
EBITDA	251,088,123	285,679,869	269,429,961	318,288,799	371,822,312	117
Net profit or loss for the period	47,143,874	70,354,171	60,456,694	102,448,010	141,145,144	138
Share capital	2,319,866,345	2,319,866,345	2,319,866,345	2,319,866,345	2,322,284,140	100
Capital as at 31/ 12	2,472,933,097	2,531,278,379	2,566,206,940	2,665,453,020	2,811,184,886	105
Total value of assets as at 31/ 12	5,644,936,606	5,556,644,000	5,510,535,999	5,680,666,379	5,751,989,678	101
Balance of debt as at 31/ 12	2,795,662,158	2,633,687,915	2,502,668,888	2,567,032,918	2,464,024,512	96
Debt repayment – principal	142,617,913	161,974,243	228,478,238	349,956,759	203,008,406	58
Payment of interest*	51,491,774	54,768,729	50,020,548	41,234,923	40,414,027	98
No, of employees	1,237	1,251	1,242	1,247	1,240	99
Operating margin	32.6 %	39.1 %	33.1 %	44.0 %	47.6 %	108
EBITDA margin	79.5 %	80.6 %	74.7 %	85.5 %	84.1 %	98
Net margin	14.9 %	19.8 %	16.8 %	27.5 %	31.9 %	116
Return on equity (ROE)	1.9 %	2.8 %	2.4 %	3.9 %	5.2 %	132

* The data refers to actual outflows for interest on received loans and bonds in a particular year,

Figure 1: Changes in total revenue, expenses and net profit or loss of DARS d.d. for the 2013-2017 period

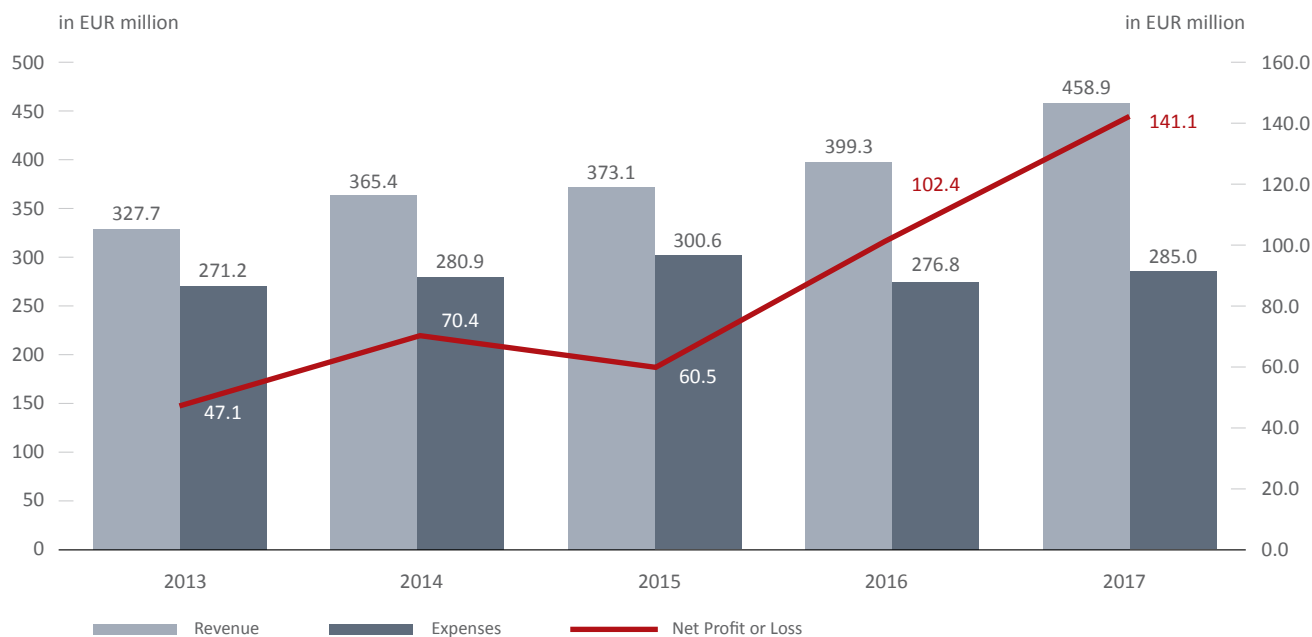


Figure 2: Changes in net sales revenue and cash flow from operating activities (EBITDA) for the 2013-2017 period

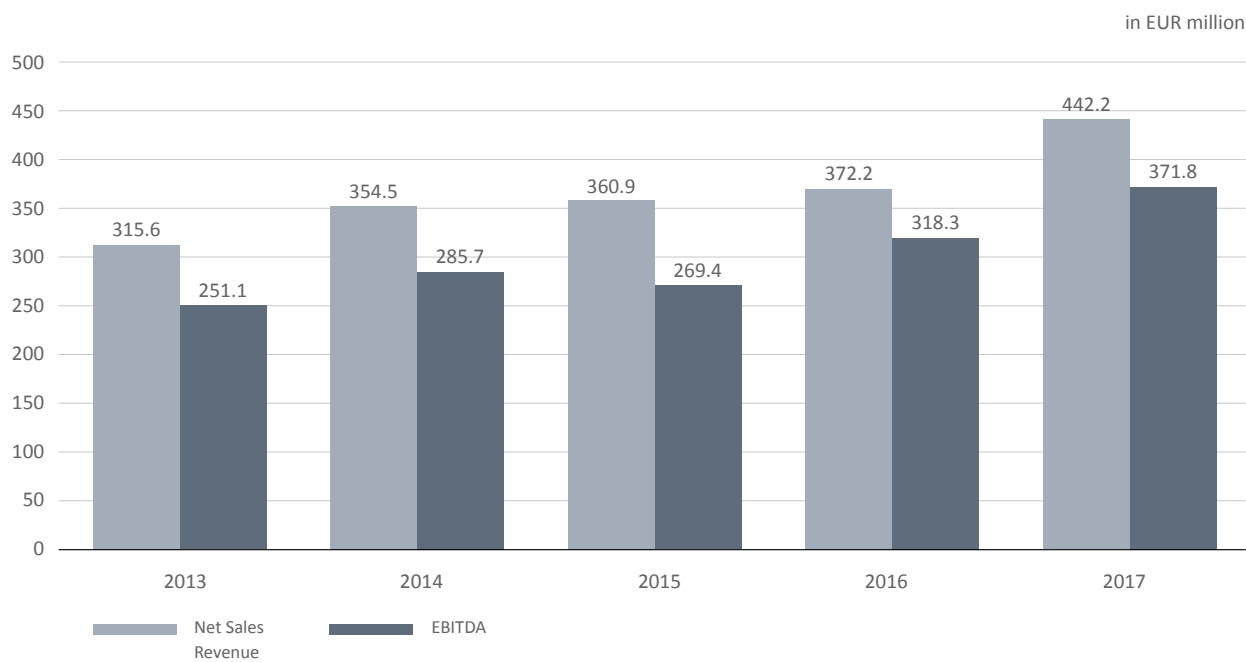


Figure 3: Debt balance as at 31 December, principal repayment and interest payments in the 2013-2017 period

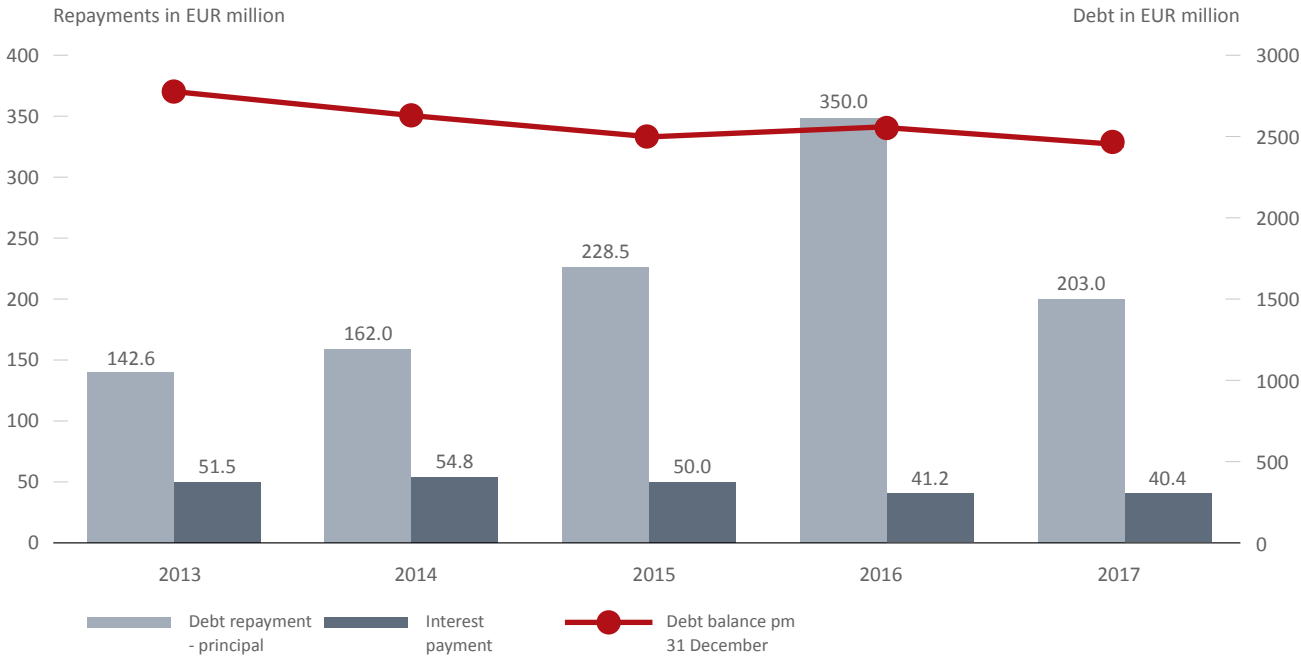


Figure 4: Structure of revenues of DARS d.d. in 2016

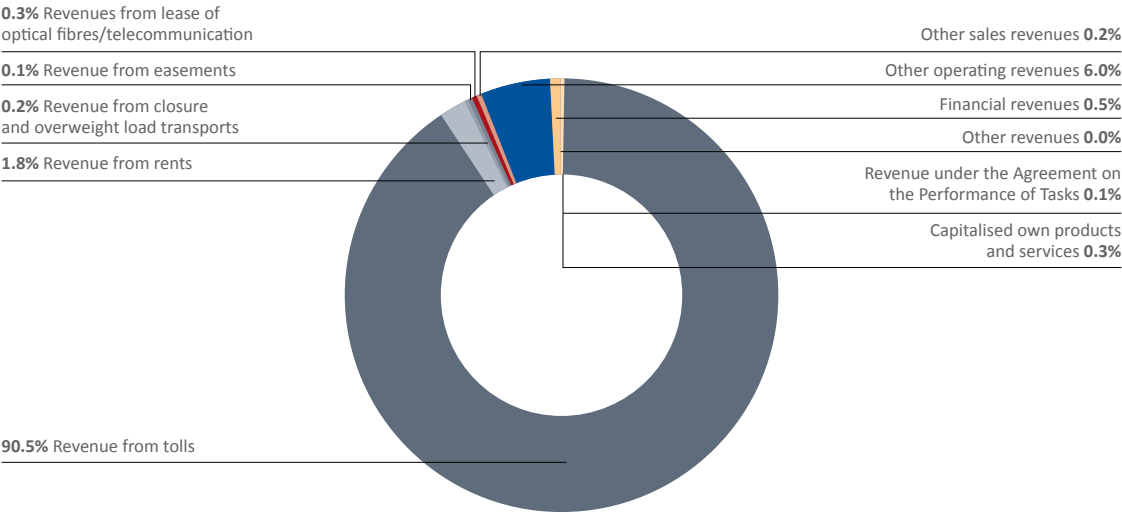


Figure 5: Structure of revenues of DARS d.d. in 2017

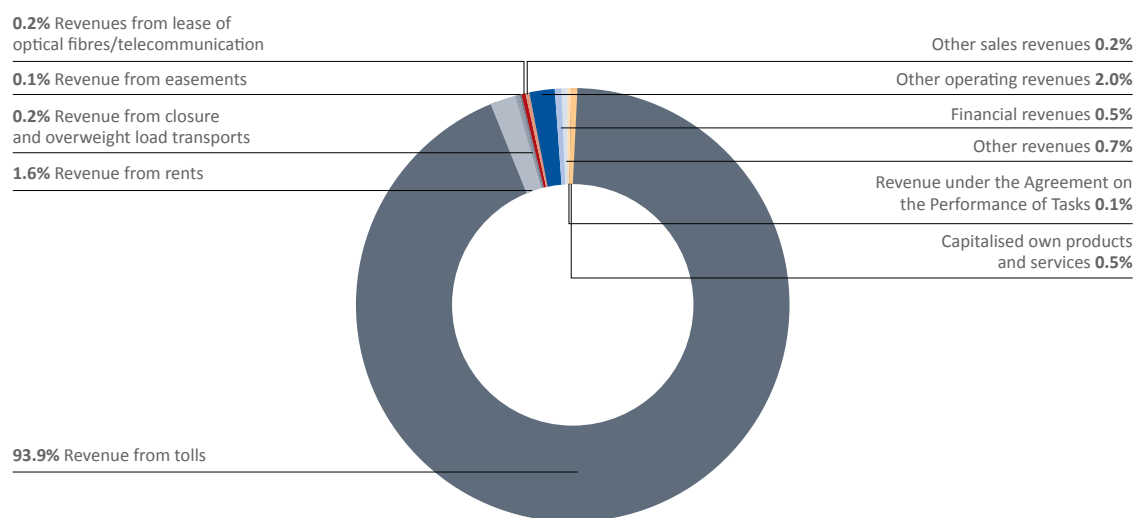


Figure 6: Structure of revenues of DARS d.d. excluding toll in 2017

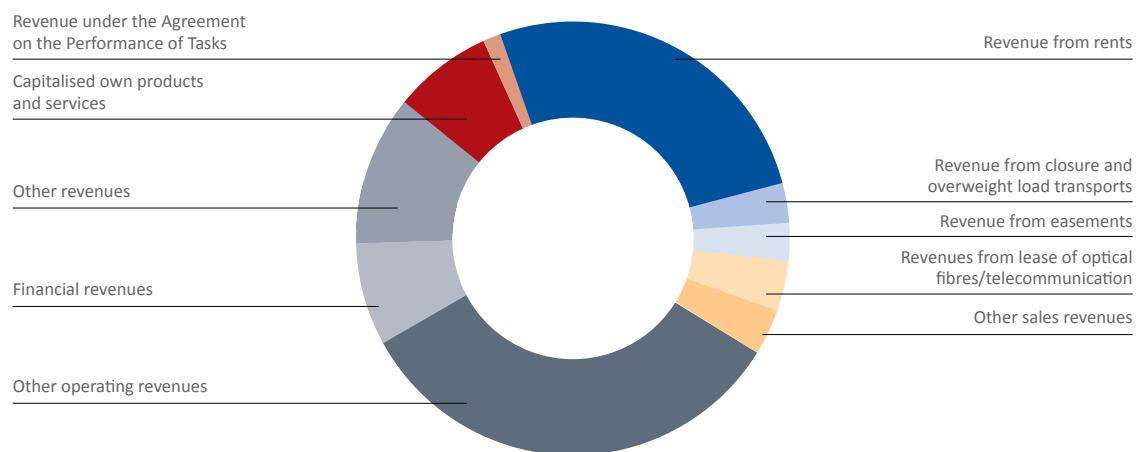


Figure 7: Structure of expenses of DARS d.d. in 2016

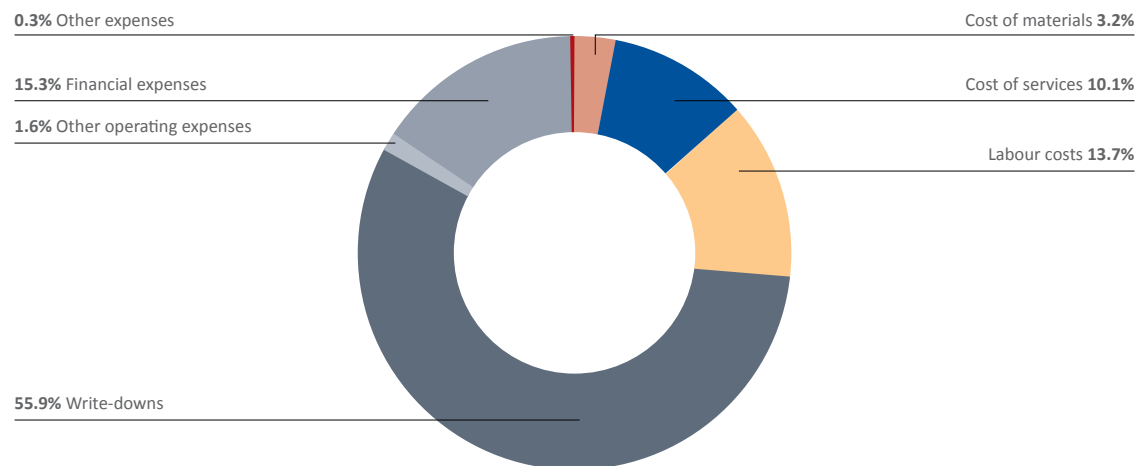
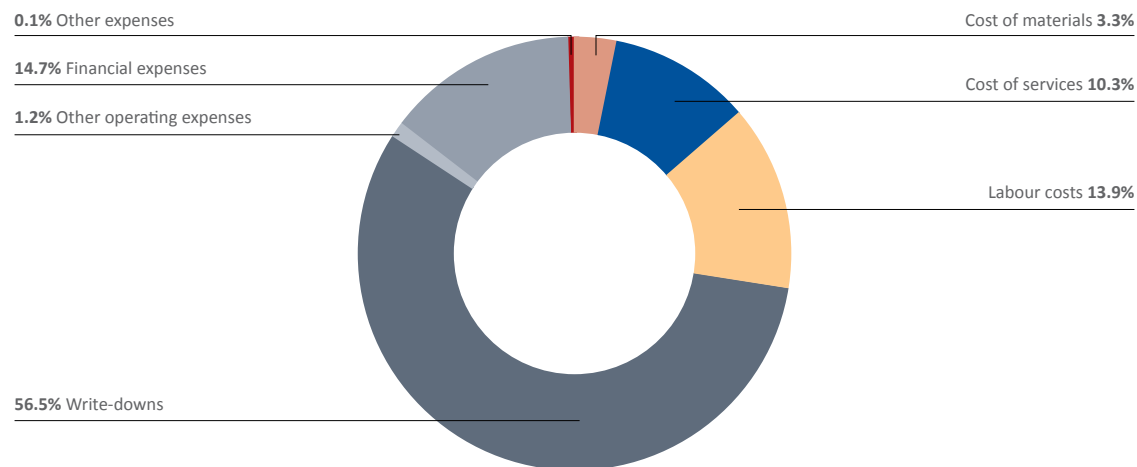


Figure 8: Structure of expenses of DARS d.d. in 2017



1.2 LETTER FROM THE MANAGEMENT

To whom it may concern,

The Company vision, which is focused on motorway and express way users, sustainable development of the Company and its environment, and employee needs, was pursued to the maximum possible extent in 2017.

Despite the growth of freight and passenger traffic, adequate traffic fluidity was ensured during the execution of extensive reconstruction works, particular on the Primorska motorway leg. The reconstructed motorway and express way sections – 25.7km of directional road lanes on motorways and express ways were thoroughly reconstructed in 2017 – provide an enhanced level of travel safety and comfort. Traffic safety has improved, as indicated by the reduced number of all types of injury suffered by road users. As the operator of the motorway network, which accounts for roughly a tenth of the entire Slovenian road network, yet at least half of all road traffic is executed on it, the Company will continue to devote efforts to bringing Slovenia closer to the safest and most developed countries in terms of traffic. That is also the way to realise the objectives of the Resolution on the National Road Safety from 2013 to 2022.

By successfully implementing the business plan, the Company managed to improve all key performance indicators in 2017.

In the 2017 financial year, DARS d.d. revenues amounted to €458.9 million, which is 15 percentage points more than in 2016. The 2017 tolling revenue, which accounts for the majority of all revenues generated by the Company, was 19% higher than in 2016. Tolling revenue increased on account of improved vignette sales, increased freight traffic and the toll increase as at 1 January 2017, which partly hampered the negative effect of changes in the structure of freight traffic with respect to EURO emission classes.

In 2017, the Company generated net sales revenues amounting to €442.2 million, EBITDA of €371.8 million and a net profit of €141.1 million.

In the same year, a great deal of effort were devoted to establishing a modern electronic tolling system for vehicles with maximum permissible mass exceeding 3.5 tonnes in free traffic flow entitled DarsGo. The DarsGo system will enable drivers of heavy vehicles to pay toll without stopping or reducing speed and



without toll stations, making their journey faster, safer and more comfortable. With no stopping and accelerating at toll stations, exhaust emissions will reduce. The system will provide for the payment of toll according to the distance travelled and flexibility if new motorway sections are added. The introduction of the new DarsGo tolling system on 1 April 2018 is the last condition for the removal of toll stations.

It is estimated that the annual tolling revenue from heavy vehicles in the new tolling system will increase by some 8%, primarily due to tolling at sections that could not be included in the existing toll system.

In 2017, slightly more than 7km of newly built motorway between Draženci and Podlehnik was put into service, while the remaining, slightly less than 6km motorway to the Gruškovje border crossing will be completed in 2018. This will complete the 33-kilometre-long A4 Podravje motorway leg between Slivnica (Maribor) and Gruškovje, which represents a part of the overall pan-European transport network.

The Company is already facing new infrastructural projects, the largest ones being the second tube of the Karavanke tunnel and the 3rd development axis. Gradually, investments in the reconstruction and modernisation of the existing network will increase.

The Company's medium-term strategic plan also includes a goal to optimise traffic fluidity, while providing the highest possible level of safety on the Slovenian motorway network. The goal will continue to be realised through the prism of fresh approaches and environmental responsibility.

Together with associates from motorway maintenance, motorway management, toll collection, investments, and support expert services, we will ensure that the journeys of our motorway network users will continue to be safe, reliable and comfortable.

Thank you for your confidence.

Tomaž Vidic, PhD
Chairman of the Board

Gašper Marc, MSc
Member of the Board

Vili Žavrlan
Member of the Board

Marjan Sisinger
Labour Manager/Member of the Board

1.3 COMPANY MISSION, VISION, VALUES, STRATEGIC POLICIES AND INTEGRATED MANAGEMENT SYSTEM POLICY

Mission

Using modern and environmentally responsible approaches, DARS optimises traffic flows and provides safety and comfort on the Slovenian motorway network.

Vision

Linked in future

The motto of the current and future Company operations is connectivity in all possible forms. That means that the Company vision is focused on:

- users, with whom we share the concern for their safety, reliability and comfort during travel;
- the sustainable development of the Company and its environment to further enhance Company operations in terms of efficiency and performance, and a responsible attitude towards all stakeholders: the owner, business partners, local community, wider Europe, natural environment, etc., while connecting with peer institutions;
- the needs of employees, with whom we share the goal of providing a safe, creative and interesting working environment.

Core values

Safety

The Company provides a safe environment to work in, i.e. a safe working environment for its employees, safety for its business partners and users of the Slovenian motorway network (being a reliable partner on the road), and preservation of the natural environment.

Responsibility

The Company renders the services and tasks undertaken with quality, keeping in mind its users, the environment (harmonising its activities with the possibilities and needs of the natural environment) and other stakeholders (suppliers, contractors, other business partners, owner, local community) in a socially responsible manner, making it a reliable business partner.

Development

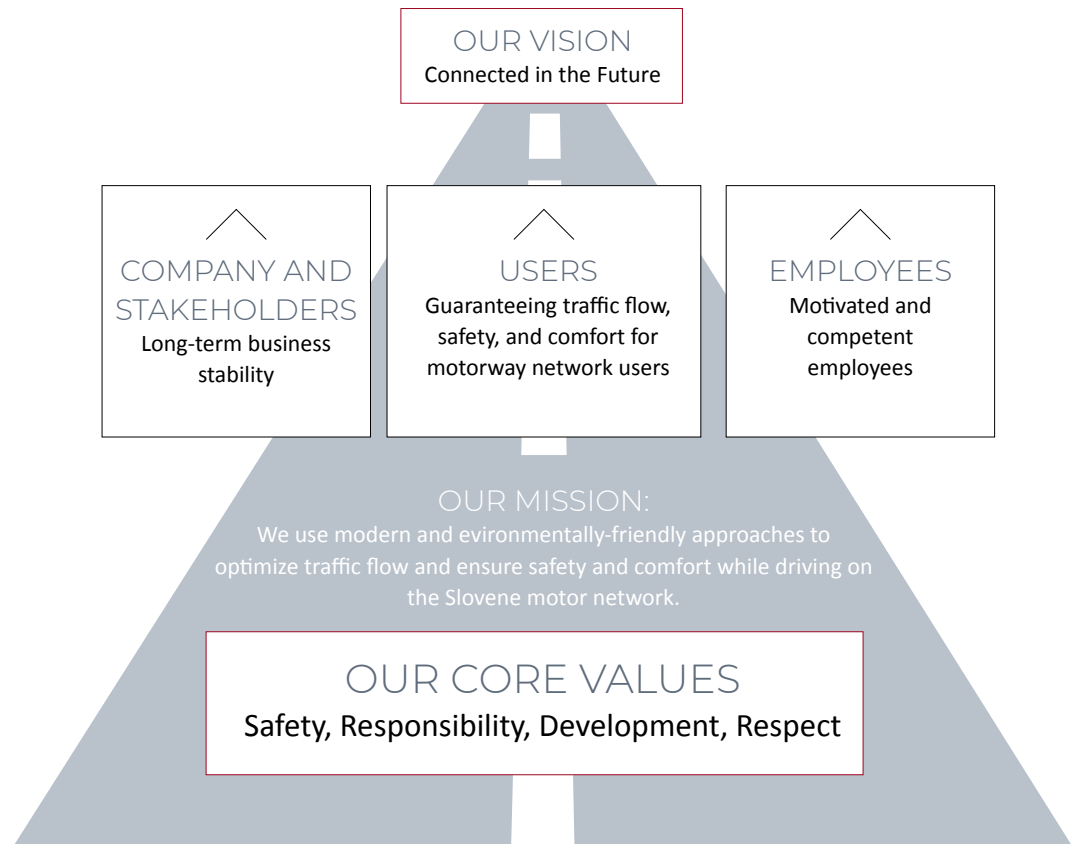
The Company continuously promotes new innovative and modern approaches and develops new or improves existing services rendered by the Company, while striving to improve energy efficiency. With a creative and innovative mindset, we are aware that this is the only way to develop innovative services with high added value for users, employees, the Company and the owner.

Respect

A high level of trust and respect for all stakeholders (users, the owner and business partners) is reflected in the Company's day-to-day operations and employee actions and conduct.

Strategic policies of DARS d.d.

Figure 9: Strategic policies of DARS d.d.



Provision of safety, traffic flow and comfort for motorway users

- Provision of traffic safety
- Provision of traffic fluidity
- Provision of user-friendly services

Long-term stable operations

- Provision of stable operations in the long term
- Introduction of lean enterprise
- Implementation of business excellence

Engaged and competent employees

- Continuous strengthening of competences
- Leadership development at the Company
- Development of a creative, safe and interesting working environment

Integrated management system policy

With professional and responsible performance of tasks, the management and all Company employees will make every effort to fulfil the requirements and expectations of its stakeholders, users, the owner, employees, the environment and other interested parties. Company success has been planned, managed and controlled carefully. The Company is committed to continuous improvements of all business processes, with emphasis placed on preventive actions.

The Company goal is to achieve quality, environmental and energy efficient operations and to provide safe and comprehensive services to employees, outsourcers and users.

The management system policy is realised in the following manner:

- by making responsible decisions based on specific information and facts,
- by providing good conditions and relations between all stakeholders inside and outside the Company,
- by promoting proactive operations with emphasis placed on employee innovations,
- by managing the risks identified and seizing the opportunities detected,
- by enhancing efficient use of all types of material and energy throughout a service life cycle,
- by consistently complying with the legislation, other statutory requirements and development policies,
- by cooperating with partners and other outsourcers in a mutually beneficial way,
- by supporting the development of the profession and acquiring new knowledge and skills,
- by actively communicating within the Company and with external audiences,
- by committing to prevent health risks and injuries among employees,
- by establishing and achieving measurable goals for improvements in all areas of operation,
- by systematically observing all aspects of operations (the environment, energy, quality, safety, economy) when purchasing products and services and planning new solutions.

The Management Board undertakes to make every effort to achieve the set objectives, also by personal example.

1.4 CORPORATE GOVERNANCE STATEMENT OF DARS d.d.

Pursuant to paragraph 5 of Article 70 of the Companies Act (Official Gazette of the Republic of Slovenia, No. 42/2006 and subsequent), the Articles of Association of DARS d.d. adopted in October 2017 and the provisions of the Slovenian Corporate Governance Code for Listed Companies and the Corporate Governance Code for Companies with Capital Assets of the State, the Company hereby gives, as part of its Annual Report, the following

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement is an integral part of the 2017 Annual Report and is available in electronic form for the period between 1 January 2017 to the date of publication in 2018 on the website of the Ljubljana Stock Exchange (Ljubljanska borza d.d. – SEOnet) and on the official website of DARS d.d. (www.dars.si)

1. Reference to the Corporate Governance Code and Recommendation

In its work and business operations, DARS d.d. observes to the greatest extent possible the following codes and recommendations on business practices in governance and management:

- Slovenian Corporate Governance Code for Listed Companies, 27 October 2016, available on the website of the Ljubljana Stock Exchange (<http://www.ljse.si>);
- Corporate Governance Code for Companies with Capital Assets of the State, May 2017, available on the website of the Slovenian Sovereign Holding (SSH; <http://www.sdh.si> and <http://www.sdh.si> <http://www.sdh.si>);
- Recommendations and Expectations of Slovenian Sovereign Holding, May 2017, available on the website of the Slovenian Sovereign Holding <http://www.sdh.si>.

Since the enactment of the Slovenian Sovereign Holding Act, the Republic of Slovenia, as the sole shareholder, has exercised its rights through the Slovenian Sovereign Holding, which in turn exercises its voting rights at the General Meeting, by appearing before courts and other authorities, and by convening the General Meeting.

There were no major deviations in the implementation of the above codes and recommendations in 2017, while deviations from individual recommendations are explained below. In its operations, DARS d.d. observes its internal acts and the DARS Code of Ethics, and strives to improve its corporate governance practice.

2. In governance, DARS d.d. deviates from the following provisions:

Individual deviations from the above codes and recommendations are disclosed in the continuation of this Statement along with their causes.

a) Slovenian Corporate Governance Code for Listed Companies

Corporate governance framework

Point 1: The Company operates in line with its primary objective – to maximise the Company value – and other objectives of an operator of the motorway network that ensures its sustainable development and stable and socially responsible operations in the long term. The objectives are not defined in the Articles of Association, because the basic legal act of the State lays down only the characteristics required by corporate law for a general description of the Company as a legal entity. The Company discloses all objectives in documents published on its website or publications. The management of DARS d.d. is based on legal provisions, internal acts and rules. All operative business decisions for achieving the objectives are implemented within the scope of the annual business plan and strategic policies of the Company.

Diversity policy

Point 4: The Supervisory Board of the Company will form a Diversity Policy this year.

In a two-tier governance system, the supervisory body is the only body that should adopt such a document, since the managing body has no legal competence in respect of proposals for the appointment of Supervisory or Management Board Members.

Corporate Governance Statement and Statement on Compliance with the Code

Point 5.5: The Company Statement does not disclose all information as indicated in the annex to the Code. The Statement discloses the composition of the Management by name and function. The composition of the Supervisory Board is disclosed in the Report by the Supervisory Board within the scope of the Annual Report. Detailed information about individual Members of the Management and Supervisory Boards are published on the Company website.

Point 5.6: The remuneration received by the Management and Supervisory Boards is disclosed in the Financial Report within the scope of the Annual Report. The Company discloses gross, but not net, remuneration received by each Member of the Management and Supervisory Boards pursuant to legal requirements.

Composition and appointment of the Supervisory Board

Points 9, 9.2, 9.3: At companies where the Slovenian Sovereign Holding exercises at least 3/4 of all voting rights, the Supervisory Board forms no special committees for the implementation of procedures to search for and assess candidates for Members of the Company's Supervisory Board. The Supervisory Board of the Company will form a Diversity Policy this year.

Procedure for the selection of candidates for Supervisory Board Members

Point 10: At companies where the Slovenian Sovereign Holding exercises at least 3/4 of all voting rights, the Supervisory Board forms no special committees for the implementation of procedures to search for and assess candidates for Members of the Company's Supervisory Board.

Training for Supervisory Board Members

Point 13.1: The annual training plan for members of the Supervisory Board and committees is not defined once a year, but is subject to each member's current judgement as to what training they require. Supervisory Board Members attend training and ensure that the knowledge, experiences and skills of the members comply with the Company needs. The indicative cost of training is provided in the Annual Business Report of the Company.

Supervisory Board committees

Point 18.3: The term of office of the external member is linked to the term of office of the Chairman of the Supervisory Board.

Remuneration for the Management Board

Point 21: In defining the amount of remuneration for Members of the Management Board, the Supervisory Board acts in line with the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, No. 21/10 and 8/11). It also adopted the Rules on Determining the Content of Employment Contracts for the Chairman and Members of the Board regarding Remuneration and Severance Pay, laying down criteria for evaluating the performance-linked variable share of remuneration for managers, and informed the General Meeting of Shareholders thereof.

Internal audit

Point 26.2: Pursuant to the external assessment of the quality of internal auditing at the Company, the latter largely realised the recommendations given and possibilities for improvements in 2017, but failed to fully realise three recommendations due to objective reasons, which will be implemented in 2018. Therefore, the recommendation was only partly observed in 2017.

Company communication strategy

Point 27.2: The strategy is observed partly. The Company has adopted and enforced the Rules on identifying and protecting business secrets, the Rules laying down the method of information provision to the media, and Instructions for replying to road users, but has adopted no special internal act (yet) that would lay down the Company communication strategy preventing insider dealing in Company securities, abuse of inside information and market manipulation.

Publication of important information

Point 29.2: This year, the Company will prepare the first sustainable report for 2017. The sustainable report will be prepared according to GRI (Global Reporting Initiative) standards. Some other institution competent for an independent external assessment of sustainable reports will be able to check the accuracy of the information indicated in the sustainable report.

Point 29.5: The Company's Annual Report does not disclose positions in the management and supervisory bodies of non-related companies that are taken by Members of the Management and Supervisory Boards, since Members of the Board inform the Supervisory Board of potential infringements of competition and any related matters.

Point 29.7: The Company discloses gross, but not net, remuneration received by each Member of the Management and Supervisory Boards pursuant to legal requirements.

Point 29.8: The Company's financial statements, together with notes and disclosures of the most important categories, have been prepared in accordance with the accounting and reporting requirements of the Slovenian Accounting Standards (SAS), taking into account the provisions of ZGD-1 and ZDARS-1.

b) Corporate Governance Code for Companies with Capital Assets of the State

Supervisory Board

Point 6: One of the owners' key management levers is their right and duty to appoint to the supervisory bodies of companies independent and professional individuals who responsibly and professionally supervise the work of such management boards and cooperate with them in their management activities. The Supervisory Board has an HR Committee that operates as a Nomination Committee. The HR Committee comprises two members of the Supervisory Board representing shareholders and one member of the Supervisory Board representing employees. External experts are included as needed.

Point 6.8: At companies where the Slovenian Sovereign Holding exercises at least 3/4 of all voting rights, the Supervisory Board forms no special committees for the implementation of procedures to search for and assess candidates for Members of the Company's Supervisory Board.

Transparency of operations and reporting

Point 8.4: As indicated, the Annual Report does not disclose the cost of Supervisory Board operations. The disclosure covers the remuneration received by SB Members and any travel costs and bonuses.

Audit and internal control system

Point 9.2.7: This is taken into account partially, since the deadlines for the recommendations given by internal auditors are exceptionally extended for objective reasons.

Adoption of a code of ethics and corporate integrity

Point 10.2: A code of ethics is not used. The Company implemented elements of a corporate integrity system within the scope of the following documents: Dars Code of Conduct, DARS d.d. Corporate Governance Policy and Instructions laying down protection for whistleblowers notifying corruptive, illegal or unethical actions.

Point 10.2.1: It is used partially. Within the scope of the Sustainable Report, the chapter "Corporate integrity and compliance" will disclose the operations of the "Integrity Committee" at DARS d.d. and the "Mobbing Committee."

c) SSH recommendations and expectations

Labour cost optimisation

Point 4.4: The Company partly derogates from the recommendation, since it discloses data on labour costs in annual reports. Payments are made pursuant to the binding collective agreement and agreements with social partners as published on the Company's website.

Point 4.5: The Company partially deviates from the recommendation. The Company publishes the binding collective agreement and agreements with social partners on its internal website.

General Meetings of companies

The convening of a General Meeting – Point 6.2: The sole shareholder of DARS d.d. is the Republic of Slovenia, which is represented by the Slovenian Sovereign Holding (SSH) based on the provision of Article 18 of the Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 25/2014). Since the General Meeting is universal, the provisions of ZGD-1 regarding the deadline for convening and publishing the agenda of the General Meeting need not be observed.

DARS d.d. will continue to follow the Slovenian Corporate Governance Code for Listed Companies, the Corporate Governance Code for Companies with Capital Assets of the State, and the Recommendations and Expectations of SSH, thereby realising its corporate governance system.

3. Main features of the internal control and risk management systems at the Company in relation to the financial reporting procedure

The Management Board is responsible for establishing and ensuring the operations of internal controlling and internal accounting controls, selecting and applying accounting policies, and for protecting the Company assets.

The internal control system is a set of different policies and guidelines that are put in place and adopted by the Management Board in order to manage the risk related with financial reporting as best as possible. The purpose of the internal control system is to provide efficiency and performance of operations, reliability of financial reporting, and compliance with the applicable legislation and other external and internal regulations.

The Company has established a risk management system that is related with financial reporting.

The regularity, completeness and reality of financial reporting is provided with the implementation of the following types of internal control:

- control of the regularity of accounting data, which is provided in several ways, e.g. by harmonising items with buyers and suppliers,
- control of the completeness of data capture (e.g. documentation sequence, document enumeration),
- control of the segregation of duties and responsibilities (e.g. separate record-keeping and payments),
- control of restrictions on access (the rights of access to accounting records are allocated selectively),
- control of supervision.

The accounting process is computerised, which is why all internal controls listed above are also related with the control systems installed within the scope of IT and cover the control of restrictions on access to the network, data and applications, and control of accuracy and completeness of data capture and processing.

The Risk Management chapter in the Business Report details risk management and control mechanisms relating to an assessment of a particular type of risk. It is estimated that the current control system at DARS d.d. will provide efficient and successful attainment of business goals, operations in compliance with legal provisions, and fair and transparent reporting in all major aspects in 2017.

4. The functioning of the General Meeting and its key competences, description of shareholder rights and method of enforcement of such rights

The Company has the status of a public limited company functioning as a commercial company under ZGD-1.

The functioning of the General Meeting, its key competences, the rights of shareholders and the manner of exercising such rights are defined in detail in the Articles of Association of DARS d.d.

The sole founder and shareholder of DARS d.d. is the Republic of Slovenia (hereinafter "RS"), which has been represented by the Slovenian Sovereign Holding since the enforcement of the Slovenian Sovereign Holding Act. The Republic of Slovenia exercises its rights as a shareholder, as defined in ZGD-1 and the Articles of Association, at the General Meeting of Shareholders.

The General Meeting is convened by the Management Board of DARS d.d. at its own initiative, at the request of the Supervisory Board or at the request of the Company shareholder.

The General Meeting must be convened in statutory cases, but no less than once a year.

5. The composition and activities of the Company's managing and supervisory bodies and their committee

Management Board

The composition and operations of the Management Board are laid down in detail in the Articles of Association of DARS d.d. According to the latter, the Management Board may have no more than five members.

The Chairperson or Member of the Board may be a person who meets the requirements from Article 255 of ZGD-1 and point 7.2.2 of the Articles of Association of DARS d.d. The Chairperson and all Members of the Board are appointed by the Supervisory for a term of no more than five (5) years, and are in an employment relationship with the Company.

The Management Board of DARS d.d. comprises: Chairman Tomaž Vidic, PhD, Member Gašper Marc, MSc, Member Vili Žavrlan and Labour Director/Member of the Board Marjan Sisinger.

At the same time, it must act as a diligent and honest manager and protect the business secrets of the Company. In realising its tasks, the Management Board adopts measures and carries out the procedures laid down by the law and the Articles of Association of the Company.

If the Management Board has more than two members, the Company is jointly represented by the Chairperson and Member of the Board.

The Management Board adopts resolutions within the scope of its competences with a majority vote of all Members of the Board. Each Member of the Management Board is entitled to one vote. In the case of a tie, the vote of the Chairperson of the Board prevails. The Labour Manager participates in decision-making whenever the Management Board makes decision on HR and social issues.

The Management Board adopts its rules of procedure, which are approved by the Supervisory Board.

Supervisory Board

In relation to point 7.3.1 of the Articles of Association of DARS d.d., the Supervisory Board comprises six Members. Two Members of the Supervisory Board are employee representatives.

The Supervisory Board adopts its rules of procedure pursuant to the Articles of Association of DARS d.d. The Supervisory Board appoints the Chairperson and Deputy Chair.

The Supervisory Board must be convened at least once every quarter. The Supervisory Board has quorum if at least two thirds of the Members are present at a meeting, including the Chairperson or Deputy Chair of the Supervisory Board.

Pursuant to the Articles of Association of DARS d.d., the Supervisory Board supervises the management of transactions; decides on the appointment and dismissal of the Management Board and their remuneration; convenes the General Meeting; reviews and audits Company ledgers and documentation, cash in hand, securities, inventory of goods and other items; grants the Management Board prior consent for transactions exceeding €1.5 million (excluding VAT); is informed of the Management Board decision regarding the establishment and/or termination of subsidiaries; proposes the appointment of an auditor at the General Meeting; appoints the Audit Committee of the Supervisory Board and other committees as per ZGD-1; is informed of a Management Board decision regarding the purchase and divestment of holdings or shares in other companies; grants consent for the Company planning documents; harmonises the wording of the Articles of Association with the applicable General Meeting resolutions; informs Company bodies and the shareholder of its positions and proposals; and considers and decides on all other matters within its competence under the law, other regulations and under the authority of the General Meeting and the Company's Articles of Association.

The Supervisory Board is required to examine the annual report, the auditor's report and the allocation of distributable profit proposed by the Management Board. It must compile a written report on the results of its examination for the General Meeting.

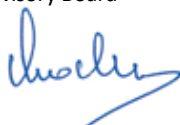
A detailed composition and activities of the Company's Supervisory Board and its committees in 2017 are presented in the Report by the Supervisory Board.

Decisions relating to the General Meeting, Management Board, Supervisory Board and Company securities are summarised in compliance with the Articles of Association adopted at the General Meeting held on 11 October 2017.

Ljubljana, 23 April 2018

Supervisory Board
of DARS d.d.

Marjan Mačkošek
Chairman of the
Supervisory Board



Management Board
of DARS d.d.

Tomaž Vidic, PhD
Chairman of the Board



Gašper Marc, MSc
Member of the Board



Vili Žavrlan
Member of the Board



Marjan Sisinger
Labour Manager/
Member of the Board



1.5 NON-FINANCIAL REPORTING AT DARS d. d.

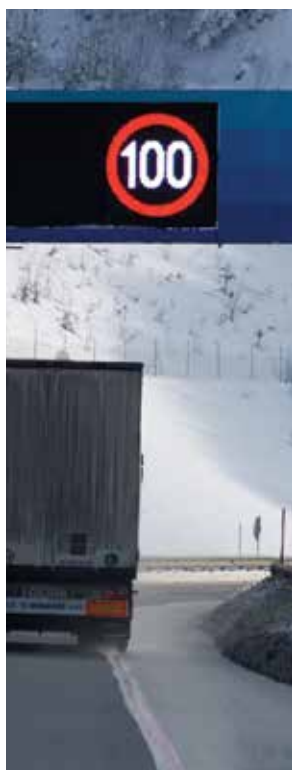
The independent sustainable report of DARS d.d. for 2017 will contain all necessary information laid down by the "Non-Financial Statement." Hence, DARS d.d. will meet the requirements of the Companies Act (Official Gazette of the Republic of Slovenia, No. 15/2017, as of 31 March 2017, i.e. Articles 57, 60(a) and 70(c) of ZGD-1J).

Sustainable development or corporate social responsibility have been included in the Company's annual reports since 2009; however, a separate "Sustainable Report by DARS d.d." for the 2017 financial year will be published this year for the first time, in which the Company will observe basic-level international sustainable reporting standards GRI GS (Global Reporting Initiative Global Standards).

The Business Report, which is a component part of the Company's Annual Report, also includes key non-financial information on business, environmental, HR and social affairs that are required to understand the position, performance and development of DARS d.d.

We are aware of the great responsibility towards people, the environment and society, and put social responsibility into practice in all projects and long-term plans and at all levels of our operations. Ambitious and clearly defined goals ensure that the public will continue to identify DARS d.d. as a responsible and forward-looking company.

The Company's sustainable report for 2017 will be published by 30 June 2018 on the website of DARS d.d. pursuant to ZGD-1J.



1.6 ANALYSIS OF BUSINESS PERFORMANCE

DARS d.d. revenue

Table 2: Overview of DARS d.d. revenue

Type of revenue	2016 (in EUR)	2017 (in EUR)	2017/2016 index	Structural share for 2017
Revenue under the performance contract	383,902	330,295	86	0.1 %
Toll revenue	361,269,595	430,894,988	119	93.9 %
- vignettes	170,262,417	180,421,374	106	39.3 %
- freight traffic	191,007,178	250,473,614	131	54.6 %
Revenue from leases	7,296,256	7,449,857	102	1.6 %
Revenue from closures and overweight load transports	652,445	834,351	128	0.2 %
Revenue from easement	594,426	676,395	114	0.1 %
Revenue from the lease of optical fi-bres/telecommunication lines	1,021,585	1,018,613	100	0.2 %
Other sales revenue	943,430	1,039,813	110	0.2 %
Other operating revenue	24,065,320	9,331,102	39	2.0 %
Financial revenue	1,952,141	2,152,269	110	0.5 %
Other revenue	99,123	3,064,261	3.091	0.7 %
Capitalised own products and services	1,022,313	2,079,463	203	0.5 %
TOTAL REVENUES	399,300,535	458,871,408	115	100.0 %

In the 2017 financial year, DARS d.d. revenues amounted to €458.9 million, which is 15 percentage points more than in 2016. The 2017 tolling revenue, which accounts for 93.9% of total revenues generated by the Company, was 19% higher than in 2016. Tolling revenue increased on account of improved vignette sales (6%), increased freight traffic (5%) and the toll increase as at 1 January 2017, which partly hampered the negative effect of changes in the structure of freight traffic with respect to EURO emission classes. The cost of the payment of a claim charged to the guarantees drawn resulted in an increase in other revenue. Capitalised own products and services increased due to an increased number of closures for the deployment of the DarsGo system.

DARS d.d. expenses

Table 3: Overview of DARS d.d. expenses

Type of expense	2016 (in EUR)	2017 (in EUR)	2017/2016 index	Structural share for 2017
Costs of material	8,838,553	9,397,092	106	3.3 %
Cost of services	27,901,879	29,238,361	105	10.3 %
Labour costs	37,910,486	39,730,512	105	13.9 %
Write-offs	154,705,750	161,140,888	104	56.5 %
Other operating expenses	4,309,555	3,466,600	80	1.2 %
Financial expenses	42,429,255	41,763,767	98	14.7 %
Other expenses	734,733	309,307	42	0.1 %
Total expenses	276,830,211	285,046,526	103	100.0 %

The expenses of DARS d.d. amounted to €285.0 million in 2017 and increased by 3% compared to 2016. Their increase was primarily the result of increased costs of write-off, material, services and labour. With 57%, write-offs account for the largest share of expenses.

DARS d.d. profit or loss

The net profit of DARS d.d. for the period between 1 January and 31 December 2017 amounted to €141.1 million and increased by 38% compared to the net profit for 2016.

Table 4: Performance indicators

		31/ 12/ 2015	31/ 12/ 2016	31/ 12/ 2017
Financing ratios				
Equity to capital ratio in %	Equity liabilities	46.57	46.92	48.87
Equity to total capital ratio in %	Equity + provisions + long-term liabilities liabilities	91.28	94.41	93.88
Short-term financing ratio in %	short-term liabilities (including short-term accrued costs and deferred income) liabilities	8.72	5.59	6.12
Investment ratios				
Operating fixed asset ratio in %	fixed assets (at carrying amount) assets	95.64	91.89	89.86
Long-term assets ratio in %	fixed assets + investment property + long-term investments + long-term operating receivables assets	96.16	92.35	94.73
Horizontal financial structure ratios				
Quick ratio in %	Liquid assets + short-term receivables short-term liabilities	11.36	18.34	23.07
Current ratio in %	current assets + short-term deferred costs and accrued income short-term liabilities + short-term accrued costs and deferred income	42.86	135.17	84.68
Operating efficiency ratios				
Operating efficiency ratio in %	operating revenue operating expenses	147.65	170.01	186.71
Operating profit rate in %	Operating profit operating revenue	32.27	41.18	46.44
Net profit margin in %	Net profit revenue	16.21	25.66	30.76
Profitability ratio				
Net return on equity	net profit for the period average equity (excluding net profit for the period)	0.02	0.04	0.05

1.7 IMPORTANT BUSINESS EVENTS IN THE 2017 FINANCIAL YEAR

January

DARS d.d. successfully underwent an external audit by an accredited institution and obtained the ISO 50001 standard referring to the energy management system.

February

The Supervisory Board of DARS d.d. adopted the DARS d.d. Strategy for the 2017-2020 period and the DARS d.d. Corporate Governance Policy at its regular session.

March

The Supervisory Board of DARS d.d. gave its consent to the amendment of the DARS d.d. Business Plan for 2017.

April

On 21 April 2017, the Supervisory Board checked and confirmed the audited Annual Report for 2016.

Based on the provisions of the Ljubljana Stock Exchange Rules and applicable legislation, DARS d.d. published an audited Annual Report of DARS d.d. for 2016, which also comprises a Corporate Governance Statement and an annual document.

June

On 29 June 2017, DARS d.d. held its 11th General Meeting, at which the owner was informed of the audited Annual Report of DARS d.d. for 2016, the Auditor's Report, Report by the Supervisory Board, and of the audit of the Annual Report of DARS d.d. for 2016 with the Auditor's Report, including the remuneration received by members of the managing and supervisory bodies in 2016.

The Supervisory Board adopted a resolution on the allocation of distributable profit for 2016 and on the award of a discharge to the Management and Supervisory Boards for the 2016 financial year.

July

The Republic of Slovenia and the Republic of Austria acquired grant funds for the construction of the second tube of the Karavanke tunnel under a CEF (Connecting Europe Facility) call. CEF allocated funds amounting to no more than €7.95 million or 10% of eligible project costs for the construction of the tunnel tube.

August

Based on Articles 112 and 113 of the Financial Instruments Market Act, DARS d.d. published the unaudited report on Company operations in the first half of 2017.

October

On 11 October 2017, the 12th General Meeting of DARS d.d. was held, at which the owner was informed of an increase in the Company's share capital through an in-kind contribution, appointment of the auditor for the Company financial statements for the 2017-2021 period, and of the amendments and supplements to the Articles of Association.

On 12 October 2017, DARS d.d. opened the access point Šmarje – Sap.

To refinance a share of existing financial liabilities, DARS d.d. borrowed funds in 2017 through the issue of a registered note instrument (NSV – Namensschuldverschreibung) in the amount of €100 million with the maturity of 20 years and a fixed interest rate.

November

On 16 November 2017, DARS d.d. concluded a loan agreement with the European Investment Bank for a loan amounting to €51 million to fund the electronic tolling system project. The debt was secured with an EFSI (European Fund for Strategic Investments) instrument.

The Company put into service the first part of the section between Draženci and Gruškovje (7.3-kilometre-long 4-lane road between Draženci and Podlehnik) on the A4 Podravje motorway leg.

December

At its 27th regular session, the Supervisory Board of DARS d.d. gave its consent to the Company's Business Report for 2018.

1.8 RISK MANAGEMENT

1.8.1 Operational risks

DARS d.d. is well aware of the gravity of consequences resulting from the realisation of different types of risks. In the ever-changing business environment, risk management is an important factor of the Company's business success, which is why a great deal of attention is placed on timely detection of risks and their management. The risk management process has become part of our strategic operations, which is why we are proud to have managed risks in 2017 successfully. In the first half of the year, the DARS d.d. strategy for the 2017-2020 period was adopted laying down strategic goals, based on which strategic risks were re-identified. The system is regularly checked and updated to be able to identify, evaluate and manage the risks to which the Company is exposed.

Risks were identified using goals that are set at the highest level in the Company strategy for the 2017-2020 period, and goals that are set at low level within the scope of a particular process. The risk assessment methodology was not upgraded in 2017 due to other priorities. The probability of occurrence was assessed using a 5-level scale: highly unlikely (10-20 years), rather unlikely (5-10 years), likely (1-5 years), fairly likely (1 month to 1 year), very likely (1 day to 1 month), while the consequences of the risk are expressed either in value using a 5-level value scale (up to €100,000, €100,000 to €1 million, €1 million to €10 million, €10 million to €50 million, and €50 million to €100 million) or in a semi-qualitative manner using a scale of 1 to 5 (low, moderate, medium, high and very high). Furthermore, the number of events in the period was also measured, which was assessed using a 4-level scale (1-5, 5-10, 10-50 and 50-100).

Based on all identified and assessed risks, members of the Risk Management Board prepared a set of 14 strategic risks that require more attention. The Company set an acceptable level of risk for the 14 risks that the Company is willing to take as an organisation. The risk ceiling must comply with the Company's business strategy and risk appetite. In cases when the level of acceptable risk does not exceed the level of calculated risk, there is a gap between the actual and still acceptable risk that must be bridged by handling the identified risks. The management of a risk management organisational unit developed control mechanisms for the risks identified – activities for mitigating and managing risks – and regularly monitors the adopted control mechanisms. Risk management is integrated in all levels of Company operations.

The identified risks requiring special attention are:

- limited available funds for investments in development,
- improper allocation of funds intended for new investments and settlement of financial liabilities,
- increased number of accidents or decreased safety level,
- dependence on outsourcers,
- establishment and functioning of the DarsGo system (FTF ETS),
- a failure of key information systems,
- loss of income during the operations of the new system (FTF ETS),
- economic viability of investments,
- interest rate risk,
- revenue risk,
- loss of competent or key staff (undesired fluctuation),
- increased share of actively non-engaged persons,
- inadequate sources for raising employee competences and, consequently, the development of a target organisational culture,
- high costs of HR reorganisation within the Company upon the deployment of the DarsGo system (FTF ETS),
- concern for employee safety and health at work, and
- environment protection.

Limited available funds for investments in development and improper allocation of funds earmarked for new investments and settlement of financial liabilities

To provide and properly allocate funds for the renewal of motorway infrastructure, the Road Infrastructure Department in cooperation with the Department for Reconstructions prepared in 2017 an Action Plan for a 3-year period that is based on the results obtained through infrastructure monitoring, analyses of the expert system and expert groups, and on the expert assessments of the proposed measures, thus providing bases for proper design of investment reconstruction works. The document includes indicative values of the works for all measures foreseen in the following 3 years, primarily to make the relevant services aware in advance of the needs for the provision of funds for investments in existing infrastructure. The competent services must adjust the planing of the funds required for investments in existing infrastructure to the needs expressed in the relevant document.

Increasing number of accidents or decreased safety level

To prevent the number of traffic accidents increasing or, rather, a drop in traffic safety, the Company, as the entity managing and maintaining the motorway network, must act with due diligence and carry out appropriate and efficient actions that have a direct or indirect effect on it. In the implementation of measures relating to traffic safety, the Company primarily observes the requirements of domestic legislation and the obligations laid down by European directives, while carrying out various projects in traffic safety, use of advanced IT and introduction of smart infrastructure based on good practice examples and studies performed. Hence, DARS d.d. approached a gradual introduction of the section speed control system in 2017 at potentially dangerous motorway sections, since the results of the pilot introduction of the system at a section passing Trojanje were extremely positive in terms of providing optimum safety and fluidity. The same results were shown with information provision to users, coordination (carried out from surveillance centres, primarily in case of actions by operative teams on site and upon emergency events) and provision of measures tailored to traffic and weather conditions. Furthermore, efforts have been made to implement safety campaigns on an ongoing basis and to cooperate with stakeholders to promote traffic safety.

Dependence on outsourcers

The risk of dependence on outsourcers is managed by monitoring all information on the operations of business partners on an ongoing basis, preparing measures to prevent the impact of any unfavourable events on Company operations (amendments of provisions in contracts, consensual termination of contracts) and maintaining healthy business relations. While selecting a provider within the scope of a public procurement procedure, the foreseen implementation periods, payment terms and guarantees are thoroughly examined, milestones for the completion of each stage are set, and quality negotiations are ensured. To supervise the performance of contract, contract custodians are appointed who monitor performance throughout the term of a contract, i.e. from the preparation of tender documents to the conclusion of a contract, during the execution of works and until the warranty period, if any, expires. Furthermore, custodians may also monitor the validity of individual documents, e.g. guarantees, and are obliged to notify the competent services to revise them on an ongoing basis. New staff with competences are being recruited, further trained and directed to manage a particular area of operations. The cost of investments, both regular and those incurred due to subsequent project changes, is monitored regularly.

Deployment and functioning of the DarsGo system (FTF ETS)

The project to deploy the DarsGo system (FTF ETS) is managed using a system of project management that operates according to project management standards and good practice examples. All activities are documented, and new rules and technical means to manage project activities have been put in place. Two contractual engineers supervise the fulfilment of technical specifications and regularly and actively participate in the project. System and end-to-end tests are carried out systematically, and test scenarios have been prepared to simulate operations in the trial period in order to ensure system operations in practice. Regular reports on activities are made at regular work meetings with the engineers and contractor, and a risk register

and compliance matrix have been put in place and monitored regularly. The Management Boards of DARS d.d. and the Telekom – Qfree consortium meet on a regular basis, reporting about project developments. The project director at DARS d.d. makes regular reports on activities at board meetings and to the Management Board of DARS d.d. The DarsGo system (FTF ETS) has a system of uninterrupted operation put in place along with safety measures for protection and security against unauthorised interference and loss of data.

Failure of key information systems

A failure of key information systems is managed with ongoing monitoring of IT systems and immediate reactions to emergency events. A system of uninterrupted operation of the information system has been established (duplication of the most vital parts of IT equipment) and safety measures have been introduced to protect and safeguard information systems against unauthorised interference and loss of data. As one of the methods to identify risks, the Company uses independent IT security checks. The risk of information infrastructure is managed with regular maintenance (a 24/7 maintenance system was established last year at several key segments), regular implementation of back-ups, fire walls and anti-virus programs, upgrades to software and hardware, revisions of security policies, enhancing IT security and a clear vision of the development of the Company's IT system. The Company started setting up applications in certain ITS systems in 2017 that enable automatic error signalling. Errors are processed at control centres, where employees are present at all times, thus allowing immediate response to emergency events. Furthermore, in-house personnel in telecommunications is on stand-by duty. Services for which the Company staff is inadequately qualified or insufficient are rendered with the help of outsourcers.

Loss of income during the operations of the new system (FTF ETS)

The deployment of the new DarsGo system (FTF ETS) is vital for DARS d.d., because the latter is required to ensure toll payment, the latter being the largest and most important source of Company revenue. An important risk identified in the functioning of the new DarsGo system (FTF ETS) is the risk of revenue loss deriving from toll collection for heavy vehicles exceeding 3.5 tonnes, which is why the Company arranged suitable parameters with the contractor in Service Level Agreements (SLA) within the scope of the Contract on the deployment and operation of the DarsGo system (FTF ETS). During the implementation stage of the DarsGo system (FTF ETS), the Company started checking and testing the functionalities of the supplied solution with the contractual engineers and in cooperation with an outsourcer that disposes with expert staff for IT auditing, while a quality control system will be set up during the DarsGo system (FTF ETS) operation stage. As a result, the Company started forming a new organisational unit in 2017 for technical supervision and analysis of DarsGo operations (FTF ETS) that will be in charge of monitoring system operations and making continuous assessment of the scope and quality of services (and developing and maintaining the monitoring model) as laid down in Service Level Agreements, which are component parts of the contract with the provider establishing the DarsGo system (FTF ETS).

Economic viability of investments

The risk of economic viability of investments is managed by DARS d.d. using various control mechanisms. To examine the economic viability of measures on road infrastructure, the Company has used the PMS DARS expert system for several years, while minor investments are subject to expert economic assessments made with the help of external experts. In stage 1, the Company primarily checks the functionality of individual infrastructure elements and safety for motorway users, and later on the durability and level of damage. In 2017, the Company started a project to introduce an expert management system for bridging structures, i.e. BMS DARS. For projects related with energy efficiency, the Company has prepared cost and benefit analyses that provide the basis for decision-making on the implementation of a particular measure; ITS systems are primarily subject to the verification of eligibility in terms of safety for motorway users, while several different aspects are taken into account in reconstructions and investments in electrical and mechanical equipment (a project to introduce long-term planning for ESO reconstruction, which commenced last year, is underway). To manage risks related with the eligibility of investments in machinery, a comprehensive analysis of all machin-

ery and equipment was made in 2017 and a medium-term plan of investments in their renewal was prepared for the 2018-2022 period.

Revenue risk

The management of revenue risk is vital for successful operations of DARS d.d. in the long term. In 2017, the Company carried out several activities to manage the risk of reduced revenue. Proposals of legal documents were prepared for the deployment of the DarsGo system and for another change of toll rates for vehicles exceeding 3.5 tonnes, which will enter into force when the DarsGo system is put into service in 2018. Within the scope of toll revenue risk management, negotiations were conducted with carriers in order to achieve consent regarding toll increase and abolition of discounts for pre-payers. The Company drafted a proposal for a 3% toll increase per kilometre travelled and abolition of prepayment benefits (discounts), and laid down milestones for further harmonisation between all stakeholders regarding toll for 2019, which were put forth to the competent ministry.

Loss of competent or key staff (undesired fluctuation), increased share of actively non-engaged employees, inadequate sources for raising employee competences and, consequently, the development of target organisational culture

The risk of the loss of competent or key staff at DARS d.d. is mitigated with the provision of creative, safe and interesting working environment. In order to obtain feedback on the working environment from employees, surveys are carried out on organisational climate and employee satisfaction, the results of which provide the basis for preparing an annual programme of activities. More funds were earmarked in 2017 for raising employee competences and improving organisational culture than in previous years. To improve the employees' well-being on the job, measures were carried out last year within the scope of the full Family Friendly Company certificate, thus making it easier for employees to coordinate their work and family duties. The Company provided in-house training for the employees' personal and professional development. The results of the research on organisational climate and employee satisfaction conducted in 2017 show improvements in all items measured.

To identify the share of actively non-engaged employees, the Company conducted engagement measurements in 2017. The results show an increased share of engaged employees and decreased share of actively non-engaged employees. The measures carried out in the previous year to reduce the share of actively non-engaged employees included performance-based variable bonuses, successful training in management and constructive communication, and the acquisition of new skills at various expert conferences in Slovenia and abroad.

High costs of HR reorganisation within the Company upon the deployment of the DarsGo system (FTF ETS)

The risk of high costs in the process of HR reorganisation in toll collection upon the deployment of the DarsGo system (FTF ETS) in 2017 was mitigated with systematically organised activities, i.e. firstly with activities for target in-house employee re-qualification, due consideration of protected employee categories and, lastly, with the execution of appropriate in-house staffing to workplaces within the scope of the electronic tolling system. The identified risk of HR reorganisation, which is challenging in terms of costs, was taken into account as early as in the preparation stage of the DarsGo system specifications and later on in the implementation stage, which is why the Company sought to automate business processes to the maximum possible level.

Concern for employee safety and health at work

DARS d.d. is well aware of the importance of providing safety to employees at work, which is why it was included in the Company Strategy for the 2017-2020 period as one of major elements for successful planning of Company development. Safety was identified as one of four most important Company values and a reduced number of employees injured at work as a major goal of the Company. Our engagement is not

merely declarative in nature. By the end of 2017, the Company realised almost all measures to improve the employees' safety at work, as laid down in the risk assessment for 2016. Hence, we continued the project to protect an increasing number of sites with bumers, which will be mandatory for all construction sites in the middle of 2021, after the expiry of a 5-year transitional period pursuant to the Rules on road closures. Work equipment was also purchased that reduces employees' exposure to work-related accidents (e.g. remote controlled mowers). In 2017, a systematic measure was successfully implemented, pursuant to which the central reservation is covered in asphalt, while the traffic going in the opposite direction is separated with a concrete security barrier and the emergency lane is extended to 3.5m, which was executed in the reconstruction of the motorway section between Unec and Postojna. All measures conducted last year turned out to be efficient, with no accidents involving serious employee injuries, while sick leave due to work-related accidents was the lowest in the last 8 years.

Environment protection

DARS d.d., as the entity managing and maintaining motorways and express ways, established an environmental management system in previous years within the scope of overall Company operations, which was upgraded with an energy management system in 2017, allowing it to consistently pursue its environmental protection policy in all areas of its operations. In 2017, the management system was subject to continuous improvements with emphasis placed on energy management and identification of environmental aspects, where all stages of a service life cycle were reasonably taken into account. The underlying theme of the environmental management system pertains to the assessment and analysis of environmental impacts and aspects taking into account the stages of a service, and their definition in the register of environmental aspects. To reduce impact on the environment, the Company laid down framework and implementing environmental and energy targets and programmes to achieve the targets. The risks referring to the timely monitoring and enforcement of legislative requirements in practice are mitigated with measures taken by the appointed responsible persons who cover the area of work to which a legislative amendment refers. Environmental risk, which includes the risk of waste management with special emphasis placed on hazardous waste, the risk of environmental pollution and the risk of influence area protection have become increasingly important. Activities for environment protection that had started in the past continued. Systematic management of environmental risk is reflected in the ecological awareness of employees. Motorway accidents may have a negative impact on the environment, which is why the Company strives to reduce the risk of their occurrence; however, if an accident takes place, fast and efficient actions are necessary to render any negative implications for the environment as low as possible. To that end, all employees at such workplaces are informed and trained to act fast and efficiently in a given situation in terms of environment protection. The probability of the occurrence of emergency events is also reduced with preventive measures. With training and drills for fast, proper and efficient actions, the Company makes sure that the impact of any emergency events on the environment is minimal. With suitable activities within the scope of motorway maintenance, such as cleaning and regular maintenance of retention basins for the purposes of undisturbed operations, implementation of an annual programme of operational monitoring of excess rainwater, and with the collection, separation and controlled disposal of the waste collected, implementation of measures to reduce light pollution and ongoing monitoring for the presence of carbon monoxide and of visibility in tunnels, the Company devoted major efforts to reduce negative impacts on the environment and successfully managed the risk of environmental accidents. Furthermore, the Company realised the governmental Noise Action Programme for the first phase major roads and major railways outside Municipality of Ljubljana for 2012 - 2017. Most measures on five motorway sections have already been executed, while the protection of individual most affected residential buildings along the motorway network continues.

1.9 PRESENTATION OF THE COMPANY'S BUSINESS ACTIVITIES

1.9.1 Performance and attainment of plans

The Company's present and future key motto is to achieve efficient operations in any form and towards all stakeholders. To that end, the Company prepared its Strategy for the 2017-2020 period, which is the key document for strategic planning of the Company development in the long term.

The Company is more and more oriented in the provision of sustainable development in addition to the provision of the mobility of people and goods, thus focusing its future activities on:

- observation of economic and social aspects in the planning and execution of investments and other activities;
- environmental acceptability and substantial reduction of harmful impact on the environment that are caused by various forms of transport;
- adaptation to digital transformation and development of new advance technologies (alternative energy sources, the so-called smart roads and smart mobility, etc.);
- extending the infrastructure life span with optimum maintenance, renovation and upgrades to the existing system in line with increasing standards;
- long-term stable operations with responsibility to the environment and society.

Based on the adopted management system policy and deriving strategic goals and key performance indicators (KPI) as laid down in the Company's Business Plan, the Company sets measurable operative goals. The system is developed in a manner ensuring continuous improvements and innovations of all employees at all organisational levels.

The main objectives of DARS d.d. in 2018 are:

- Successful implementation of the DarsGo system and its regular use (toll collection). After concluding a contract on the deployment of a free-flow electronic tolling system for vehicles exceeding 3500kg in September 2016, the realisation of one of the most important projects in the Company history is underway. The new system, which is planned to be put into service in 2018, is expected to increase toll revenues from heavy vehicles, improve traffic fluidity and safety, and reduce harmful impacts on the environment.
- Rearrangement of toll stations after the establishment of the DarsGo system: in 2018, it is planned to demolish toll stations and rearrange the platforms at locations causing the greatest problems in traffic fluidity and safety.
- The continuation of construction works on the motorway section between Draženci and Gruškovje. Works will be completed and handed over to the contracting authority in 2018 pursuant to the contractual provisions.
- To build the second tube of the Karavanke tunnel, the Company plans to select the contractor for construction works, sign a contract and introduce the contractor into works in 2018.
- Preparation of design documents and land acquisition for the construction of the 3rd development axis.
- Continued implementation of measures to provide safety and comfort, along with traffic fluidity optimisation.
- Investments in upgrades to the existing network and enhanced quality of road pavements, structures and traffic management systems.
- Financially sustainable construction of motorways and express ways.
- Continued implementation of measures to optimise operating costs and systemically effective asset management.
- Continuation of the procedure to ensure adequate loan refinancing.

Using modern and responsible approaches, DARS will optimise traffic flow capacities and provide safety and comfort on the Slovenian motorway network, as set out in its medium-term strategic plan.

I.9.2 Toll collection

Revenues from toll collection account for 93.9% of total Company revenues and amounted to €430.9 million in 2017, which is 19% more than in 2016. The growth of toll revenue in 2017 is linked to increased vignette sales (some 5%), growing freight traffic (5%) and a change in toll prices for heavy vehicles as of 1 January 2017.

That was the first price change after 1 October 2013 and is urgent for the long-term financial sustainability of DARS d.d. Toll prices changed in a manner taking into account the ratio between the average pondered toll for toll classes 1 (R3) and 2 (R4) in amount of 1 to 1.75. The basic toll for the R3 class decreased by 5% and toll for R4 increased by 18%. Toll adjustment factors with respect to the EURO emission class increased in line with the trend of changing the structure of a vehicle fleet to the benefit of cleaner vehicles and, hence, increased toll mileage in higher EURO emission classes; i.e. EURO IV vehicles are subject to 20% lower toll, EURO V vehicles to 30% lower toll and vehicles of EURO EEV emission class and higher are subject to 40% lower toll than the basic toll. An additional rebate class for post-payers was introduced.

In 2017, heavy vehicles paid toll at 28 toll stations, where 18,824,038 passages of heavy vehicles were recorded. The year was characterised by a drastic drop in the passages of vehicles with ABC tags, since many tags wore out and broke down, while new ones could not be supplied due to a technically outdated system. That resulted primarily in reduced fluidity at toll stations. In 2017, the Company generated €250.5 million in toll revenues from heavy vehicles, which means that revenues increased by 31% compared to the previous year.

Revenue from the vignettes sold reached €180.4 million and increased by 6% compared to the previous year. In 2017, the Company sold 6% more vignettes than in 2016.

In the same year, toll supervisors issued 56,296 payment orders (54,992 of which derived from supervision over the toll payment), which is 1% less than in 2016. Experiences for working with the coming tolling system for vehicles exceeding 3.5 tonnes were obtained with the implementation of the powers conferred by the Road Traffic Rules Act and with the control of vignettes in traffic.

In 2017, tolling was characterised by the introduction of the electronic tolling system in free traffic flow, in which most associates were included in various ways. To enable parallel operations of the existing system and put certain activities in the new tolling system into operation, the Company hired agency workers for the first time.

I.9.2.1 Electronic tolling system (DarsGo)

On 13 July 2015, DARS d.d. published an open invitation to tender for the deployment of a free-flow electronic tolling system and, on 3 March 2016, selected the most favourable tenderer, i.e. the Telekom-Q_Free consortium. On 6 September 2016, the Company signed a contract on the deployment and operation of a multi-lane free-flow electronic tolling system (FTF ETS) on motorways and express ways for vehicles with maximum permissible mass exceeding 3500kg, which entered into force on 27 September 2016. After the deployment and takeover, the Company becomes the owner and operator of the system, while the Telekom-Q_Free consortium will maintain it. According to the underlying contract, the system should be deployed by 27 September 2017; however, it was found during the deployment stage that the network of customer service points needs to be expanded considerably, which is why the deadline was extended to 24 November 2017, and the date of commencement of full operations to 1 April 2018.

DarsGo is the name used for FTF ETS, which is a new registered brand of DARS d.d.

In addition to works under the contract with the Telekom-QFree consortium, DARS d.d. started carrying out extensive parallel projects and activities that will provide conditions for the deployment and operation of the future system. The most important are the reorganisation of toll operations and human resources, the establishment of own and partner customer service points (DarsGo services), marketing, advertising, adaptation of toll station arrangements and an action plan for supervision.

I.9.3 Motorway maintenance

Motorway maintenance

Motorway maintenance is carried out seasonally according to two annual plans:

- The annual plan for motorway and express way maintenance applies every year from 15 March to 15 November. It includes annual maintenance activities, planned hours by task and operative plans for the execution of major works (renovation of floor markings, tunnel washing, etc.).
- The implementation programme for winter service applies every year from 15 November to 15 March. It lays down traffic management, operative plans for the implementation of winter service by motorway maintenance centres, points for excluding heavy goods vehicles from traffic in case of demanding winter conditions and heavy snowfall, etc.

The mentioned umbrella documents provide the basis for the maintenance of motorways and express ways, whereby all maintenance works that could cause prolonged congestions are carefully planned in cooperation with other sectors and services of DARS d.d., while routine maintenance works are adjusted to traffic flows and rush hours so as to make the implications of Company works on traffic fluidity on MW and EW minimal or zero if necessary upon unexpected traffic congestions.

The enforcement of the Rules on road closures, Rules on traffic signs and equipment on roads and the Rules on the regular maintenance of public roads, which allow us to carry out certain routine maintenance works at night as well, the Company reduced congestions, primarily at motorway sections carrying the largest traffic loads.

Due to the provision of optimal preventive grit on roads, automatic mixing devices for the preparation of NaCl solution (saline) were set up at two MMCs.

At three MMCs, mobile fuel pumps were set up, so that all MMCs and their branches are now furnished with own self-supply fuel pumps.

With respect to the type of works for pavement and other structures, the volume of maintenance works in 2017 was the following:

- patchwork and rehabilitation of 69,435 square metres of road pavement under 2 contracts in 82 working days in the total amount of €1,376,409,
- investment maintenance works (pavement resurfacing) of 165,018 square metres under 4 contracts in 138 working days in the total amount of €3,421,163,
- crack sealing over 130,000 metres and additional 20,617 metres (by the team from the Slovenske Konjice MMC), hence a total of 150,617 metres,
- regular and intervention facility maintenance (dilatations of bridging structures, drainage systems, rehabilitation of concrete surfaces, etc.) in the total amount of €352,495.

Electrical and mechanical maintenance

In electrical and mechanical maintenance, the following works were carried out in 2017:

- 8 fully graphic signalling SZ boards were set up and included in the TCMS system,
- repair works on damaged electrical equipment due to accidents in tunnels (Markovec, Kastelec),
- rehabilitation of deteriorated fire signalling in Kastelec and Dekani tunnels,
- replacement of lighting at MW and EW access points with LEDs due to electricity savings,
- commencement of own measurements on electrical and lightning installations (measurements of earthing, lightning installations, electrical installations in Ex premises (explosive areas)) for all facility locations owned by DARS d.d.,
- maintenance of road weather stations,
- maintenance of traffic counters,
- cooperation and implementation of internal control over renovation works on ESO equipment in tunnels, on the alignment and MW/EW network.

Renovation of tunnel signalling

To provide undisturbed operation of electrical and mechanical equipment and systems, uninterruptible power supply (UPS) systems were replaced or restored in certain tunnels. Four electrical maintenance officers obtained certificates for independent maintenance of tunnel CO meters and Sick brand visibility based on professional training.

I.9.4 Traffic safety management and provision

The area of management, which was set up with the new organisation in 2013, brings together the management of all types of Company assets (road infrastructure, devices, rest areas and real estate) in order to enhance the efficiency of the management of Company assets, traffic and traffic safety.

Road infrastructure

Using an expert pavement management system (PMS – DARS), the Company prepared an action plan as the basis for the identification of necessary infrastructure refurbishments in the coming 3-year period. Input data was updated in the expert system and moved to the starting year of 2017.

In 2017, the Company introduced regular coordination for ongoing monitoring of the realisation of expert tasks based on a contract concluded with DRI in November 2016 for expert services in the management of road infrastructure, devices and traffic safety. Based on the contract, DRI prepared expert bases for a draft Action plan for MW infrastructure from 2018 to 2020. The draft Plan was later actively aligned with the Reconstruction Department until it was harmonised and approved by the Management Board (Action Plan for MW infrastructure from 2018 to 2020).

Based on the concluded contract, DRI also renders other expert services for the management of Company assets. It also manages the project to establish an expert management system for bridging structures on MW and EW, which is planned to be completed in 2019.

Based on a contract for 8-year geotechnical monitoring throughout the motorway network (other than the Rebrnice area, where monitoring is already underway) that was concluded in 2015, all necessary measurements on geotechnical structures were performed and the conditions of demanding structures were monitored. Furthermore, there were several intervention inspections and proposals to regulate the condition.

The set-up of a database for geotechnical inspections and measurements (GEOTAC) was completed and all available data from past inspections and measurements was entered. The accessibility of the database in the BCP application has been tested by DRI experts. Administration and database use protocols were prepared.

Measures to reduce electricity consumption

At access points on the Štajerska and Gorenjska motorway legs (and some other access points on the Dolenjska and Primorska motorway legs), road lights were replaced with energy-saving LEDs. The replacement was executed on the basis of the fulfilment of the Decree on limit values due to light pollution of environment. By implementing some other measures to reduce electricity consumption in 2017, the Company managed to reduce electricity consumption by 2.6% compared to 2016. In 2018, the Company will prepare documents to replace the remaining energy-consuming lighting, reduce connecting power at metering points that were included in the replacement of lighting, and arrange documents and lighting replacement in the Strmec cut-and-cover tunnel.

Rest areas

Major activities in the management of rest areas/surfaces for accompanying activities in 2017 were:

- construction of rest area Podlehnik – East at the end of October 2017; after technical inspections were completed and an operating permit was acquired, the rest area was put into operation at the end of November 2017,
- at rest area Dobrenje – East, the existing facility was refurbished into a Kentucky Fried Chicken (KFC) restaurant, which was opened at the end of 2017,
- within the scope of minor rest area management, the Company started preparing expert bases for the rearrangement, modernisation and standardisation of all sanitary facilities in September, and the construction of municipal facilities within the scope of the applicable environmental wastewater treatment regulation. The rearrangement covers 11 minor rest area locations.

Real estate management

In 2017, works continued in procedures to consider the applications or inquiries received for the sale of excess real estate managed or owned by DARS d.d., to inform interested parties, to identify excess land and other real estate, and define possible ways to dispose with real estate outside the motorway alignment.

To sell the real estate owned by DARS d.d., two open requests for proposals were published in 2017. In cooperation with the maintenance department, activities continued to conclude agreements with interested parties, i.e. regarding the use and maintenance of land outside the MW alignment that cannot be included in the sales procedure yet due to its status. The Company also participated in procedures considering inspection orders on the maintenance of land outside the motorway alignment.

Easements

In 2017, 47 complete applications for easement were resolved (in such cases, easement contracts were also concluded). That was 15 applications fewer than in the previous year. Applications grew notably in the second half of the year in particular, i.e. 35 new applications were submitted from mid-August to the end of the year.

Easement for consideration was granted in 2017 primarily for minor works, such as arrangement of road, municipal, energy and TC connections, while in two cases easement was granted for major works with the total compensation amounting to €74,286. The total value of compensations for the easement granted in 2017 amounted to €122,123. There were 18 applications that referred to the award of easement free of charge,

as laid down by the law, i.e. 10 applications based on Article 474 of the Energy Act (with an estimated loss of easement compensation amounting to €49,188) and 8 applications based on Article 23 of the Act Regulating Measures Aimed at Fiscal Balance of Municipalities (with an estimated loss of easement compensation amounting to €22,987).

The cost of procedures to award easement including the preparation of an easement contract and reimbursement of the cost of notarial certification of such contracts (item XIII/10 of the DARS d.d. price list of services) was calculated at €9,028.

Telecommunication marketing

In 2017, 6 contracts and 6 annexes were signed within the scope of telecommunication marketing and the following services were implemented:

- the marketing broadband Wi-Fi access to the target group of heavy vehicle drivers at 11 rest areas. Wi-Fi coupons are sold by Petrol and OMV at their petrol stations;
- Internet access was provided to end business users at 32 locations along the motorway,
- within the scope of marketing services for operators leasing optical fibres, 6 new relations were realised.

Additional income derived from the creation of easement for the purposes of erecting and operating public mobile phone base stations and co-locations.

Traffic safety

In 2017, a test system for section speed control was activated in the area of Trojane tunnels following the receipt of all necessary documents. The result was that practically all drivers observed the speed limit signs set up. The share of drivers who violated the traffic signalling installed before promotion in the media and introduction of the system fell from 30% to a mere 1%, whereby most cases involved minor speeding. The system was active between January and November, when the equipment was returned to the owner. The safety analysis showed that the number of traffic accidents and injured persons fell substantially. For that reason, a procedure to prepare documents for the execution of permanent section speed control systems at 7 motorway sections was initiated.

The Company prepared advertisements, posters, brochures and films for a new preventive campaign called SAFETY DISTANCE, which will start in 2018.

Projects to raise awareness about traffic safety among all age groups of MW/EW users continued.

In 2017, inspections within the scope of road safety assessment that had started in 2016 were completed and emergency measures for safety improvement on such sections were prepared and executed.

According to special contracts (reconstructions are not taken into account), the existing barriers with no attestation were replaced with new ones, i.e.:

- 15km of steel safety barriers of H1 and H2 containment level:
- in the area of the Novo mesto motorway maintenance centre, all terminals dug in that are set in the direction of driving were replaced with deformable ones that were tested in line with the applicable standard;
- in the area of the Novo mesto and Ljubljana Motorway Maintenance Centres, 25 crash cushions were set up;
- a public contract was executed and a contract was signed for 23 crash cushions in the area of Postojna and Kozina Motorway Maintenance Centres, whereby works will be executed in 2018;

- concrete safety barriers of H4b containment level at 3 viaducts or bridges: Lijak, Ljubljana (both on A1 and Drava (H2).

The Company invested some €3 million in specific traffic safety projects in 2017 (barriers, burners, road inspections, studies, etc.). Design documents for measures that will be executed by 2020 is in the public procurement or implementation stage.

Upon investments, preventive campaigns and regular security projects, various studies, analyses and research in traffic safety were carried out in parallel.

I.9.5 Investments

In 2017, DARS d.d. organised and managed projects to construct and reconstruct motorway sections pursuant to its business plan.

In spatial planning and locating motorways and express ways, spatial planning activities were carried out on 14 projects in 2017. In 2017, the Decree on the national spatial plan for the construction of the national road from the A1 Šentilj-Koper motorway ramp at Šentrupert to the Velenje-south ramp (Official Gazette of the Republic of Slovenia, No. 3/17) was adopted. Major projects in 2017 also include the express way between Koper and Dragonja (preparation of positions on the comments put forth during public unveiling) and preparation of expert bases for the initiative to widen the Ljubljana motorway ring and radial motorways.

Other tasks were also carried out that are related with spatial planning and locating, e.g. preparation of guidelines and opinions in cases when the Ministry of Infrastructure is responsible for spatial planning, participation in the preparation and adoption of regulations concerning spatial planning and locating and therewith related regulations, and other tasks given by the Ministry of Infrastructure, e.g. phase study and examination of possible optimisation of the measures planned to establish a 4-lane road connection to the Jeprca-Stanežiče-Brod connecting road, a study examining the possibility of reconstructing the existing road connection between Postojna and Jelšane, and a study for the modernisation of road connections at sections Slovenj Gradec-Dravograd and Otiški vrh-Holmec.

The Company cooperated with the public and users in procedures to locate motorways and express ways within the scope of its competences, thus contributing to the enforcement of solutions that are socially acceptable.

In addition to spatial planning and locating tasks performed on behalf of and for the account of RS, the Spatial Planning Department also carried out numerous other tasks on behalf of and for the account of DARS, e.g. preparation of guidelines, opinions, Terms of Reference and consents for cases in which DARS is responsible for spatial planning or is the consent authority, completion of a study of wider economic investment impacts for the 3rd development axis at section Šentrupert-Velenje-Slovenj Gradec, completion of a feasibility study for a new road connection at the corridor of the northern part of the 3rd development axis at MW section A1-Velenje-Slovenj Gradec (consideration of possible scenarios), completion of a study of wider economic investment impacts for the 3rd development axis at section Šentrupert-Velenje-Slovenj Gradec, etc.

In 2017, the following activities were carried out as regards design documents for individual investments:

- Building Permit Design/Executive Design (BPD/ED) documents for the final arrangement of toll stations following the deployment of the DarsGo system (FTF ETS) (demolition of canopies and rearrangement of

platforms for future use by the operator), which will be rearranged in 2018, were produced, audited and finalised. Building Permit Design and Executive Design documents for the final arrangement of a group of toll stations to be rearranged in 2019 was also submitted for review. Traffic safety tests were carried out for all toll station locations. A preliminary procedure was initiated as per the Decree on environmental encroachments that require environmental impact assessments. A pre-investment study was made and confirmed at the end of the year by the Ministry of Infrastructure.

- Building Permit Design (BPD) documents for EW section Jagodje-Lucija were made and consents were obtained. Traffic safety tests were conducted. A review of demanding lots within the scope of BPD documents was completed. The acquisition of a building permit is related with the acquisition of an environmental permit and missing consents for the Building Permit Design, most importantly the consent of Piran Municipality. Executive Design documents were made and submitted.
- A preliminary procedure under the Decree on environmental encroachments that require environmental impact assessments was initiated for section Markovci-Gorišnica. A public procurement procedure was carried out for an amendment to BPD/ED documents due to legislative amendments. At the end of the year, the contractor was introduced to works.
- A public procurement procedure was carried out for the section Gorišnica-Ormož, i.e. for BPD/ED documents for a bridge crossing the Formin HPP channel and Ormož overpass, and for ED documents for the Formin and Gorišnica overpass. The first procurement procedure was not successful and the contractor was selected at a renewed procurement procedure. The contract will be signed in 2018.
- BPD documents were produced for the section Koseze-Kozarje (expansion into a 6-lane road). Preliminary designs for structures were made and reviewed. Furthermore, a noise pollution study was made along with a proposal of noise protection measures, and an environmental impact assessment. The documents were harmonised with the Ljubljana City Municipality. Within the scope of design engineering, solutions for the protected parking lot Brdo were harmonised with solutions for the motorway expansion between Koseze and Kozarje.
- BPD documents were made for the Dragomer access point and most consents were obtained. ED documents were also prepared. Within the scope of the preparation of an investment programme, activities started for the conclusion of a co-funding agreement with the two municipalities and the Slovenian Infrastructure Agency. An amendment to the environmental impact report was ordered to obtain an extension of the environmental permit. Building plots were displaced on site. A land allotment study was produced and submitted to the Surveying and Mapping Authority. Procedures were initiated to appraise the land required for construction.
- Design documents for the construction of the second tube of the Karavanke tunnel were co-funded by the EU from the Connecting Europe Facility (CEF) grants for the 2017-2020 period and were completed in the prescribed periods. The final reviews of studies concerning geological-geotechnical and hydrogeological investigations were conducted and submitted. In the first half of the year, BPD documents were completed following the completion of reviews, and consents were obtained. Executive Design documents were made, reviewed and completed. A review of BPD/ED documents was carried out along with traffic safety tests. Investigations were performed in the existing tube that will provide the basis for the completion of a project to rehabilitate the existing tube. An investment programme was made and confirmed by the Ministry of Infrastructure. A partial building permit for the construction of the second tube of the Karavanke tunnel and additional construction of the pertaining MW section with all arrangements was issued by the Ministry of Infrastructure and Spatial Planning. The produced BPD documents and the partial building permit obtained are the result of intensive preliminary activities in procedures to acquire the necessary land for construction, which were completed with the signing of contracts with land owners. Based on the obtained design documents and partial building permit, procedures were conducted to prepare tender documents for the selection of a contractor. The invitation to tender was published on 13 December 2017.
- A contract for expert consultancy services for the production of BPD/ED documents and the acquisition of real estate and all building permits for both sections of the 3rd development axis north (Šentrupert-

Velenje-Slovenj Gradec) was signed in the first half of the year. The Terms of Reference were prepared for a public procurement procedure to prepare BPD/ED documents, conduct geological-geotechnical and hydrogeology investigations and acquire real estate at the mentioned 31.5-kilometre-long section. The invitation to tender was published at the end of the year.

- Activities were carried out for a public procurement procedure to obtain a suitable architectural and landscape planning solution and PD/BPD/ED design documents for a bridge along the new 4-lane road and a parallel bridge for pedestrians and cyclists crossing the Krka river as well as the waterside area, i.e. for the first two stages of the 3rd development axis south (access point Novo mesto East – access point Osredek). The procurement procedure was not completed in 2017. In the second half of the year, the preparation of BPD documents intensified. Furthermore, the environmental impact report is being prepared. Reviews of Preliminary Designs of bridging structures were performed. Most geological and geomechanical field investigations were completed. A public procurement procedure was conducted for a pre-investment study for the 3rd development axis south from the motorway to the Maline access point, including traffic, civil engineering and technical, and economic expert bases, but was not completed due to inadequate tenders. A contract was signed with the engineer for the provision of expert consultancy services for the EW section of the 3rd development axis south, a state road from A2 MW Ljubljana-Obrežje at Novo mesto East to the Maline access point to obtain all building permits. Activities were carried out to acquire real estate for construction. The purchases of the buildings planned or demolition are resolved as a priority. Activities for the purchase of other real estate will commence based on final decisions on land allotment or displacement of land plots on site. Field work has completed and studies have been made and submitted for administrative procedure to the Slovenian Surveying and Mapping Authority. After the land allotment procedure was completed, activities commenced to purchase the real estate required for the construction of new road infrastructure. The Terms of Reference for preliminary archaeological investigations were obtained from the Institute for the Protection of Cultural Heritage in Slovenia. Tender documents are being prepared for a public procurement procedure for archaeological research that must be carried out prior to the acquisition of a building permit.
- To execute investment works on Šmarska cesta in Koper, agreements were concluded on activities and co-funding between the Ministry of Infrastructure, Slovenian Infrastructure Agency, DARS and Koper City Municipality. Activities are under way.
- A pre-investment study was made for additional wind protection at EW Razdrto-Vipava-Ajdovščina, which was confirmed by the Ministry of Infrastructure. An investment programme was made and confirmed by DARS d.d.
- BPD/ED documents were finalised for the provisional branch of the Kozina MMC in Bertoki and all consents to BPD were obtained and a building permit was issued.
- An agreement was signed for the expansion of the Bertoki radial road into a 4-lane road between the Ministry of Infrastructure, Slovenian Infrastructure Agency, DARS and Koper City Municipality. Koper City Municipality selected a contractor for the production of BPD/ED documents and introduced the contractor to works.

Activities at MW section Draženci-Gruškovje border crossing from the previous year continued. Construction works were underway in both stages or, rather, lots. In stages 1 and 2a, construction works were well ahead of the implementation plan. All works on stage 1 MW alignment were completed and the road was put into service on 21 November 2017. Execution was also accelerated on stage 2a MW layout. By the end of December 2017, 77% of all construction works in stage 2a were performed along with almost 90% of all works within the scope of the relevant investment. Works on stage 2b were completed in June 2016. Funds from the EU Cohesion Fund are drawn successfully. It is planned to put the entire section into service in 2018.

Construction works at MW access point Šmarje – Sap followed the implementation plan. By the end of September 2017, all works were completed and the MW access point was put into service on 12 October 2017.

A 5-year contract with the contractor for the execution post-excavation treatment of site archives for protected archaeological excavations at MW sections and individual excavation sites, where post-excavation treatment had not been completed yet, and the treatment of the earthenware obtained during ETP and ITP investigations, was concluded and entered into force on 12 August 2016. In 2017, the contractor processed the following sites:

- Podgorica, Zagorica, Celje – Mariborska cesta III, Celje – Mariborska cesta stage IV, Dragomelj, Čatež – Srednje polje, Zemono 1, Zemono 2, Podrečje pri Viru, Bela cerkev, Draga pri Beli cerkvi Loka pri Beli Cerkev, Dolge njive pri Beli cerkvi, Pobrežje, Obrežje, Velike njive, Školarice, Loke 2, Medvedjek, Draga 3, Drnovo 1 and 2, Na vrhu, Križišče, Čatež – Sredno polje, Spodnje Škofije – Reber, Gradišče nad Hraščami, Bič, Požarnice, Šentpavel, Medlog, Požarnica, Stranje, Sv. Urh (Vihre), Grofove njive, Kamna Gorica, Sp. Škofije – Kortinca, Radvanje, Rebrnice – Gladežnica, Ribnica na Dolenjskem, Krtina, Trojane, Zadruge, Cediljeki, Malečnik, Bohova 2, Žutreki, Gmajna – Gorica, Boško, Sveti Urh, Šušec, Vipava – Mlake, Pržanj, OC Maribor, Med cestami jug – Šikole, Lavše, pri Stražgojnci, Kortinca, Na Lokah–Cikava, Mokrice-Na špici, Jaušina, Med cestami – Šikole.

In 2017, 25.71km of directional section lanes and 0.83km of access points were reconstructed. In total, ten minor bridging structure and two viaducts were partially reconstructed within the scope section reconstructions. The Unec-Postojna section was subject to the first reconstruction, which will enable the use of the emergency lane for driving during rush hours, i.e. when a lengthy section of the Primorska motorway leg is prepared for it. Within the scope of that investment, the reconstruction of the Ravbarkomanda viaducts commenced, which will continue in 2018. In 2017, the Company performed rehabilitation of protection against falling rock and landslides on the Mežaklja hill slope, landslide rehabilitation on the Pirešica embankment and other minor rehabilitations, while continuing the replacement of deteriorated safety barriers, building niches for toll supervision, doing some other minor works. Activities are carried out throughout the year to complete past projects and activities to prepare design and other necessary documents for reconstruction works in the coming years.

As regards noise barriers, design documents were completed and a procurement procedure was completed for the execution of active noise protection pursuant to the Noise Action Programme – Lot A at 8 locations. Activities to set up passive protection in these areas are also underway. A public procurement procedure was carried out for the elimination of deficiencies at sections Dramlje-Celje and Celje-Arja vas that were found in the original construction, and a test bay was set up. Construction works will commence in 2018.

Electrical and mechanical works and ITS

To update equipment on the existing motorway network, increase traffic safety and furnish motorways pursuant to the new regulations (directives) and legislation, the following reconstruction and investment works were carried out in 2017 within the scope the DARS d.d. Business Plan.

Considering that tunnels were arranged pursuant to the requirements of Directive 2004/54/EC of the European Parliament and of the Council on minimum safety requirements for tunnels in the Trans-European Road Network of over 500m in length by the end of 2015, a programme for long-term reconstruction planning in tunnels on the dTIMS platform was prepared that will provide the basis for the execution of reconstruction works in tunnels on MW and EW. In 2017, some minor renovation works were performed on electrical and mechanical tunnel equipment (upgrade to the hydrant network and replacement of LED directional lights in the Šentvid tunnel, rehabilitation of line fire system controllers in Kastelec and Dekani tunnels, rehabilitation of line fire signalling in the Jasovnik tunnel) and design documents were prepared for the reconstruction works planned in 2018 (ED and an extract from ED for the purposes of an invitation to tender for an upgrade of the system to prevent fire water freezing in the hydrant system in Trojane and Jasovnik tunnels, Prelimi-

nary Designs for ventilation in Golovec, Pletovarje and Golo Rebro tunnels, Executive Design and an extract from ED for the purposes of an invitation to tender or modernisation of automatic emergency event detection in tunnels).

Road lights at access points and rest areas along the Gorenjska and Štajerska motorway legs were replaced with energy-saving LED lights, road lighting was set up at access points Višnja Gora and Grosuplje, and lighting was upgraded at access points Blagovica North and South.

In 2017, the renovation of the emergency call system was completed at MW sections Arja vas-Slivnica, Šentilj-Pesnica, Brezovica-Unec, Senožeče-Divača and Gaberk-Fernetiči. Furthermore, DARS started replacing its radio system, transferring from analogue to digital radio communications (DMR).

Within the scope of ITS systems, three new road weather stations were set up and an upgrade was made to the MDSS system for monitoring snowploughs. The Company replaced or set up 50 traffic counters. The project to arrange traffic signalling with variable message signs at MW section Postojna-Senožeče was completed and a new portal was erected with variable message signs on the Ravbarkomanda viaduct. Several projects were carried out that will be completed at the beginning of 2018 (centralisation of the video system, TCMS Koper-Izola, TCMS Celje-Tepanje). Some other minor renovations works and investments in electrical and mechanical equipment and ITS were also completed.

The production and/or review of design and technical documents for further renovation works was under way or completed, along with studies, analyses, expert bases and algorithms to execute tunnel ventilation, expert opinions and supplementations of instructions. Such works also included the acquisition of remaining documents and provision of safety at work measures.

I.9.6 Debt repayment

DARS is in a period of high annual liabilities deriving from debt repayment. In 2018 to 2023, €1.13 billion in loan principals falls due. In that period, annual liabilities deriving from debt repayment will use up a major part of cash flow from operating activities. Therefore, a share of the debt needs to be refinanced. Debt management is defined as one of the main Company activities to achieve the Company goal, i.e. to repay or settle all financial liabilities of the Company that are 100% insured with a government guarantee. In 2017, the Company repaid loan principals amounting to €203.0 million and interest amounting to €40.4 million. The total debt of the Company as at 31 December 2017 amounted to €2,464 million.

In 2017, DARS d.d. executed refinancing in the form of the repayment of loan principal annuities based on the adopted umbrella act for debt restructuring. In October, all necessary documents were signed for the issue of the Namensschuldverschreibung (NSV or registered note) instrument in the total amount of €100 million.

By refinancing a share of the existing debt, the Company debt came to a standstill; however, pricing terms have changed and debt maturity has increased.

1.10 MOTORWAYS AND EXPRESS WAYS IN RS AND TRAFFIC LOADS

In 1994, the Republic of Slovenia transferred all motorways, infrastructure and facilities built on them to the management and maintenance of DARS d.d. with a special contract. RS hence transferred to DARS d.d. 198.8km of 2-lane and 4-lane motorways and express ways built until that time and 67.5km of access points.

By implementing the National Motorway Construction Programme, the network managed and maintained by DARS d.d. gradually increased. At the end of 2017, the Company managed 617.6km of motorways, 139.8km of motorway access points, 22.3km of interchanges and 36.4km of other roads.

Table 5: Length of the network managed and maintained by DARS d.d. as at 31 December 2017

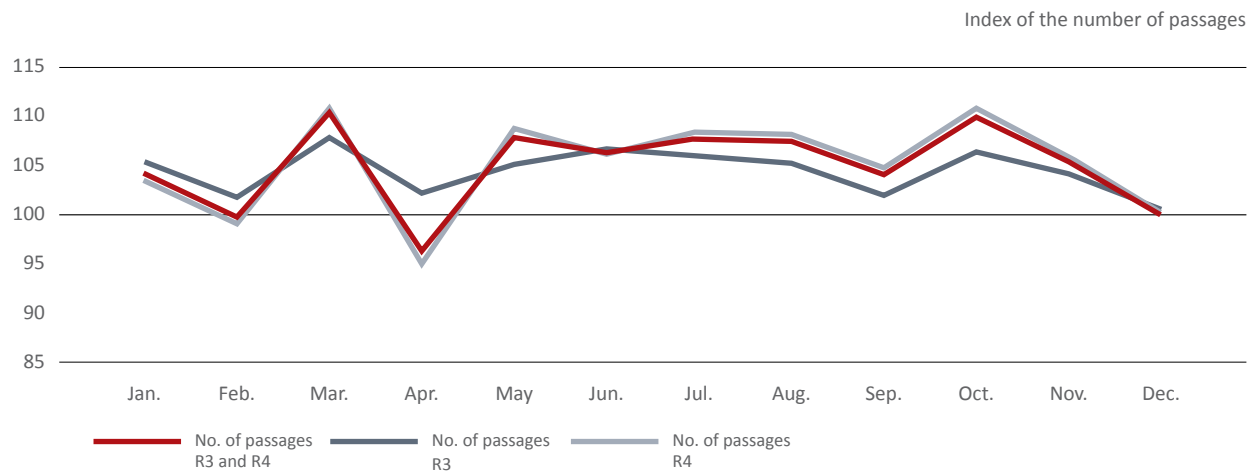
	Balance as of 31 December 2017 (in km)	MW and EW length (A)	Length of turn-offs	Length of link roads	Length of other roads	Closed system for vehicles over 3,500 kg	Open system for vehicles over 3,500 kg	Toll roads for vehicles over 3,500 kg	Toll-free roads for vehicles over 3,500 kg
A1	Šentilj–Dragučova–Maribor–Slivnica–Celje–Trojane–Ljubljana (Zadobrova–Malence–Kozarje)–Postojna–Razdrto–Divača–Črni Kal–Srmin	245,266	11,782	58,265	12,436	98,442	146,824	245,266	0,000
A2	Karavanke tunnel–Lesce–Podtabor–Kranj–Ljubljana (Kozarje)–on A1–Malence–Ivančna Gorica–Bič–Pluska–Trebnoje–Hrastje–Novo mesto–Kronovo–Drnovo–Obrežje	175,472	4,929	38,344	12,308	9,514	140,241	149,755	25,717
A3	Divača (Gabrk)–Sežana East–Fernetiči	12,246	0,000	3,779	4,076	12,246	0,000	12,246	0,000
A4	Slivnica – Draženci - [Gruškovje*] – R Croatia	28,918	4,450	6,098	1,981	0,000	27,997	27,997	0,921
A5	Maribor (Dragučova)–Lenart–Senarska–Vučja vas–Murska Sobota–Dolga vas–Lendava–Pince	79,574	1,099	13,005	2,856	0,000	79,574	79,574	0,000
H2	Pesnica–Maribor (Tezno)	7,200	0,000	3,590	0,000	0,000	0,000	0,000	7,200
H3	Ljubljana (Zadobrova–Tomačevo–Koseze)	10,222	0,000	6,849	0,000	0,000	6,330	6,330	3,892
H4	Razdrto (Nanos)–Vipava–Ajdovščina–Selo–Šempeter–Vrtojba	42,127	0,000	3,871	2,761	19,213	22,914	42,127	0,000
H5	Škofije – Koper (Škocjan) – [Dragonja*]	7,833	0,000	2,756	0,000	0,000	0,000	0,000	7,833
H6	Koper (Škocjan) – Izola – [Lucija*]	5,236	0,000	2,257	0,000	0,000	0,000	0,000	5,236
H7	MW A5 – Dolga vas	3,526	0,000	0,955	0,000	0,000	3,526	3,526	0,000
Total of MW and EW		617,620	22,260	139,769	36,418	139,415	427,406	566,821	50,799

Since the second half of 2008, Slovenia has had a vignette toll system for light passenger vehicles and an open and closed toll system for heavy vehicles.

Heavy goods vehicles with maximum permissible mass exceeding 3500kg are subject to toll payment at a part of the Ljubljana Ring, Maribor Bypass, coastal roads and the northern part of the Gorenjska motorway leg, which is not subject to toll because the construction of a toll station was abandoned.

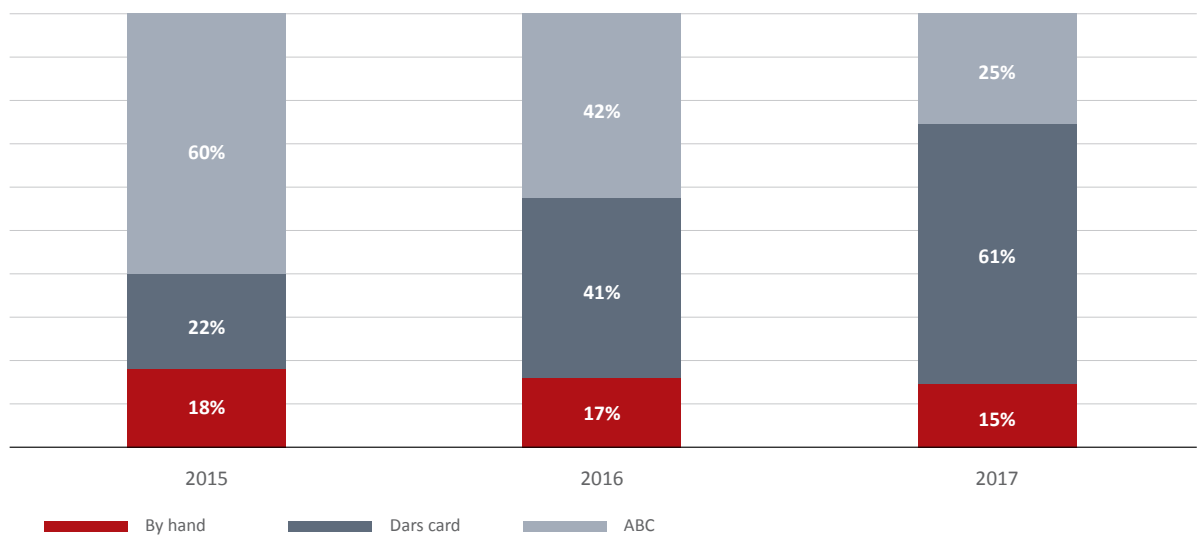
The total number of R3 and R4 vehicles passages increased by 5.15% in 2016. The increase was principally recorded on the Primorska motorway leg (by 7.57%) and Gorenjska motorway leg (by 5.84%). Passages on the Dolenjska leg increased by 5% and on the Štajerska leg by 4.02%.

Figure 10: Index of the number of R3 and R4 vehicle passages at all toll stations in 2016/2017



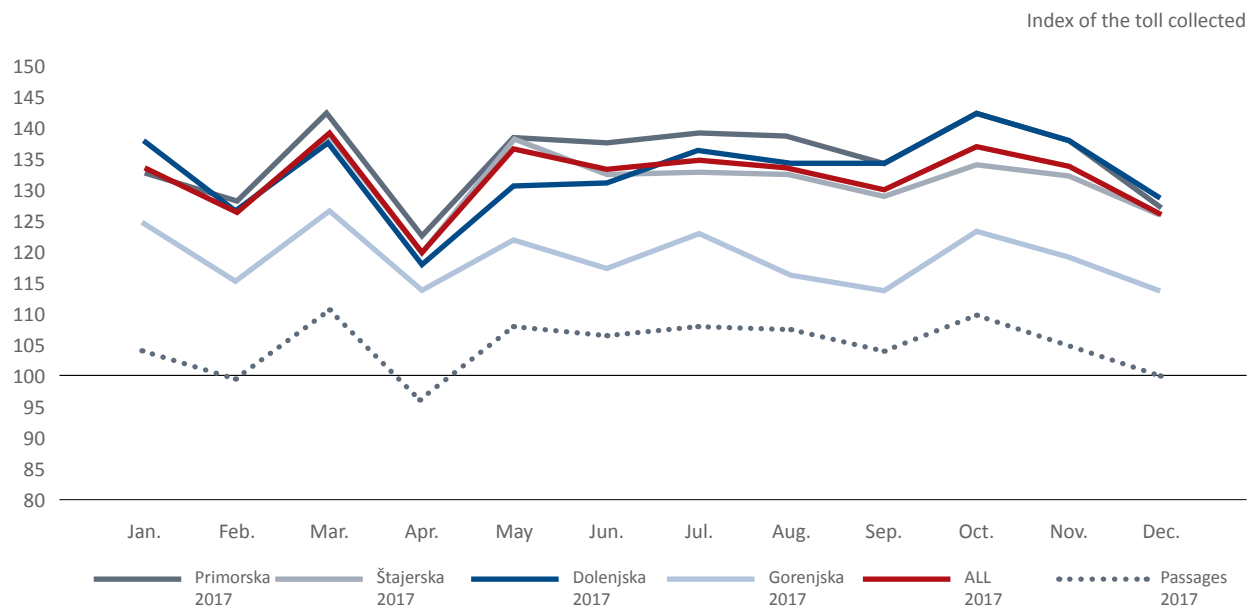
The Company has noted that the use of ABC electronic media for toll payment continued to reduce in comparison with manual toll payment. The share of those who still used the ABC payment system further decreased by 39.3% in 2017 and amounted to mere 24.5%. In 2016, the share amounted to 42.5%, in 2015 to 60.0% and in 2014 to 63.9%. The cause for the latter lies in failing ABC system tags. As a result, the use of DARS cards continued to increase in 2017, i.e. by as much as 55.4%, compared to 2016. In 2017, payments by DARS cards accounted for an almost 61% share, while the share amounted to 41% in 2016 and 22% in 2015.

Figure 11: The share of passages paid by hand, Dars card and ABC tags in 2015, 2016 and 2017



In 2017, the toll collected for R3 and R4 vehicle passages increased by 32.3%, which is a reflection of changed toll prices as of 1 January 2017. Hence, the share of collected toll increased by 35.29% on the Primorska leg, 33.13% on the Dolenjska leg, 31.67% on the Štajerska leg and 19.21% on the Gorenjska MW leg.

Figure 12: Index of the toll collected (for R3 and R4) by motorway leg in 2016/2017



In 2016, the share of cash payments (in domestic and foreign currency) continued to reduce, i.e. to 31% (33% in 2016) on account of an increased share of non-cash payments (debit, credit or petrol cards), i.e. 69% (66% in 2016).

The latter is reflected as a general trend in increasing non-cash payment shares in payment transactions and, consequently, due to reduced cash payments.

Figure 13: Share of cash and non-cash payments in 2017

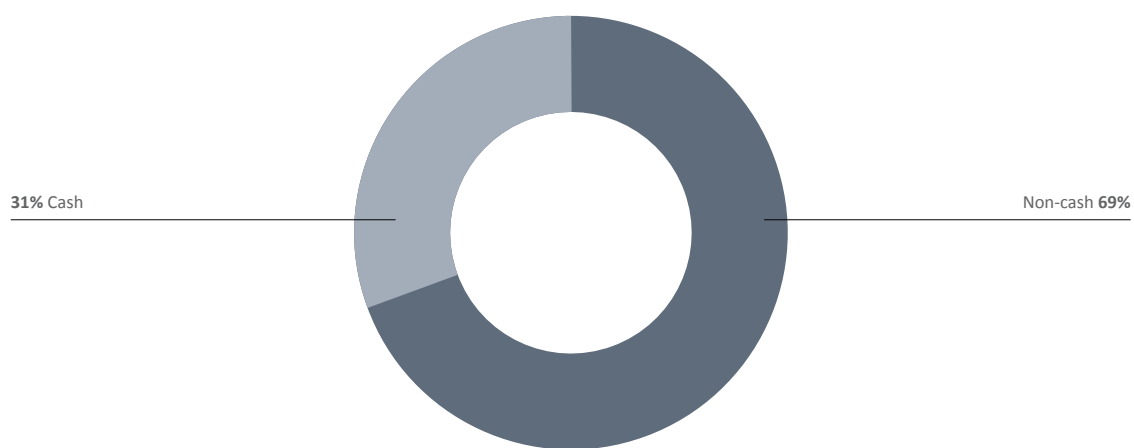
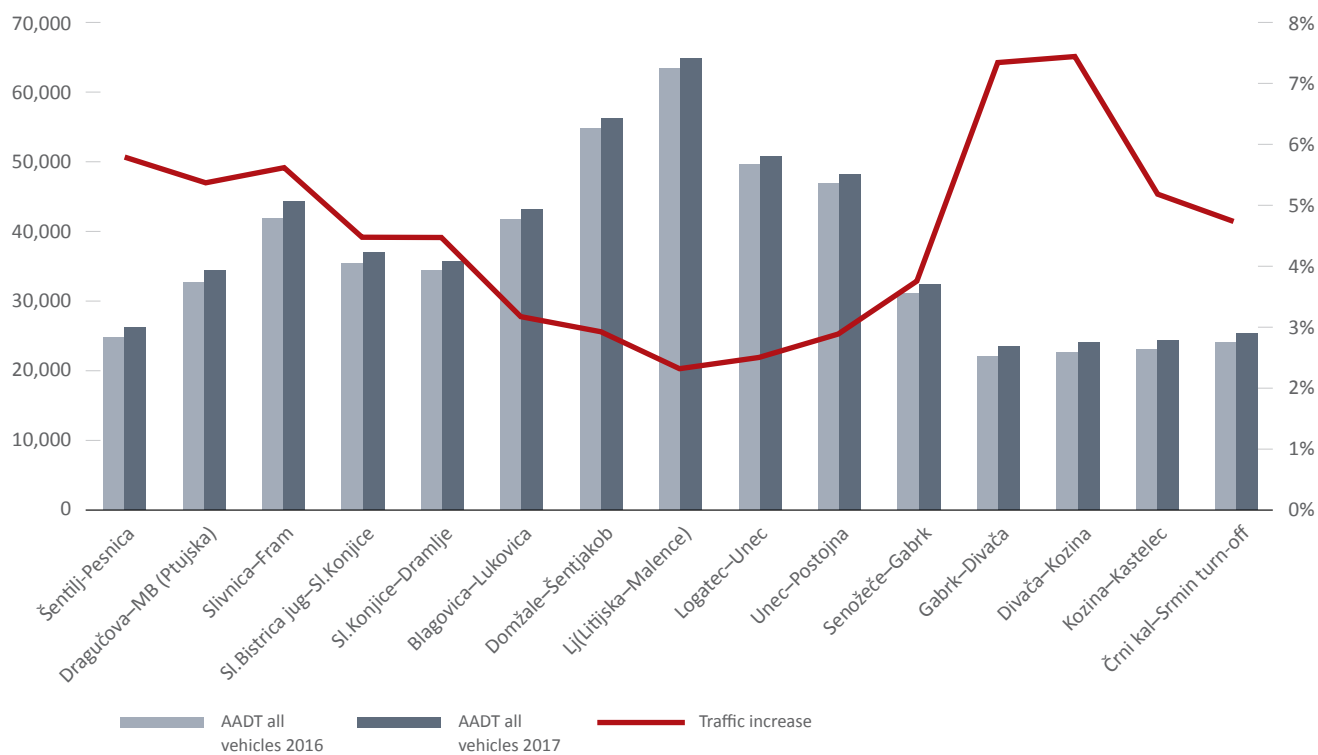
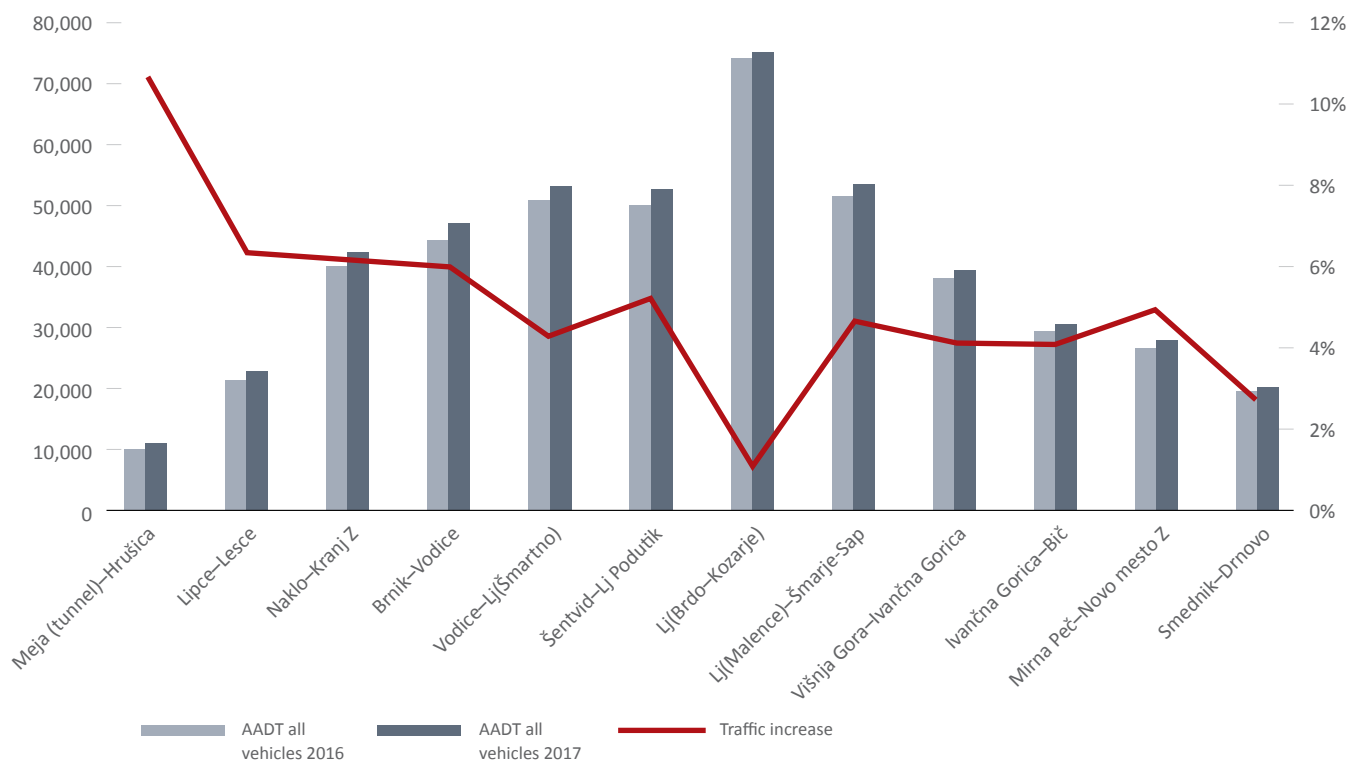


Figure 14: Comparison of AADT in 2016 and 2017 at selected A1 motorway sections



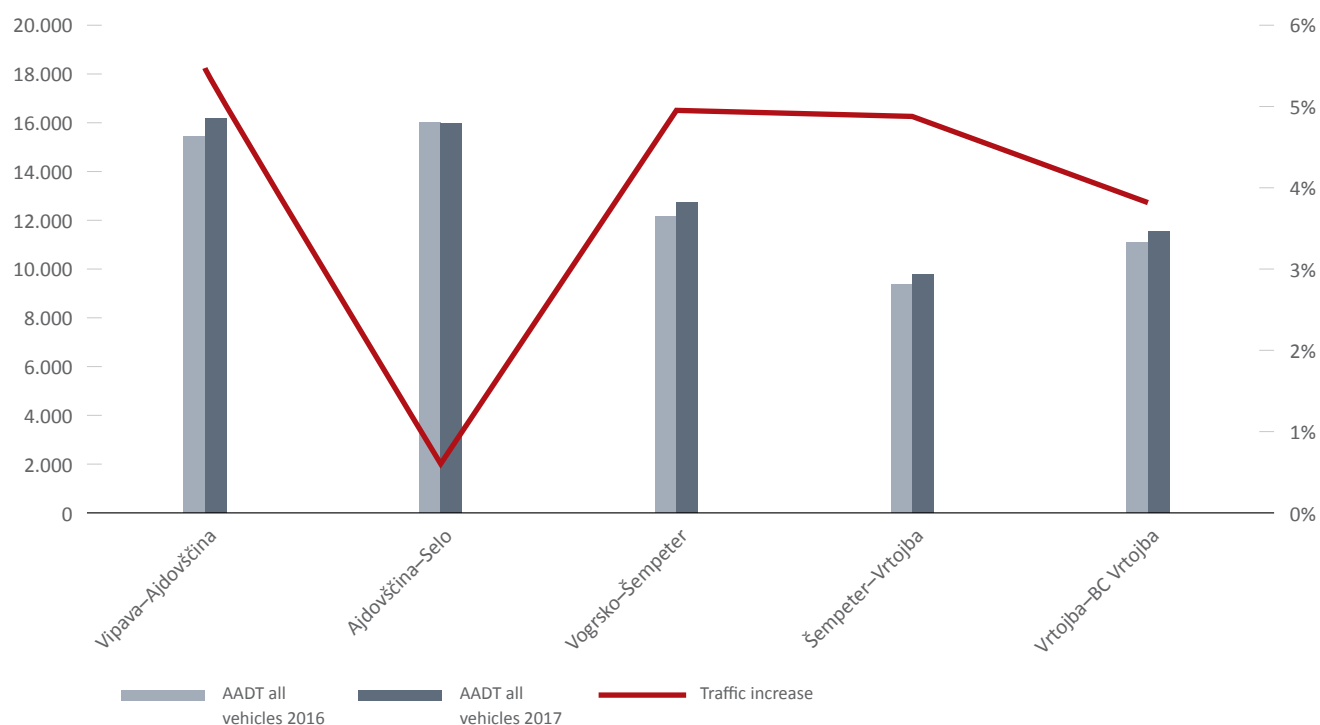
Traffic on A1 increased on all sections. At the sections shown, AADT increased by 1100 (section Senožeče-Gabrk) to 2400 vehicles a day (at section Slivnica-Fram, which is also the section of A1 motorway with the most traffic load). AADT also heavily increased on the southern Ljubljana ring, growing by almost 8000 vehicles in the last two years, almost reaching 70,000 in 2017. Generally speaking, traffic increased the most on the Ljubljana ring considering the number of vehicles.

Figure 15: Comparison of AADT in 2016 and 2017 at selected A2 motorway sections



Traffic on A2 increased on all sections. At the sections shown, AADT increased by 550 (section Smednik-Drnovo) to 2700 vehicles a day (section Brnik-Vodice). At the section with the most traffic load in Slovenia (Ljubljana Brdo-Kozarje), traffic increased by 900 vehicles a day. In 2017, AADT at that section amounted to 75,200.

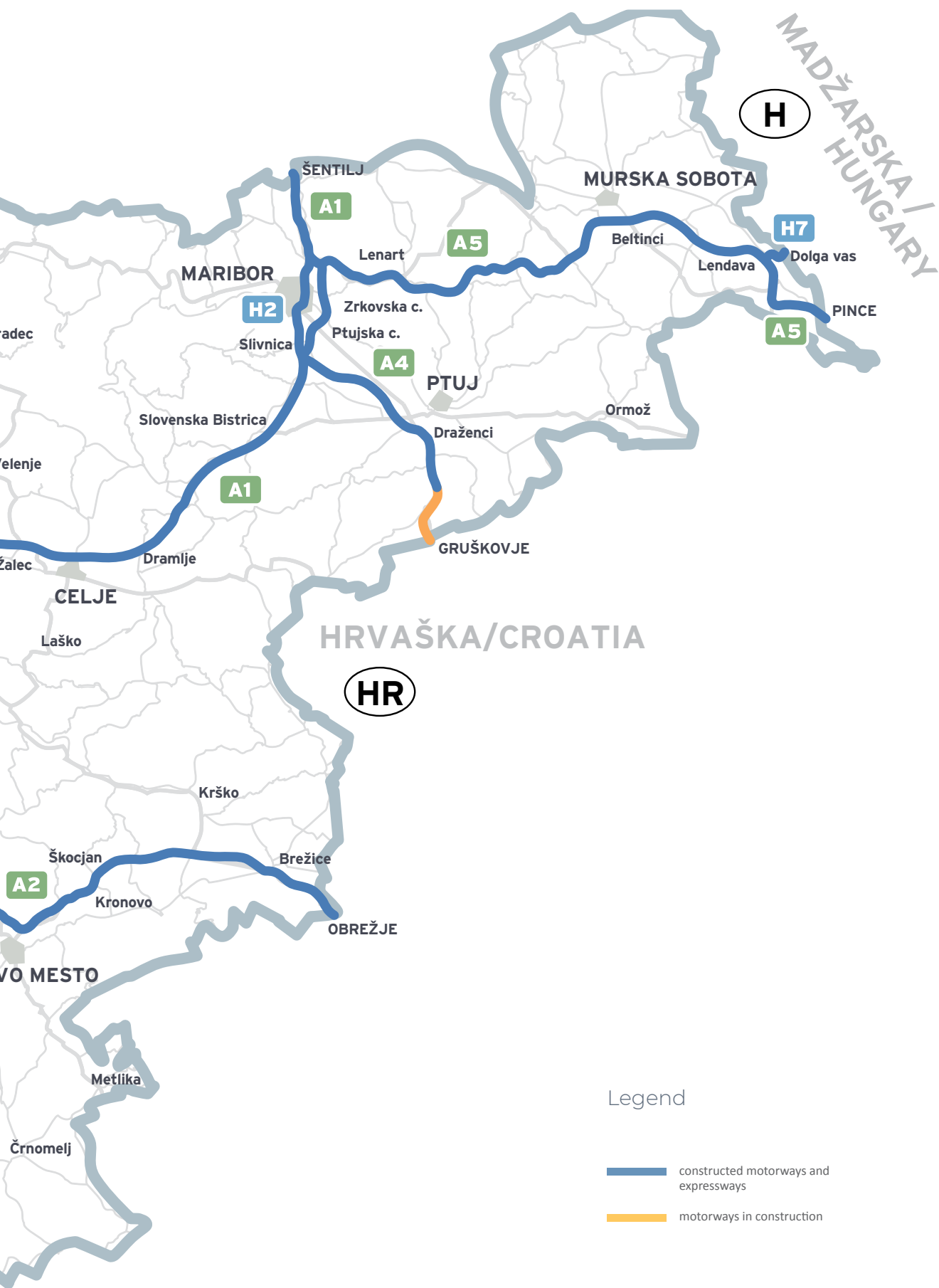
Figure 16: Comparison of AADT in 2016 and 2017 at selected H4 express way sections



On the H4 express way, traffic increased by 4% on average in 2017. Due to renovation works, growth was not as high as between 2014 and 2016.

Figure 17: The Slovenian motorway system, December 2017





I.11 INVESTMENTS IN MOTORWAY DEVELOPMENT AND RECONSTRUCTION

I.11.1 Investments on behalf of RS and for its account

DARS d.d. prepared spatial planning documents and acquired real estate for motorway construction on behalf of RS and for its account pursuant to Article 4 of ZDARS-1. The aforementioned tasks were realised in the amount of €8.0 million.

Table 6: Realised value of the tasks performed on behalf of and for the account of RS (in €)

Spatial planning documents and real estate acquisition	Turnover*
Spatial planning	1,256,978
Real estate acquisition	6,780,298
Total spatial planning documents and real estate acquisition	8,037,276

* Since these are tasks performed by DARS d.d. on behalf of and for the account of RS, the values are shown in gross amounts,

I.11.2 Investments on behalf of and for the account of DARS d.d.

In 2017, investment activities were performed in accordance with the ability to ensure financial sources. The value of motorway section construction and reconstruction works in 2017 amounted to €109.9 million.

Table 7: Realised value of investments on behalf of and for the account of DARS d.d.

Motorway development	Realisation
DarsGo system	3,373,210
Design documents	2,830,082
Commencement of construction	198,734
Continuation of construction	47,129,872
Completion works on MW opened for traffic up to and including 2016	1,414,838
Other items	1,714,227
Motorway reconstruction works	36,238,690
Electrical and mechanical works and ITS	7,547,289
Traffic safety improvement	2,863,324
Non-toll connecting roads	29,780
Investments in management and maintenance	6,595,988
Total development and motorway and connecting road reconstruction	109,936,034

I.12 INTERNATIONAL COOPERATION AND ACQUISITION OF EUROPEAN GRANTS

DARS d.d. has been trying to establish and maintain as best international connections as possible for a number of years, in line with its commitment to the Company vision, which is focused on integration in various areas. By participating in international associations, such as ASECAP, PIARC and IBTTA, congresses and annual meetings with related business entities, representatives of European institutions and work groups and platforms, DARS d.d. is an important partner in the development of legal bases and organisational policies in road infrastructure management, maintenance and financing. Its representatives attend public consultations and participate in important research studies and public opinion surveys that are used to co-develop values and new trends in transport and infrastructure.

Several years of successful cooperation at ASECAP board meetings resulted in the Company's management of the traffic statistics and analyses board in 2017 (COPER IV), thus demonstrating the Company's engagement, knowledge and experiences. In the same year, DARS became a member of IBTTA, a global association of owners and operators of road structures (motorways, bridges, tunnels, etc.) and business entities related with it. Currently, IBTTA is focused on the issues of toll collection, interoperability, smart mobility, technology and funding. DARS has also been active in the PIARC work group for innovative funding, which deals with the search for various financial instruments for financing transport projects. It successfully translates theory into practice, being the first in Slovenia to sign a contract with EIB with a guarantee by the European Fund for Strategic Investments (EFSI) that provided €51 million for the deployment of the new DarsGo tolling system for heavy vehicles. This is the first Dars loan agreement without a government guarantee.

More and more activities are also related to the acquisition of European funds. Although funds for motorway projects are decreasing and competition is growing, DARS d.d. received a total of €26,812,908 of European grants in 2017.

The Company received €1,590,440 CEF funds for the preparation of BPD/ED documents for the 2nd tube of the Karavanke tunnel, €294,171 for projects from the Crocodile 2 programme and €75,968 for the C-Roads Slovenia project.

In 2017, the Company continued to draw funds within the scope of the European cohesion policy for the 2014-2020 period. That is, €24,852,328 was received for the construction of the Draženci-Gruškovje border crossing section.

In 2017, three more projects were approved that will be co-funded from CEF funds; Crocodile 3, which is the continuation of the previous two projects in cross-border cooperation and harmonisation of ITS applications, will be co-funded in the amount of 20%; C-Roads Slovenia 2, which is an upgrade to the original C-Roads Slovenia project, will be co-funded in the amount of 50% of eligible costs, while the largest cross-border project, for which the Company applied for funds together with Austria, i.e. the construction of the 2nd tube of the MW tunnel Karavanke, will be co-funded in the amount of 10% of eligible costs.

1.13 SELF-ASSESSMENT USING THE EFQM EXCELLENCE MODEL



In compliance with the Recommendations and Expectations of the SSH, DARS d.d. management have appointed a working group to carry out a self-assessment according to the EFQM 2013 Excellence Model. In line with the requirements of the Model, the group performed a self-assessment and produced a report containing findings, an action plan with 34 measures and short- and medium-term objectives for company operations in relation to quality and excellence.

The Management Board places great importance on SSH recommendations and expectations, and has identified the "DARS d.d. Strategy from 2017 to 2020" document within the scope of nine strategic goals under "Strategic guidelines for long-term operating stable operations," strategic goal "SC 6 Implementation of business excellence" with the key indicator "To achieve 500 points by 2020 with respect to the requirements of the EFQM model."

Furthermore, the Company identified energy awareness and corresponding activities of the entire Company as aspects of business excellence. To that end, DARS d.d. adopted a measure called "To achieve optimal energy management, the Company needs to introduce and certify an energy management system according to the requirements of the ISO 50001 standard and integrate the requirements in the existing management system" as one of 35 measures based on a self-assessment, which was confirmed with the certificate acquired in January 2017.

The Supervisory Board discusses a report on the realisation of self-assessment measures as per the EFQM excellence model every 6 months and confirms the suitability of introduced measures.

1.14 INTEGRATED MANAGEMENT SYSTEM



The integrated management system includes the quality aspect, in accordance with the requirements of the ISO 9001 standard, the environmental management aspect according to the requirements of ISO 14001, the occupational health and safety aspect according to the BS OHSAS 18001 standard and the energy management system aspect according to the ISO 50001 standard. Together, these aspects form a unified management system, which is described in the Rules of Procedure for the Management System and related documents.

Continuous improvements using the PDCA approach (plan-do-check-act) form the basis for the integrated management system and the requirements of the standards. This approach is the driving force for the progress and optimisation of business processes in all areas of the company's operation.

In order to establish a project to introduce an energy management system according to the ISO 50001 standard, the requirements of which were integrated in the quality management system, environmental management system and health and safety at work, the Company confirmed the success of the requirements introduced by passing part 2 of the certification assessment made by an independent accredited institution in January 2017.

The credibility of the quality and environmental management systems and of the occupational health and safety system is regularly and successfully certified by an external accredited institution.

I.15 INTERNAL AUDIT

The internal audit is performed independently and autonomously, applying necessary professional care and following professional regulations. Organisationally, we are subordinate to the management, and functionally to the Audit Committee and the Supervisory Board. Internal auditing is carried out in accordance with International Standards for the Professional Practice of Internal Auditing, the Code of Internal Auditing Principles, the Code of Ethics and the Code of Professional Ethics for Internal Auditors, whereby taking into account the remaining legislations and internal acts of the Company. Internal auditors continuously improve their knowledge and methodology in compliance with international standards of professional practice of internal auditing.

Independent and impartial audits and consulting services for the Management Board and Audit Committee of DARS d.d. are conducted to strengthen and protect the value of the organisation. Based on a risk assessment, objective assurances are provided and the management is given advice in order to realise the goals and improve operating efficiency and performance. Internal Auditing assists the company in accomplishing its objectives by stimulating the well-considered management of different types of risks, meaning that it evaluates the system of internal controls in a systematic and organised manner and provides recommendations for proper risk management. Internal Auditing operates with the authorisation of the Management Board, to which it is directly responsible. Internal Auditing reports to the management and the Audit Committee of the Supervisory Board on its findings and recommendations for improving the effectiveness of the internal controls for managing risk.

Internal Auditing operations are based on the Basic Charter on the Operation of the Internal Auditing Department and the Internal Auditing Department Handbook. Work is done in line with the Strategic plan of the Internal Audit Service and the Annual Plan, which is based on risks and includes all identified and assessed types of risk as well as proposals put forth by the Management Board and Audit Committee. The internal audit strategic plan and annual plans of work for the Internal Audit Service have been confirmed by the Management and Supervisory Boards of DARS d.d.

At the start of 2017, two audits were completed that had started in 2016, after which internal auditing and other activities were conducted in line with the approved annual plan of work. Within the scope of the deals made, the Company checked the existence and operation of internal controls and risk management, and gave recommendations for the establishment or improvement of controls. The Management Board and Audit Committee were updated on the realisation of recommendations on a quarterly basis. Advice was also provided in the realisation of recommendations. A great deal of time was also dedicated to consultancy and development of the Internal Audit Service. In 2016, an external quality assessment was made of the operations of Internal Audit Service, which resulted in an opinion that the Internal Audit Service works in compliance with international standard of due diligence in internal auditing. The recommendations received within the scope of the external quality assessment on the work performed by the Internal Audit Service and within the scope of internal auditing under ISO standards were put into effect.

I.16 SUSTAINABLE DEVELOPMENT

The Sustainable Development of DARS d.d. report for 2017, which will be published as a separate document, will provide information on economic, environmental, social and governance effects and results of Company operations. The strategy of DARS d.d. pursues long-term goals focused on sustainable development and steers the Company towards socially responsible future operations. With reports on its sustainable development, the company on one hand provides quality information on its socially responsible actions to its stakeholders and, on the other, forms decisions for its future socially responsible actions based on cooperation and identification of stakeholders' needs and interests. The key priority of the Company is connectivity of its operations in all possible forms and with all possible stakeholders.

I.16.1 Strategic management of sustainable development at DARS d.d.

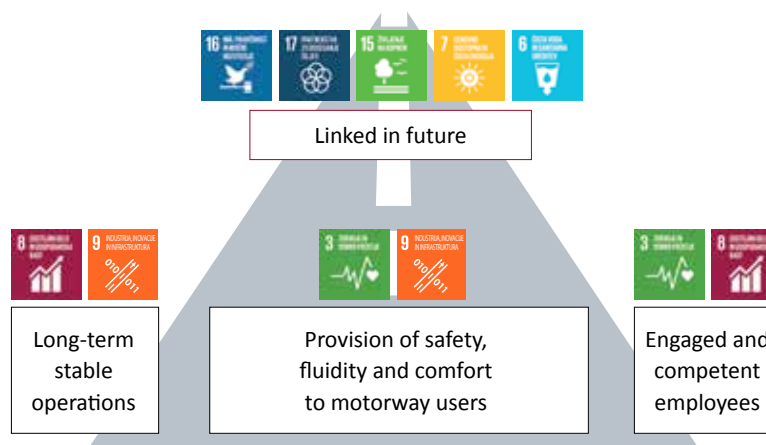
DARS d.d. is well aware of its great responsibility to people, the environment and society. That way, it exercises social responsible in a sustainable manner in all projects and long-term plans at all levels. Ambitious and clearly defined goals ensure that the public will continue to identify DARS d.d. as a responsible and forward-looking company.

The DARS d.d. Strategy from 2017 to 2020, which integrates the Company vision with its stakeholders using 3 key strategic guidelines of DARS d.d. is evident from the figure "DARS d.d. Strategy from 2017 to 2020" in Chapter I.3. Mission, vision, values and strategic guidelines. The central focus is on long-term stable operations, which also importantly relates in its content and strategic goals to the realisation of strategic guideline 1 (Provision of fluidity, safety and comfort for user on the motorway network) with users as target stakeholders, and strategic guideline 3 (Engaged and competent employees) with employees as target stakeholders.

It is also worth noting the role or contribution of DARS to global development, i.e. by observing the Sustainable Development Goals (SDG), as adopted by UN members, which are aimed at devoting efforts to the develop the entire company, economy, science and civil society – which will play an important role in the attainment of important goals of the entire Company until 2030.

With its activities, DARS d.d. strives to contribute to eight sustainable development goals; the connectivity with the vision and strategic goals of DARS d.d. is evident from the figure below:

Figure 18: Connectivity of the vision and strategic goals of DARS d.d. with eight sustainable development goals

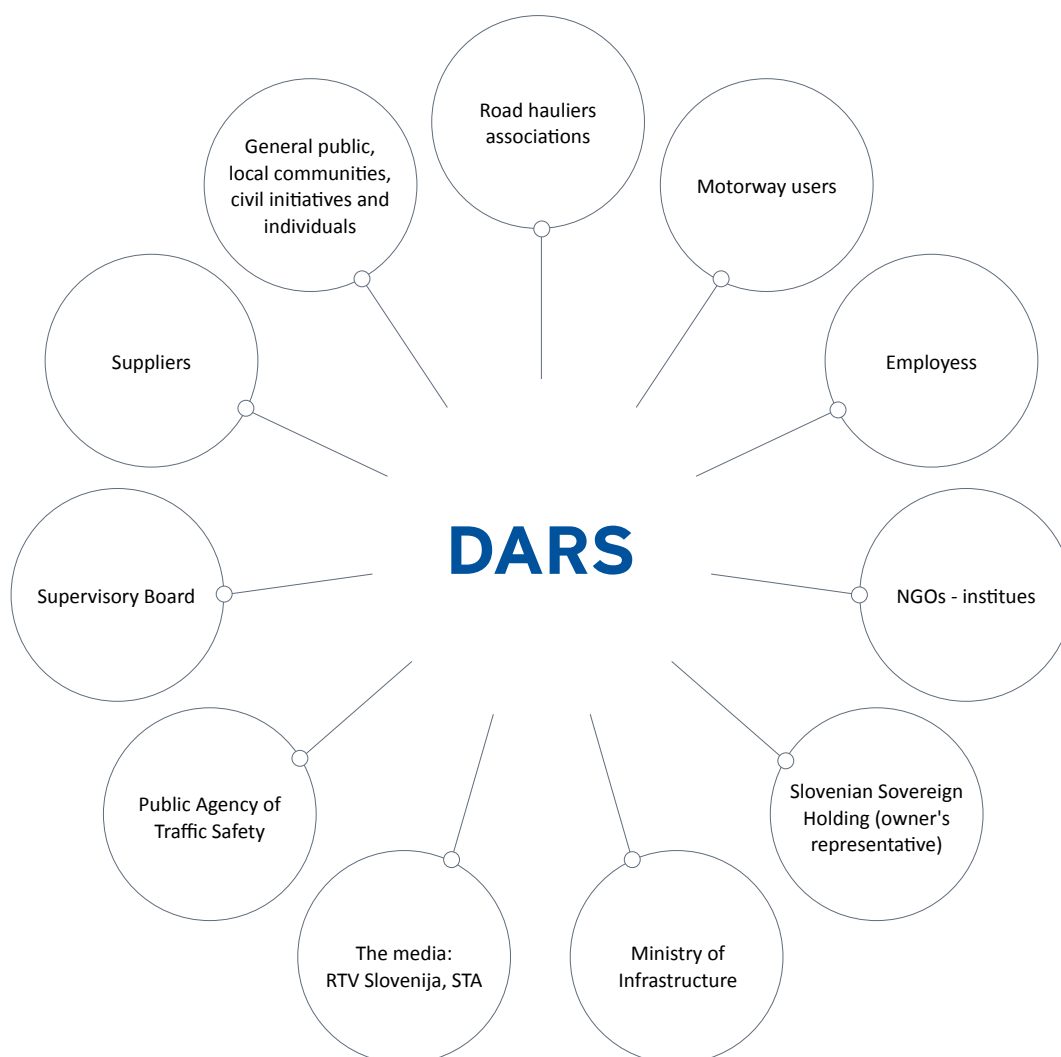


I.16.1.1 DARS d.d. and its stakeholders

The Company cooperates with its stakeholder groups in a correct and balanced way, while engaging in two-way communication. While realising its mission, the Company identifies and monitors the needs and interests of stakeholders through a web of mutual relations on strategic and operative level. This strengthens understanding between individual groups of stakeholders and the Company and enhances mutual trust.

The stakeholders of DARS d.d. are identified and defined in the document Needs and expectations of stakeholders, which indicates a stakeholder's influence on the company, the needs and expectations of a stakeholder, the persons responsible for relations with a stakeholder, the persons cooperating with individual stakeholders, and the method of monitoring the perception of a stakeholder, i.e. for all relevant stakeholders. The inclusion and management of stakeholders is conducted in various ways with respect to the influence of a particular stakeholder on the Company and the influence of the Company on a particular group of stakeholders.

Figure 19: Connectivity of DARS d.d. with stakeholders



I.16.1.2 Major sustainable development issues

The table below shows material issues that are relevant to DARS d.d. Material issues are selected on the basis of important content of GRI standards, the Company's strategic guidelines and its impact on the environment, society and economy.

Table 8: An overview of the most important material issues for stakeholders and DARS d.d. (materiality matrix)



Based on the materiality matrix, DARS d.d. selected relevant indicators in terms of economic performance, the environment and Company, and reports about them in individual chapters of this Annual Report. While compiling the report, DARS d.d. observed sustainable reporting principles and, hence, actively included a large number of stakeholders in the preparation of the Report who assessed the relevance of individual factors. Based on that, it defined the materiality matrix.

I.16.2 Research and development activities

In 2017, DARS d.d. carried out forty-three projects in individual work areas and thus followed its business plan, strategic goals and vision. Based on the adopted management system policy and deriving strategic goals, the performance of project implementation was monitored on the basis of the performance indicators laid down in the Company's business plan and, in case of deviations, actions were taken in due time. The system is developed in a manner ensuring continuous improvements and innovations of all employees at all organisational levels.

The Company keeps track of new developments in good practice throughout its projects, improvements and innovations, introducing them systematically in its management system and work processes.

In 2017, DARS d.d. continued implementing the road management project for the roads it manages. In addition to the current work with the PMS – DARS expert system (PMS: Pavement Management System), which is performed using the dTIMS_CT software tool (Deighton's Total Infrastructure Management System with Concurrent Transformation), we continued activities in the pilot project for the introduction of the Bridge Management System (BMS).

In the 2016-2020 period, DARS d.d. is part of the international C-Roads project, which is aimed at improving traffic and transport conditions through the implementation of internationally coordinated applied ITS solutions on the corridor road network. The projects focus on the pilot introduction of C-ITS cooperative systems featuring hybrid technology (roadside infrastructure C-ITS-G5 and a vehicle connected by mobile with 3G/4G/LTE networks) that will work hand in hand with information services in a cloud in order to provide the above mentioned services of a cooperative intelligent transport system C-ITS Day 1.0. Infrastructure to vehicle (I2V) and vehicle to infrastructure (V2I) communication will be tested.

I.16.3 Responsible attitude towards clients and customer satisfaction

DARS d.d. is well aware that a responsible attitude towards clients in relation to tolling revenue is set up on several levels:

- an optimum level of tolling revenue provides a safe, fluid and quality network of motorways and express ways, which is why DARS considers it a responsibility to pursue an corresponding pricing policy and, hence, maximum safety and mobility of users;
- toll prices for heavy vehicles and vignette prices are based on the kilometres travelled or term of infrastructure use and the costs incurred by vehicles;
- when setting toll prices, DARS observes the methodology of a calculation that is based on the principle of the reimbursement of infrastructure costs pursuant to the applicable EU Directive 1999/62/EC, thus ensuring users not to pay unreasonably high costs for MW and EW use;
- DARS strives to provide users with simple access to a network of own and contractual points of sale and a wide range of payment means, thus contributing to reduced transaction costs for customers and improved satisfaction;
- most freight transport on MW and EW is executed by foreign carriers, which make decisions on transit vehicles based on the amount of toll in transit countries and whether toll is differentiated according to vehicle emission classes, meaning that DARS and its pricing policy, which is drawing closer to the highest level according to the adopted methodology, has a positive effect on the environment and quality of air.

Toll revenue is the basis for Company activities.

Toll revenue depends on:

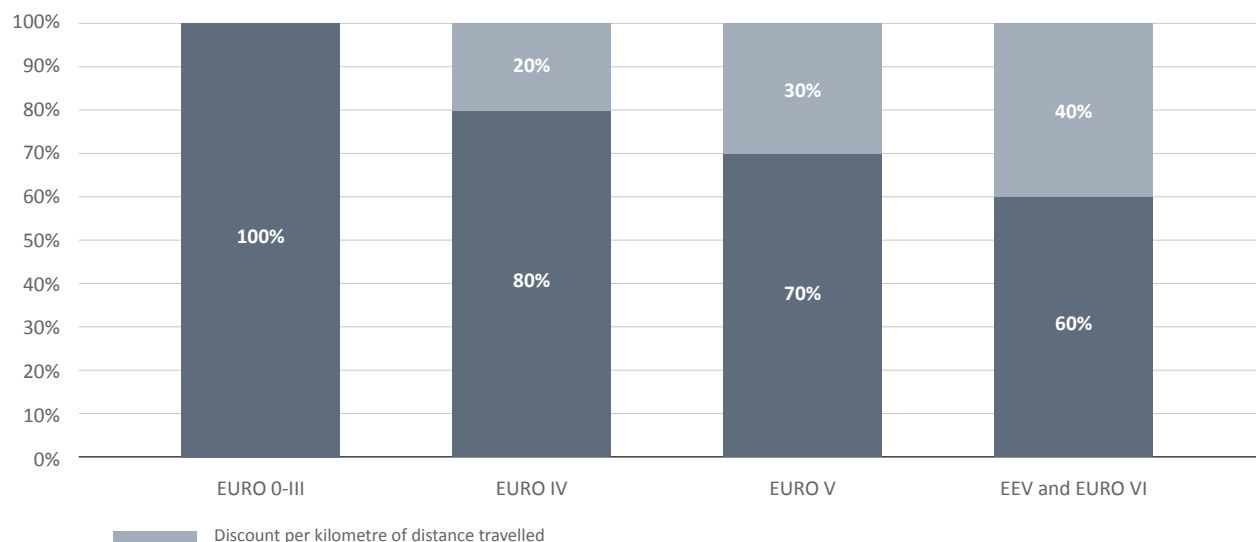
- external factors influencing the amount of traffic subject to toll, e.g. economic activity of countries to and from which traffic runs over our network, the cost of rendering transport services at home and abroad (e.g. cost of fuel, toll in other countries, cost of congestions or waiting);
- external factors influencing the amount of the toll tariff realised, which covers the applicable legislation within the scope of which toll conditions are laid down, the amount of toll per kilometre travelled and the trend of vehicle fleet upgrading, since vehicles of higher EURO emission classes pay lower toll;
- internal factors, e.g. level of Company activity in the enforcement of such regulations in tolling allowing the generation of optimum toll revenue, and efficiency of toll collection (technological solutions) and supervision over toll payment.

Structural shifts between the emission classes of vehicles that are subject to toll have a negative impact on toll revenue.

In 2016, the Company noticed a stagnation of toll revenue from heavy vehicles taking into account the fact that toll or charged kilometres grew by 5% compared to 2015. Due to the enforcement of a new pricing policy, toll revenue increased in 2017 and further inflows are expected with the introduction of the free-flow electronic tolling system (DarsGo) in 2018, but it is estimated that toll revenue could decrease in the future upon an unchanged pricing policy due to an increased share of toll kilometres travelled by cleaner vehicles, primarily EURO VI, which pay the lowest toll.

The Slovenian Government introduced toll differentiation with respect to EURO emission classes on 1 January 2010 with the Decision determining the toll adjustment factors for vehicles whose maximum permitted weight exceeds 3,500kg. Vehicles with the lowest emission of harmful particles (higher EURO emission classes) are entitled to a reduced tariff. Vehicle fleet upgrading generates a trend of changes in the structure of toll kilometres according to EURO emission classes, which has had a negative impact on DARS revenues since 2010. In addition to the "natural" trend of vehicle fleet upgrading, such trends further strengthened upon each toll increase, since carriers were encouraged to execute transport using cleaner vehicles, thus lowering their toll costs (the co-called negative feedback effect of toll increase).

Figure 20: Toll adjustment factors in Slovenia with respect to emission classes in 2017

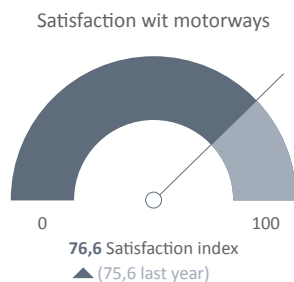


Continuing efforts to establish good relations with customers

Toll revenues from heavy vehicles account for some 60% of Company revenues. Good relations were established in recent years with the Slovenian Chamber of Commerce and Industry and Chamber of Craft and Small Business that are based on mutual respect, achieved support for changes in pricing policy, continuing improvements to the quality of Company services within the frames laid down by the Company's competences and technical capabilities. Positive changes to relations between the Chambers and DARS d.d. are evident.

I.16.3.1 Customer satisfaction

In 2017, the Company again conducted a customer satisfaction survey among motorway users in Slovenia with the aim to learn the opinions and positions of drivers with respect to individual factors they encounter while driving on Slovenian motorways and express ways.



The survey has been conducted since 2010 once a year among Slovenian and foreign users of Slovenian motorways. The total satisfaction index slightly grew in 2017 compared to the previous year amounting to 76.6 (75.6 in 2016) and shows that the needs of drivers are well satisfied. The index is somewhat lower only among Slovenian drivers of passenger cars, 66.5 (67.1 last year). The satisfaction index has been calculated as the average satisfaction with factors on a 5-level scale, where each factor is balanced based on its importance, while the average is then translated into an interval between 0 and 100.

I.16.4 Traffic and safety concerns

Figure 21: Comparison of emergency events by year

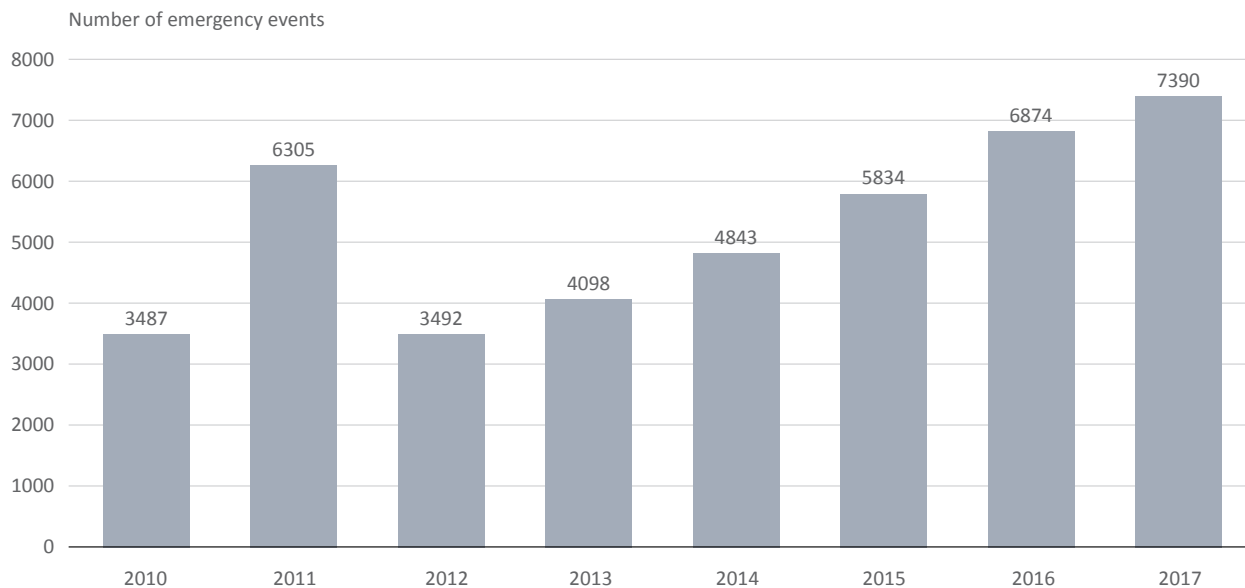
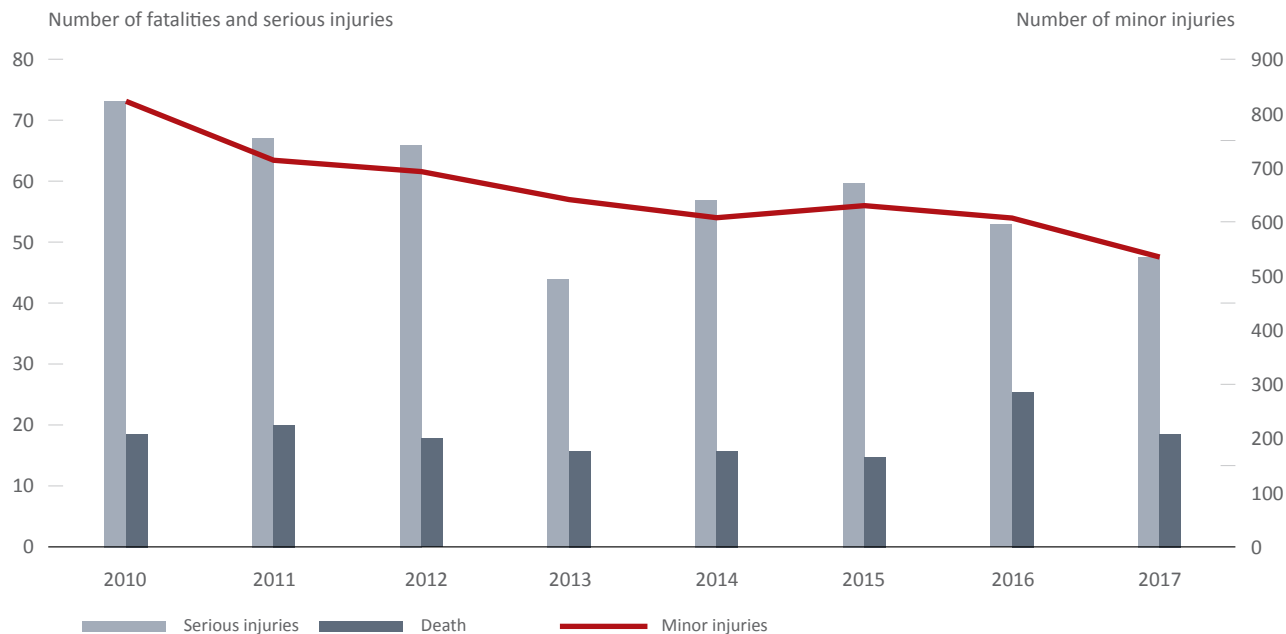


Figure 22: Implications of traffic accidents on MW and EW by year



Traffic safety on MW/EW improved last year (with respect to the previous); however, data still shows positive growth. Therefore, the Company will continue to work intensely and ensure safe travel along MW/EW to users with well-established and new measures.

Considering last year's traffic growth on MW/EW by 2-7% (depending on the section), a drop in the number of all traffic accidents considered by the police has been recorded, i.e. by 44%. The number of accidents fell in all categories (no injuries, light injuries, severe injuries, fatalities). In 2017, a drop of fatalities of 27% was recorded with respect to 2016.

A major influence on traffic safety was the pilot introduction of a section speed control system at the section crossing Trojane. Based on the results, instructions provided by MI and DARS Management Board, the Company approached the preparation and implementation of a public procurement procedure for the purchase of the system at potentially dangerous sections across the country. The first system is expected to be deployed in 2018.

The effect of safety campaigns and cooperation with stakeholders in that area also have a positive effect on traffic safety, which is why activities in that area are very broad and continued. Particularly efficient are new tools for campaign distribution: TW, FB, apps.

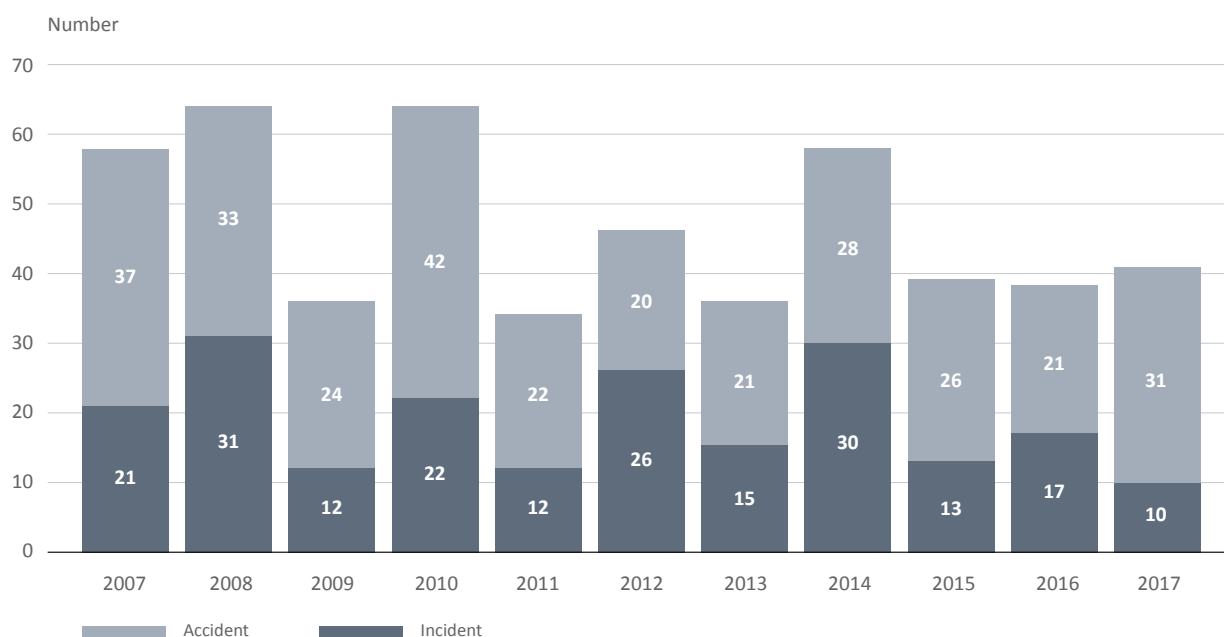
Tunnel safety

There were a total of 41 accidents and incidents in tunnels longer than 500 metres in 2017, where emergency services were needed along with a temporary closure of the whole tunnel or a part of it. The most common primary causes for the events were category I or II accidents (29%), followed by vehicle breakdowns (27%) and other events, such as too high vehicles, out-of-fuel vehicles or a pedestrian in the tunnel (15%).

It has been found that:

- the number of events is still relatively small and at the level recorded in recent years;
- these events were caused by the actions of users, which is practically beyond DARS's direct influence;
- no hosting of events were identified,
- the response of competent services upon emergency events was efficient.

Figure 23: Accidents and Incidents in tunnels longer than 500 m between 2007 and 2017



I.16.5 Projects concerning traffic management and safety concern

DARS d.d. carried out many different measures each year that are directly related with safety, comfort of motorway users and traffic fluidity. A prerequisite for sound throughput is that the motorway system is furnished with state-of-the-art equipment. Modern equipment for traffic surveillance, management and safety ensures fewer traffic accidents, faster detection and, consequently, reduced congestion.

I.16.5.1 Traffic control and management

24/7 traffic control and management

The Ljubljana Regional Control Centre (located in Dragomelj) controls and manages traffic at a regional level 24 hours a day. There are two traffic supervisors always present at the Centre who deal with accidents and other events, manage traffic control and management systems, communicate with emergency units, DARS maintenance services and users over emergency phone lines based on instructions and experiences.

The figure below shows traffic control and management centres at DARS d.d. on Slovenian MW and EW working 24/7

Figure 24: Traffic control and management centres



Most expertise and proper measures taken by traffic supervisors are required in accidents involving fires in tunnels, extreme weather conditions (sleet, fog, snow blizzard, strong wind, etc.) and mass accidents. Essential devices that help traffic supervisors are mostly:

- 1298 cameras,
- 84 portals with variable message signs (SPIS),
- 32 SPIS semi-portals,
- 69 road weather stations (RWS).

Motorway traffic is monitored by qualified certified road traffic supervisors

Campaigns: labelling, information provision

The Company mission is not only the concern for socially responsible and efficient construction, management and maintenance of motorway and other infrastructural networks in the Republic of Slovenia, but also the provision of conditions for their safe use and increasing focus on the user. Additional awareness raising among users of the correct and safe use of motorways has a positive effect on reducing the number of casualties and increasing motorway fluidity.

The most common causes for congestions and accidents were merged in the following major campaigns:

- **Be prepared for winter** https://www.dars.si/Dokumenti/Medijsko_sredisce/Informativne_kampanje/Zimska_sezona_1047.aspx
- **Safe motorways require renovation**
https://www.dars.si/Dokumenti/Medijsko_sredisce/Obnavljamo_zavasa_1038.aspx
- **Safety distance**
https://www.dars.si/Dokumenti/Medijsko_sredisce/Informativne_kampanje/Varnostna_razdalja_1060.aspx
- **Linked in a safe network**
 - For a peaceful journey: <https://www.youtube.com/watch?v=pxHufZxjkU>
 - Motorway accident – don't let it happen: <https://www.youtube.com/watch?v=aXjOYOnPe-k>
 - Unfavourable weather conditions: <https://www.youtube.com/watch?v=1Po-zxwBqRI>
 - Safely through a tunnel: <https://www.youtube.com/watch?v=-XwQi2TcOvA>
- **Common efforts to improve safety upon the start of a motorcycle season – driving safety trainings for motorcyclists**

Cooperation with the VOZIM Institute

The Company supports the implementation of preventive road traffic workshops for the youth within the scope of the "Still driving, but not walking" movement. The basis is the implementation of innovative interactive workshops at which personal experiences of those injured in traffic accidents are presented to the youth at secondary schools.

Cooperation in the Sožitje project

DARS d.d. has decided take an active part in the implementation of comprehensive preventive events or training courses for seniors and retired persons across Slovenia. The purpose of such training is to make elderly drivers feel safe on Slovenian roads, keeping them mobile for as long as possible.

Awareness raising: Save a life

Accidents, which are for many reasons more frequent in nice weather (drivers are more cautious in bad weather and lower their speed, while travelling decreases in winter due to shorter daylight; on the other hand, when daylight is the longest, travelling increases, making a journey longer and a driver more tired), have a major impact on traffic fluidity. Drivers have been informed for several years of the fact that proper positioning in case of congestion not only contributes to elimination of obstacles, but also increase the chance of survival by up to 40%.

Implementation of measures concerning traffic and concern for user safety

- Arrangement of run-out zones
- Curbing speed and increasing fluidity
- Section speed control
- Slowing down traffic on the Ljubljana ring
- Crash cushions (in 20 tunnel niches and safety barriers in 4 niches)

Management of intelligent transport systems (ITS) or the so-called small motorways

- A security check system for heavy vehicles and buses before the Karavanke tunnel
- Overhaul of electrical and mechanical equipment in tunnels
- Electrical and mechanical equipment in the Markovec tunnel is in line with the latest European security standards for tunnels

- Setting up of variable traffic signs
- Renovation of the ventilation system in the Karavanke tunnel
- SOS posts every 2km – quick location of the caller

Provision of telecommunications

- The Company provides Wi-Fi, Internet access and lease of optical fibres

Implementation of European projects

Establishment of interoperability through the European C-Roads project

Within the scope of the C-Roads project, pilot projects are carried out, the set-up of a basic platform is coordinated and interoperability is provided. It is a pilot project to introduce cooperative systems for a real-time information transfer based on vehicle to vehicle, vehicle to infrastructure and infrastructure to vehicle communication, whereby DARS d.d. also contributes to the realisation of EU priorities concerning intelligent transport system.

Charging stations for electric vehicles throughout the motorway network

DARS d.d. promotes green corridors or the development of electric mobility on the Slovenian motorway network. Within the scope of the European project Central European Green Corridors (CEGC), DARS and its partners set up a network of fast charging stations (up to 50km) with above-standard technology for electric vehicles on the Slovenian motorway network. The project, co-funded with EU funds, set up 26 fast charging stations that allow users of electric vehicles to charge with 50kW DC and at the same time 43kW AC.

I.16.5.2 Provision of traffic information

Figure 25: Number of contacts on the www.promet.si website

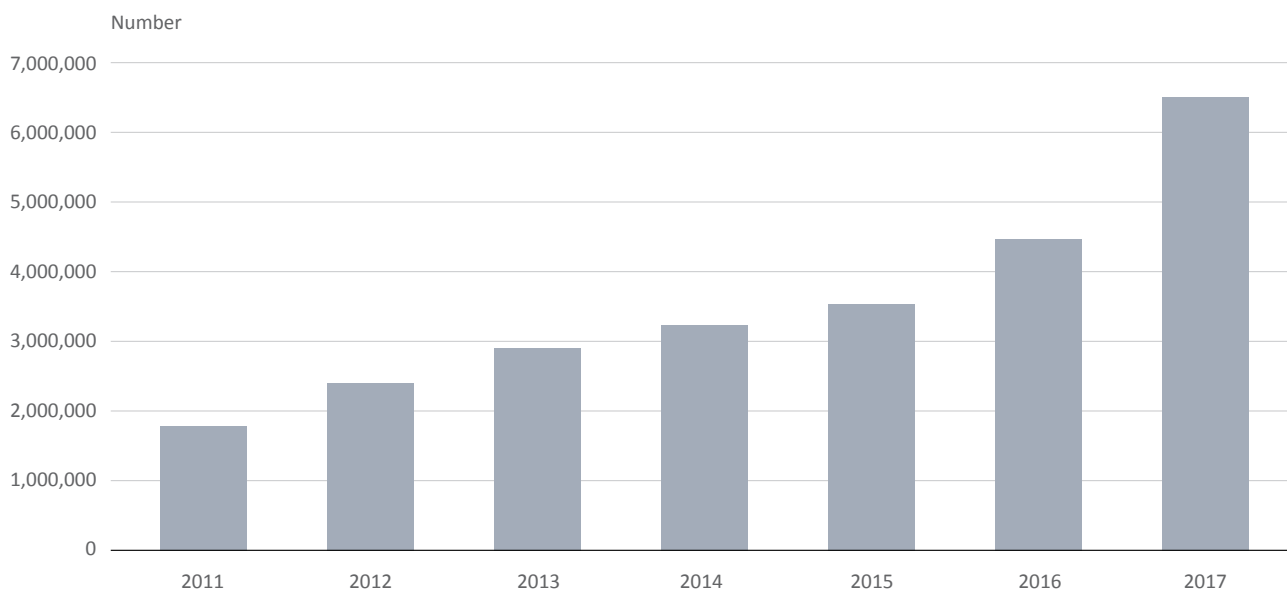
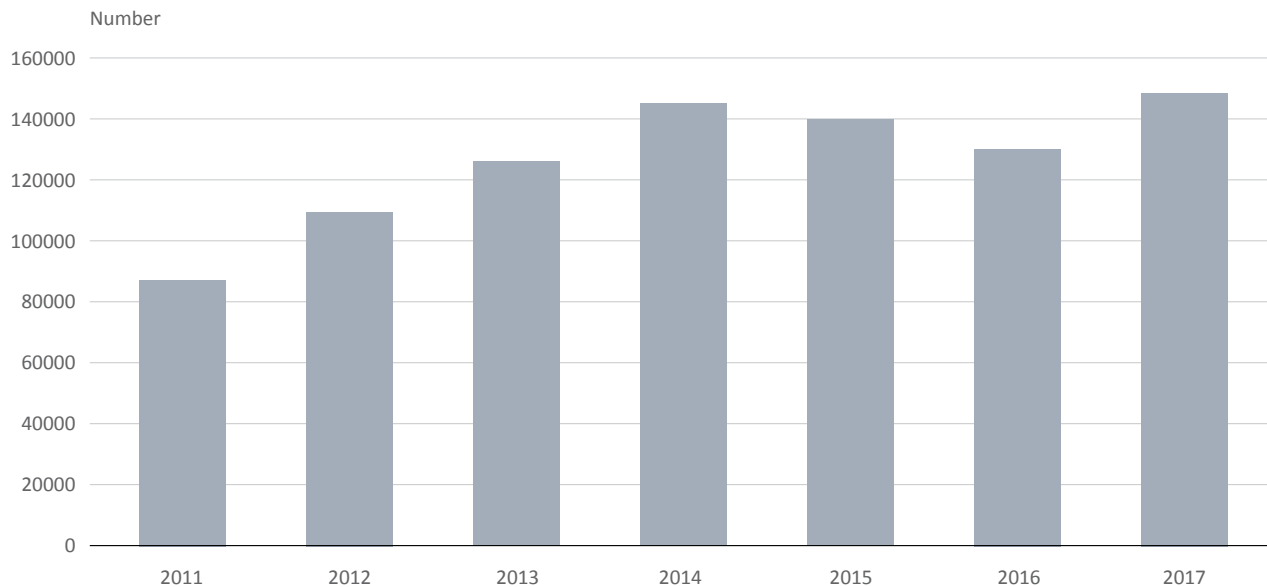


Figure 26: Number of calls received by TIC by year



Traffic Information Centre: a source of credible and updated traffic information

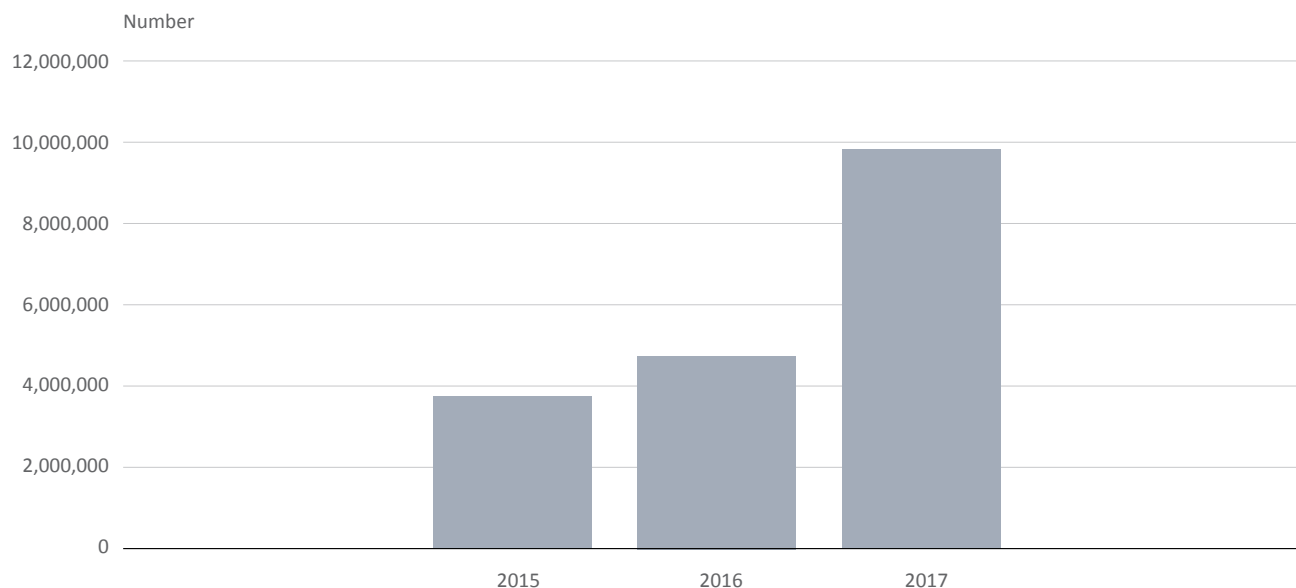
New content is now available to users on the promet.si website:

- foreseen travel times between individual large towns and routes,
- traffic data can now be seen on a map as variously coloured road sections showing traffic density,
- virtual assistant Stane.

In the last 10 years, the Traffic Information Centre:

- communicated information on events on the national road network more than 196,000 times: 19,627 times per year, 1635 times per month and 53 times per day on average,
- in the last five years, operators received over 600,000 calls and recorded over 3.4 million users on the promet.si website.

Figure 27: Total active searches for traffic information



DarsPromet+ mobile app (or DarsTraffic+)

It is intended primarily for those who drive to work every day in Slovenia. Drivers need information about any obstructions or prolonged travel time when on road. Hence, the key services provided by the app are prompt calculation of travel time at a pre-selected route provision of information on obstructions (events) on the road. Since traffic safety is still the most important, one of the key functions of the app is voice notification.

International traffic management (Traffic Management Plan – TMP)

DARS d.d. has cooperated with neighbouring countries in international traffic management for several years.

In order for the control centres to cooperate and carry out traffic control measures on international motorway corridors, it is necessary to have professional coordination. To that end, traffic management plans were prepared for the Salzburg-Ljubljana-Zagreb route and the route between Postojna and Palmanova. These will be followed by plans with Hungary and Croatia, and their integration at the level of automation.

I.16.6 Human resources management

Engaged and competent employees are one of three strategic guidelines of DARS deriving from the adopted DARS d.d. Strategy from 2017 to 2020. The key strategic goals within the scope of that strategic guideline are:

- continuous strengthening of competences,
- leadership development at the Company,
- development of a creative, safe and interesting environment.

Employees at DARS d.d.

Table 9: Key data on DARS d.d. employees for 2016 and 2017

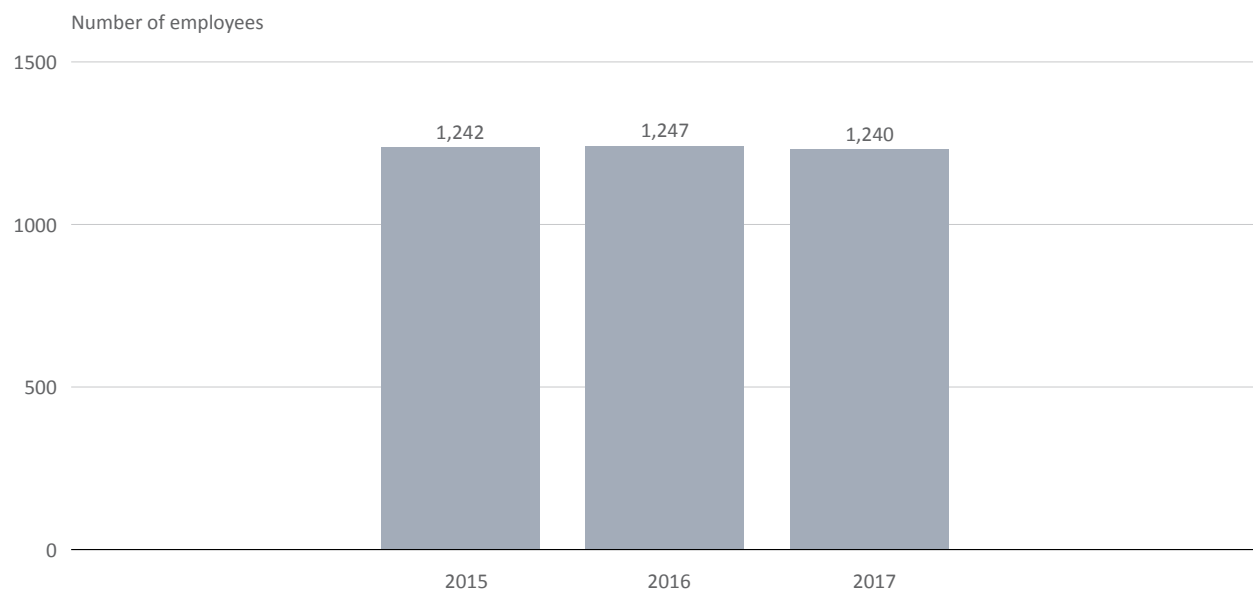
	2016	2017
Status of employees at DARS d.d.		
Number of employees at DARS d.d. – including replacements	1247	1240
Number of employees at DARS d.d. – excluding replacements	1237	1229
Demographic data on employees		
Average age of employees	45.3 years	45.6 years
Percentage of women employed	25.6 %	26 %
Educational structure of employees		
Percentage of employees with level 4 education	39.8 %	38.2 %
Percentage of employees with level 5 education	33.4 %	33.4 %
Percentage of employees with level 6 education	16.5 %	17.3 %
Percentage of employees with level 7 education or higher	10.3 %	11.1 %
Social security of DARS d.d. employees		
Number of solidarity benefits granted	54	52
Number of employees with disability status	38	39
Number of procedures introduced for disability recognition	11	30
Number registered in voluntary pension insurance	143	45
Sick leave rate	4.7 %	5.3 %
Employee development – education and training		
Scope of education in hours per employee	21	23
Value of education per employee	132	154
Number of participants in education	2275	2353

Recruitment

In order to achieve the set business objectives for 2017 and uninterrupted operations, the Company re-recruited new individuals pursuant to the adopted Business Plan and Operative implementation section of the HR plan for 2017. The Company published forty-seven in-house and sixty-one external job vacancies. Most vacancies in 2017 were related with the new DarsGo tolling system.

In 2017, fifty-five employees left DARS d.d., while forty-four were recruited. To successfully reorganise human resources in toll collection due to the deployment of the new DarsGo tolling system, suitable amendments to the Rules on Company organisation and Rules on job classification at DARS were made in cooperation with social partners and a Programme for excess employee dismissal was prepared and adopted.

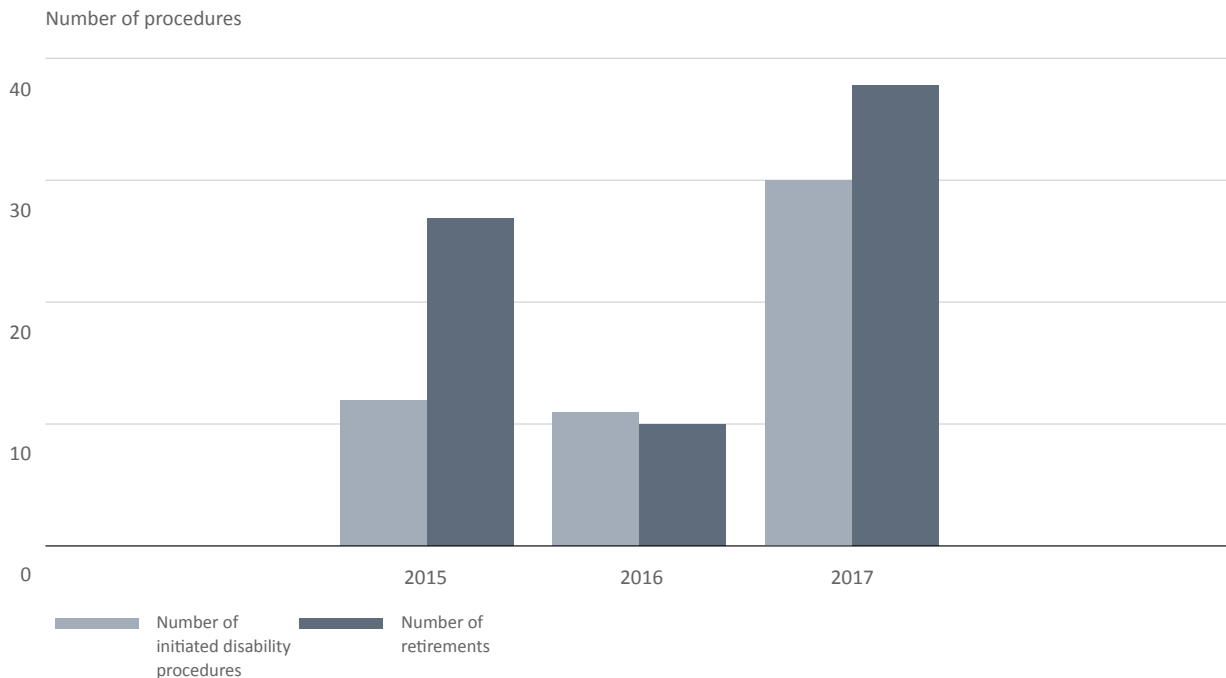
Figure 28: Number of employees at DARS d.d. from 2015 to 2017



Concern for employee social security

In that area, most activities in 2017 related to employee retirement, which was executed with the employer's incentive providing additional severance pay upon retirement and a possibility to perform part-time or occasional work after the termination of employment relationship due to retirement. Therefore, a total of thirty-eight employees retired in 2017 and fourteen employees decided to perform part-time or occasional work following the termination of their employment relationship due to retirement. The number of retirements rose by 280% compared to 2016, which is largely related with HR reorganisation in toll collection. Furthermore, a drastic increase in new procedures for disability recognition was recorded in 2017 compared to 2016, i.e. by 173%. Seven new cases of disability were recognised.

Figure 29: Retirements and introduced disability procedures from 2015 to 2017

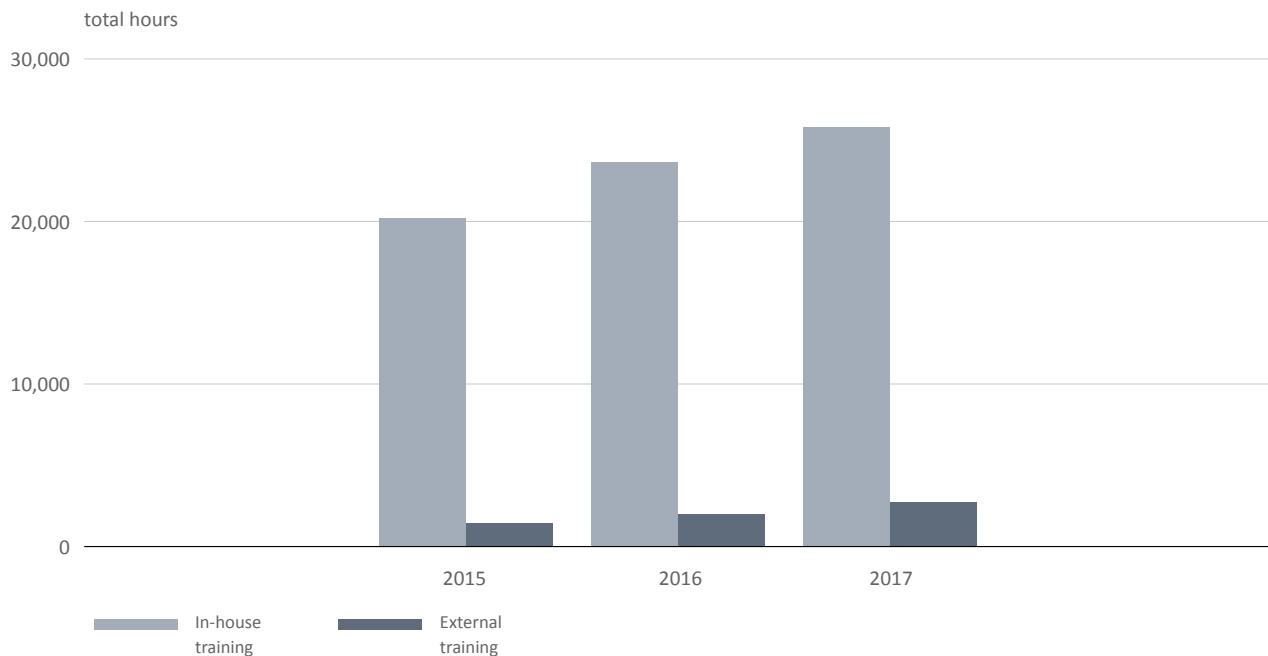


HR development

In 2017, activities in HR development focused primarily on the re-qualification of employees in the Toll Collection Service and sales at own points of sale in order to train employees to work within the scope of the electronic tolling system. A total of 458 participants attended various training courses within the scope of re-qualification. In 2017, major emphasis was also placed on employees in expert services obtaining special professional skills. Various external professional training courses were attended by 210 employees, which is 27% more than in 2016. Training per employee increased by 9.5% compared to 2016 and the total number of training participants increased by 3%. 90% of all training hours were conducted within the scope of in-house training, which allows participation to a large number of employees at low cost. External training at various seminars, congresses and other expert meetings within the scope of DARS d.d., accounting for 10% of training hours realised, enables employees to obtain specific expert knowledge in legislative amendments and technology advancements in individual areas of expertise.

DARS is well aware of the importance of employee knowledge for successful performance of duties, which is reflected in a continuous growth trend of training hours between 2015 and 2017, particularly within the scope of in-house training. Since 2013, the volume of training hours increased by 100%.

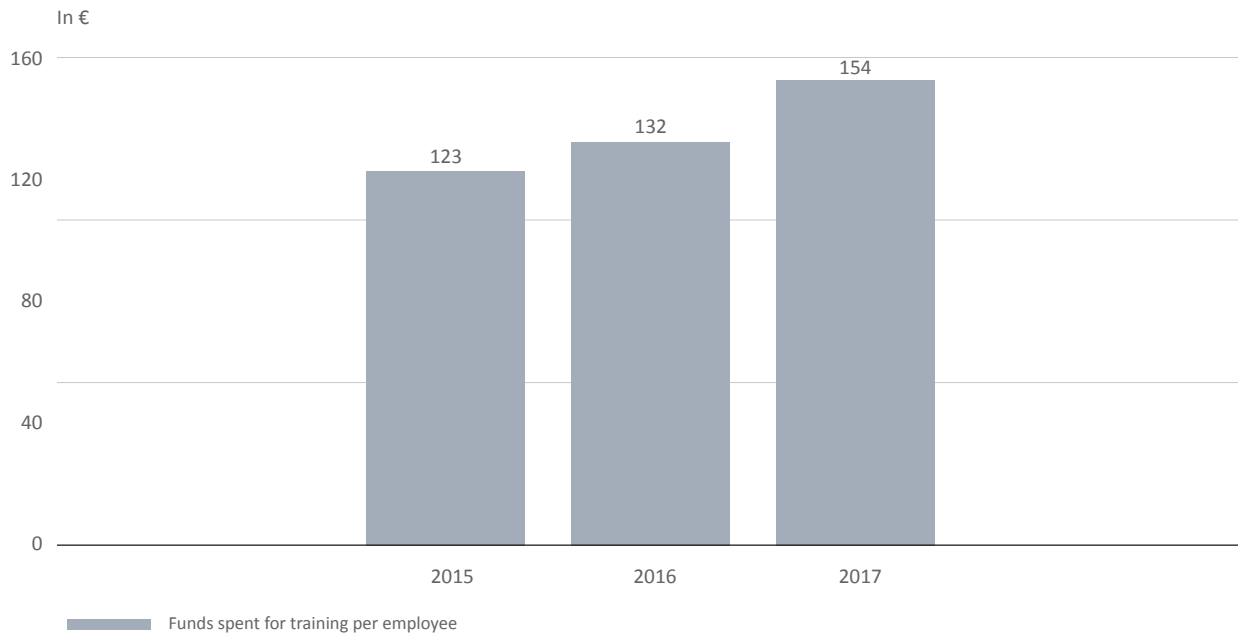
Figure 30: Number of training hours from 2015 to 2017



DARS is well aware that the successful realisation of the set strategic goals require knowledge and good professional qualification of employees, which is why it places great importance on employee training and provided adequate funds to that end. In 2017, the value of training per employee amounted to €154 and was 17% higher than in 2016. Considering the large scope of organisational, technological and demographic changes both at DARS d.d. and in the broader society, such investments in employees are proof of the employer's socially responsible attitude.

In 2017, training allowed associates in toll collection to obtain new knowledge and skills for working with the new DarsGo tolling system and in other areas of Company operations, thus helping them to keep their jobs.

Figure 31: Funds spent for training per employee from 2015 to 2017



HRM projects

In addition to training, some other activities in HR management were conducted in 2017:

Re-qualification of toll collection employees: Various additional training courses for employees in the Toll Collection and Own Sales Service were conducted in 2017, allowing employees to obtain new required knowledge to work within the new electronic tolling system. A total of 458 participants attended training and 14,889 training hours were executed. Language learning accounts for the largest share (60%), followed by professional training for toll supervision (34%) and computer training (6%).

LOGINS project: DARS joined the partner project of the KoC LOGIN competence logistics centre, within the scope of which it obtained €31,500 from the European Social Fund for employee training, which can be drawn in 2017 and 2018. Within the scope of the mentioned project, 7 training courses were conducted in 2017 in the total value of €16,620.

Organisational climate and employee satisfaction: In 2017, DARS measured the organisational climate for the 10th time, considering its results as very important for the Company, directing the latter to improvements to organisational systems and work environment for efficient attainment of the set goals. Results for 2017 show improvements in all items measured compared to 2016. The total index rose by 0.16 points compared to 2016. The results show that employees have developed a high degree of responsibility for quality performance of work, innovations and sense of belonging to the organisation, and that they are well qualified and motivated. Challenges are present in the reward scheme, career development and internal communications, where suitable measures have been taken.



DARS is a family friendly company: Based on the adopted measures deriving from the acquired Family Friendly Company certificate, activities continued in 2017 that make it easier for employees to coordinate their job duties and family life. Employees have the option of flexible working hours, anonymous psychological support, health preservation and various other activities or options provided by the employer to its employees.

1.16.6.1 Creation of a safe working environment

DARS is aware of the importance of providing safety at work for its employees, since many employees perform extremely dangerous works on the road, where their safety not only depends on themselves, but also on road users' conduct. Hence, safety was included in the 2017-2020 Strategy as one of the most important elements for successful planning of Company development. One major operative strategic goal is also the reduction of the number of persons injured at work by 15% until 2020.

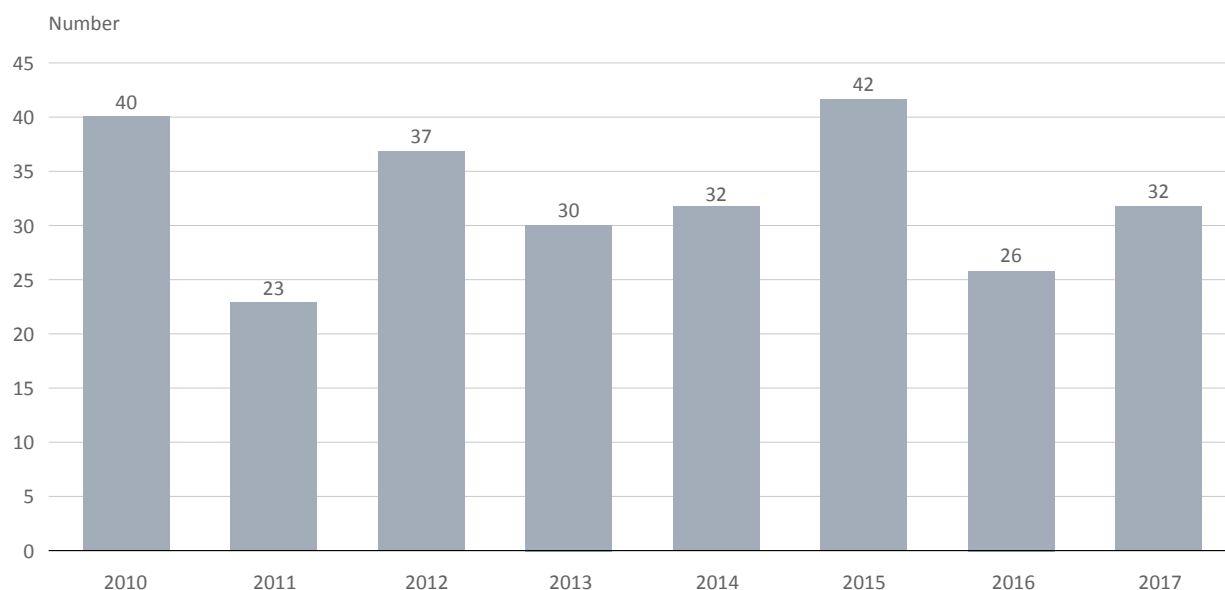
Commitment to the provision of safety is not merely declarative. The Company's expert services exchange experiences with motorway operators in neighbouring countries, monitor advancements in technology, analyse accidents and safety in the society, and propose new measures to improve safety. In 2017, the usual permanent measures (employee training, work equipment checks, health check-ups, internal control, etc.) were accompanied by a revision of the risk assessment for safety and health at work, based on which a series of measures was adopted to improve the safety of users and employees. Most measures were adopted by the end of 2017, while some system measures were integrated in the Company work and will continue.

Accidents at work

In 2017, a somewhat higher number of work accidents was recorded (32) than the previous year (26), but most accidents resulted in non-serious injuries. Seven employees never went on sick leave and the total number of sick leave days also decreased. Injuries were suffered by four toll supervisors, one employee in management, one employee in administration, while all other employees injured (26) were maintenance officers.

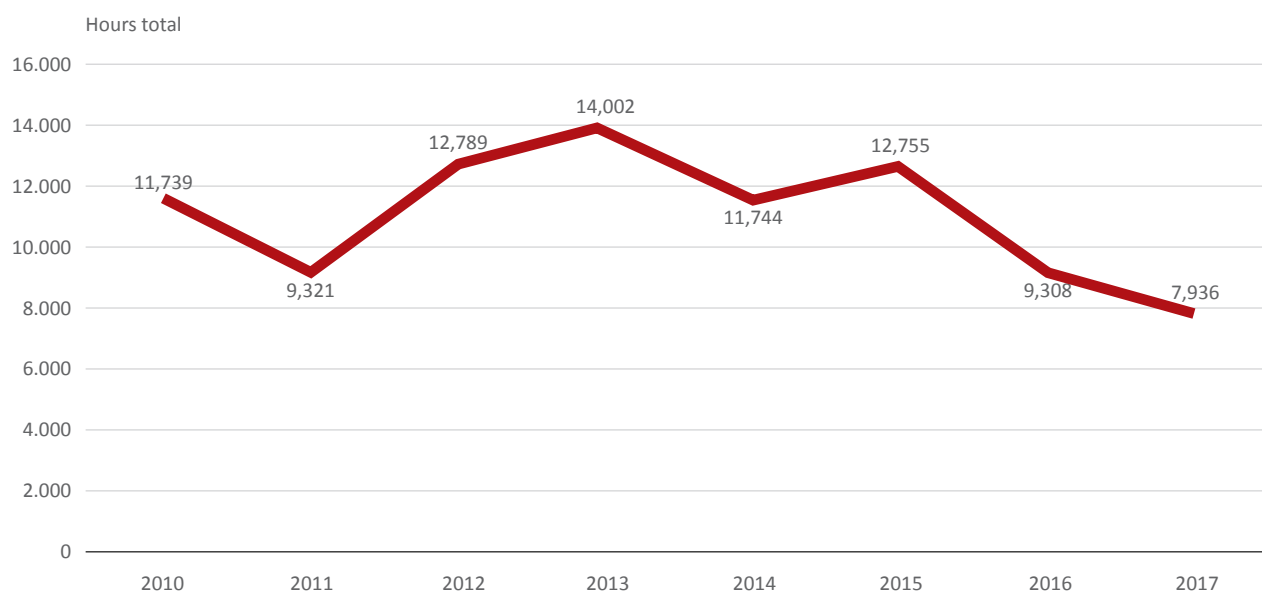


Figure 32: Number of injured employees



No occupational diseases have been recorded so far at the Company. Nevertheless, dangerous phenomena, i.e. events in which a human life could be threatened or major material damage caused, are identified. These in particular include collisions with site protection signs on the road and aggressive behaviour of users towards our employees.

Figure 33: Sick leave in hours as a result of accidents at work



I.16.7 Responsibility towards the environment

In light of its mission, the Company built and management a motorway network that is closely linked with the natural environment during spatial location stage, management stage and future motorway network development stage. The Company is committed to environmentally friendly actions in all stages of operations and continuous reduction of adverse environmental impacts.

I.16.7.1 Systematic environmental and energy management

DARS systematically manages the environment and energy, as confirmed by the acquired international ISO 14001 and ISO 50001 standards.



Attainment of compliance

An important part of systematic management of the environment and energy is the management of all compliance requirements, meaning that all environmental and energy aspects are equally included in the compliance provision process.

Cooperation with outsourcers and suppliers

Cooperation with outsourcers and suppliers is a component part of Company management systems and is systematically managed. In respect of the environment and energy, it is vital that cooperation is based on public procurement, which all includes the Decree on green public procurement, as laid down in detail in the chapter "Responsibility to suppliers."

Use of materials

The total volume of materials used for investments is evident from the construction log book for a particular project, which is also the basis for the statement of account for works. Amounts are shown in line with the inventory of works and in various metric units.

Table 10: Length of reconstructed directional road lanes and newly built roads

	2015	2016	2017
Length of reconstructed directional road lanes of individual sections (km)	44.41	37.06	26.54*
Length of newly built roads (km)	5.03	0	7.26

*Note: The realisation of the planned volume of reconstructed road lanes in 2017 (35km) was postponed to 2018 due to objective reasons.

I.16.7.2 Spatial location of motorways and express ways

Spatial planning and locating is a process that enables harmonious spatial development with the consideration and alignment of developmental needs and interests with public benefits in environmental protection, preservation of nature and cultural heritage, protection of natural resources and protection against natural and other disasters.

DARS d.d. carries out individual tasks related with spatial planning and locating motorways, in procedures to prepare NSP and provides all documents required for the latter. In line with the Environmental Protection Act, an overall environmental impact assessment must be conducted for spatial interventions that could have a major impact on the environment, which includes motorways, during the variant study stage and an environmental impact assessment procedure must be carried out in the NSP preparation stage for the selected variant.

I.16.7.3 Concern for the preservation of biodiversity

A special challenge when locating motorways in a location is to preserve biodiversity, since Slovenia features extremely diverse and relatively well preserved nature. Hence, Slovenia is an area with above-average biodiversity and one of the richest natural environments in Europe and the world.

The greatest risk in the location of demanding infrastructure, such as motorways, is the risk of a high level of fragmentation of natural habitats. Therefore, the inclusion of principles for the preservation of biodiversity in spatial planning procedures is vital to make the planned spatial interventions admissible.

I.16.7.4 Energy management

DARS d.d. ranks among large energy consumers in Slovenia with annual energy consumption of 47.2GWh (in 2017). With respect to Company processes, which are characterised by the need for lighting and road management and maintenance, electricity accounts for the largest share in total energy consumption (51.6%), followed by fuel (35.1%). A minor share of energy is used for heating facilities and that area requires an important element of energy management due to the large potential for optimisation.

The Company 2017-2020 Strategy places great importance on energy efficiency and environment protection, hence laying down an operative goal referring to the improvement and key energy efficiency indicators in order to rationalise costs:

- The electricity consumed will decrease by 5 % by 2020 with respect to the existing condition of electricity users.
- To reduce energy consumption for heating by 10% until 2020 with respect to 2015.
- To reduce CO2 energy emissions for heating by 20% until 2020 with respect to 2015.

Total energy consumption

The table below shows energy consumption and trends in energy consumption by energy product. A comprehensive approach to manage energy and pertaining measures has allowed the Company to reduce electricity consumption.

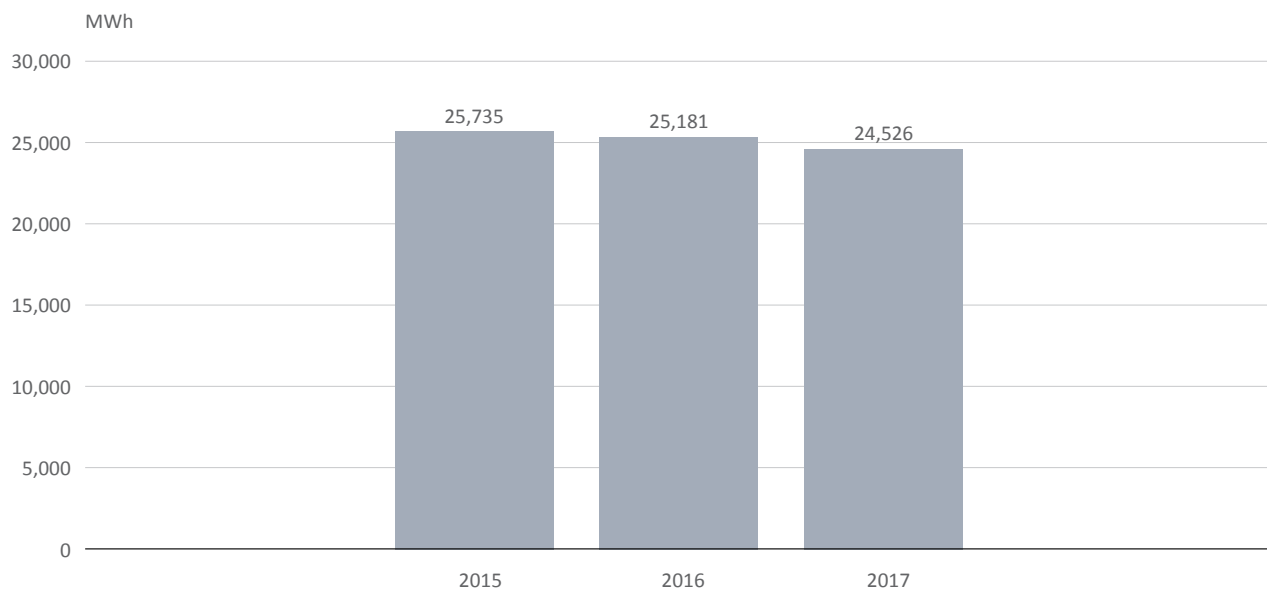
Table 11: Energy consumption

		2015	2016	2017
Electricity	MWh	25,735	25,181	24,526
Fuel	MWh	17,033	17,442	16,689
Natural gas	MWh	1,866	1,524	1,676
LPG propane	MWh	2,018	2,253	2,123
LPG propane butane	MWh	1,171	1,225	1,105
Fuel oil	MWh	238	344	291
District heating	MWh	586	810	778
Total	MWh	48,647	48,779	47,188

Electricity

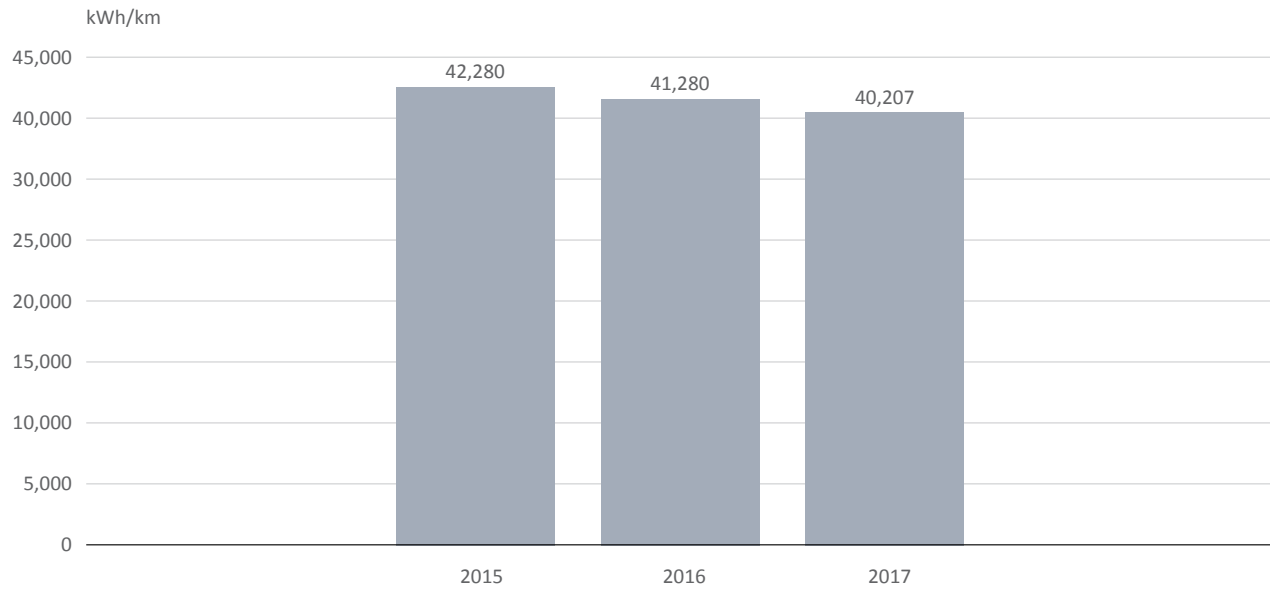
Within the scope of measures introduced, the Company managed to reduce total electricity consumption despite enlarging the motorway network and opening new 7.26km of motorway in the second half of 2017, as shown in the chart below.

Figure 34: Total electricity consumption (MWh)



The chart below shows the effects of the measures introduced in electricity management per kilometre of maintained MW.

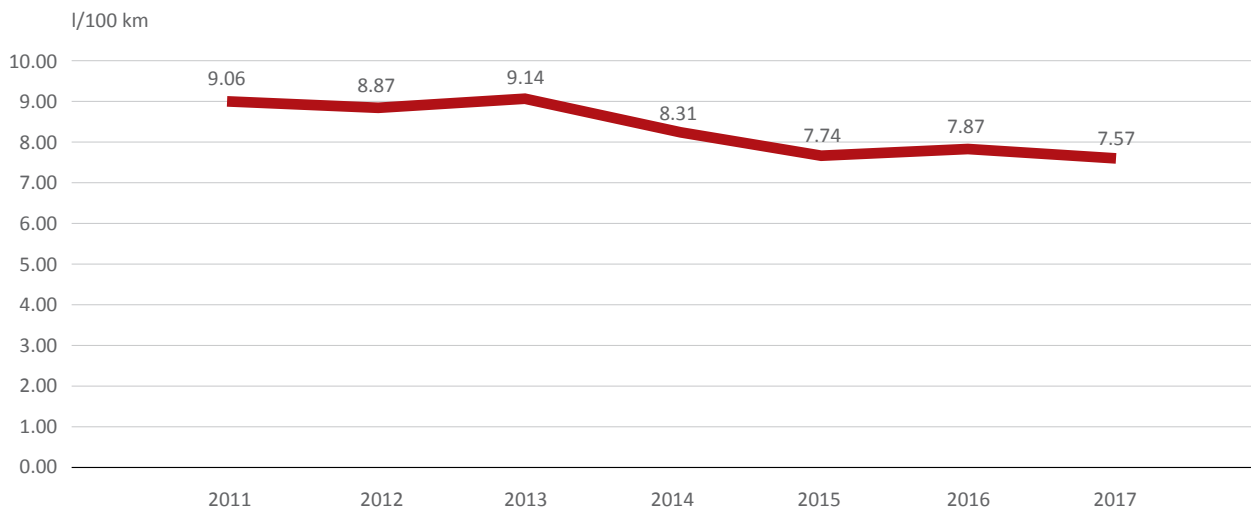
Figure 35: Total electricity consumption per MW kilometre



Fuel consumption for passenger cars and toll supervision vehicles

In 2017, the Company had 198 passenger cars and toll supervision vehicles. Over the years, average fuel consumption was successfully reduced, as shown in the chart on the right. That was achieved with the purchase of new low energy vehicles and awareness raising among employees on low energy driving, thus reducing fuel consumption, risk of accidents, noise emissions and exhaust gas emissions.

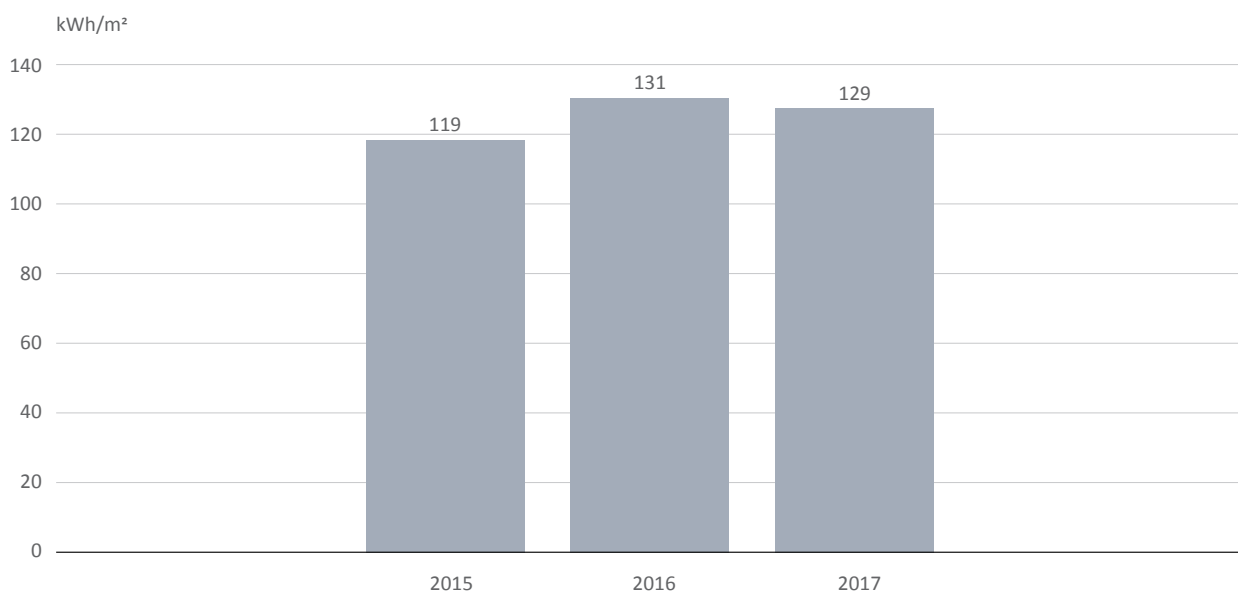
Figure 36: Average annual fuel consumption for passenger cars and toll supervision vehicles



Heating

The largest energy consumers for heating are 9 motorway maintenance centres (MMCs) and 6 branches, followed by the office building in Celje and 14 frontal toll stations and 22 other facilities. The chart below shows that specific heat consumption for heating facilities per total heating surface is very high. The largest potential to improve energy use is in toll stations and MMC garage facilities. Notably, heat consumption is largely affected by winter weather conditions.

Figure 37: Heat consumption per square metre of heating surface

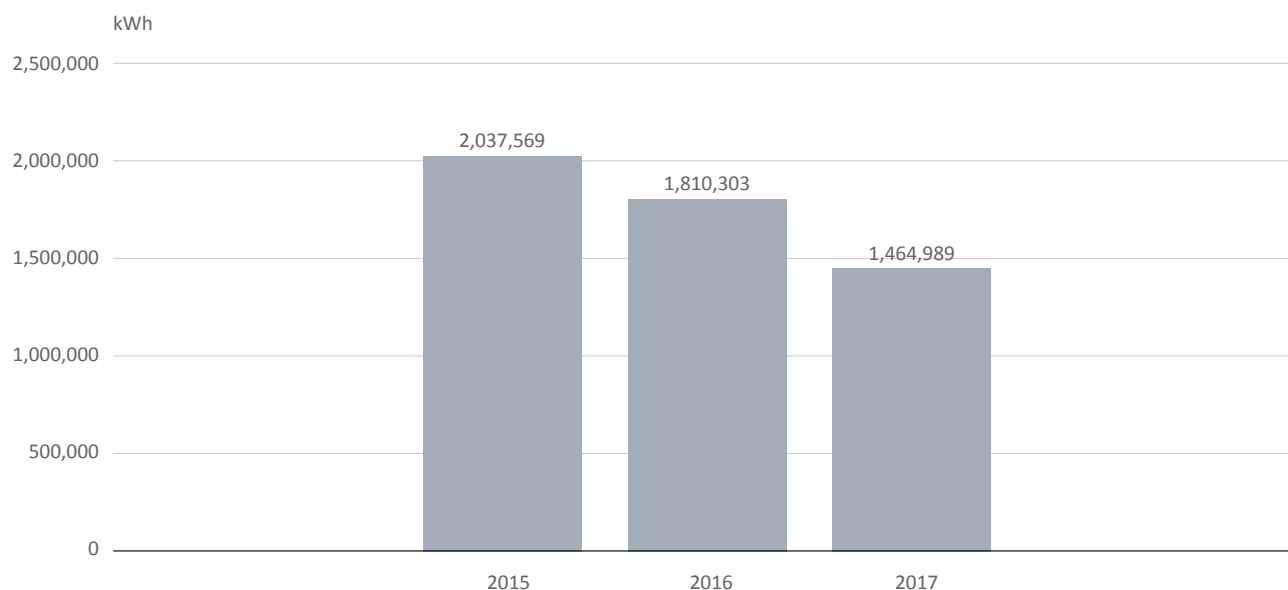


I.16.7.5 Light pollution

Light pollution is the emission of light from light sources that increases natural illumination of the environment.

In 2016, stage 1 lighting replacement was completed, in which inadequate lights on the Dolenjska and Primorska MW legs and on the Ljubljana ring were replaced. Reduced electricity consumption for lighting is an indicator of reduced light pollution, which is shown in the chart below based on the successful completion of stage 1 lighting replacement.

Figure 38: Electricity consumption for stage 1 lighting replacement



In stage 2, lights at all MMCs were replaced. Stages 3 and 4 are currently under way and involve the replacement of 1500 lights at seven sections. Effects will reveal in the following sustainable reports.

I.16.7.6 Carbon footprint monitoring

Carbon footprint is the total amount of greenhouse gas emissions related with the operations of DARS d.d. The carbon footprint calculation at Company level took into account all indirect greenhouse gas emissions (CO₂ and other) that are incurred at DARS d.d. locations. These include: fuel consumption for own vehicle fleet, energy consumption for heating (natural gas, LPG propane, LPG propane butane, extra light fuel oil (ELFO) and district heating), loss of coolant, employees' transport to and from work, transport by aircraft (European and overseas flights). The carbon footprint calculation also took into account indirect emissions deriving from the use of purchased energy, i.e. consumption of electricity, heat, water and auxiliary materials.

The charts below show the carbon footprint calculation for the Company as a whole and relatively per kilometre of maintained motorway.

Figure 39: Carbon footprint by year

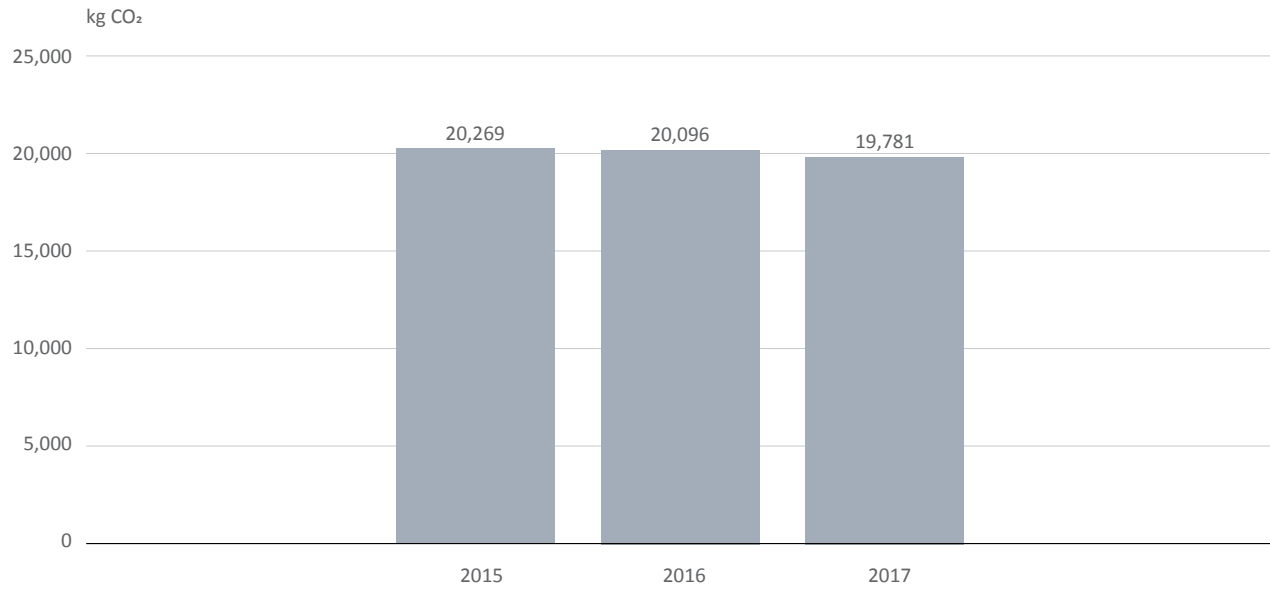
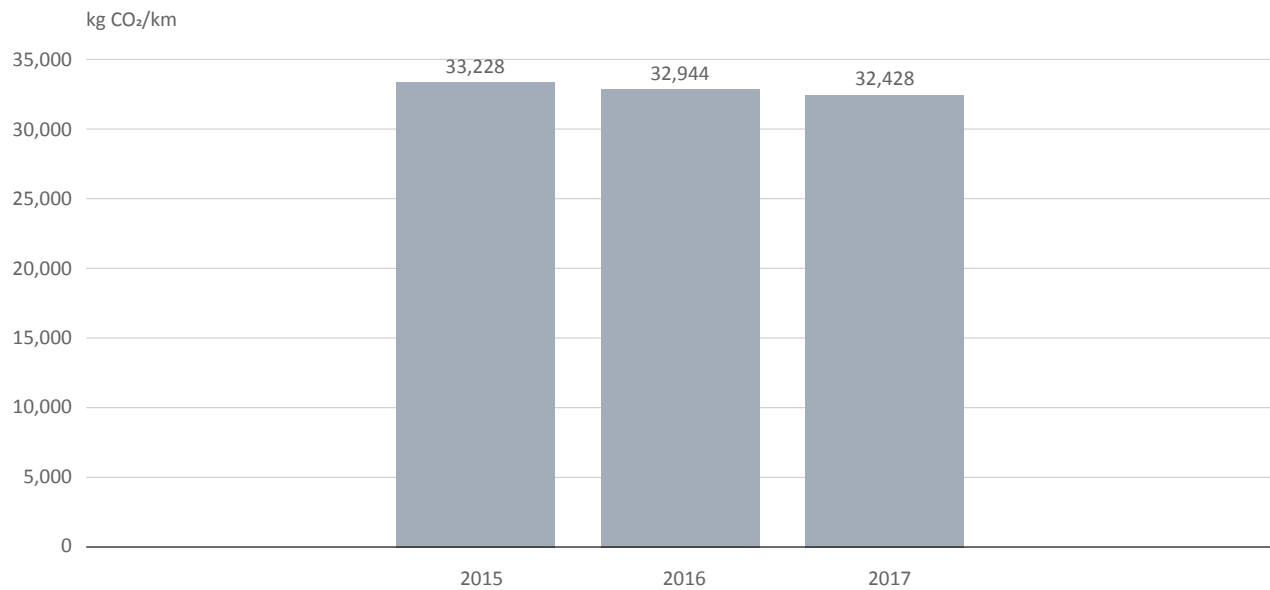


Figure 40: Carbon footprint by kilometre



I.16.7.7 Emissions to air

Emissions to air resulting from Company activities are emissions of exhaust gases from the vehicle fleet and emissions of own heating sources for business premises. In respect of emission management, the Company complies with requirements.

Emissions to air caused indirectly by MW users are particularly important in tunnel management. Tunnels exceeding 500m in length have monitoring systems in place for exhaust gas emissions (CO) and visibility. A ventilation system is set up for adequate ventilation in tunnel tubes, which is steered or regulated automatically using the fans installed. Measurements are monitored by the control centres in charge of controlling traffic in individual tunnels.

We reduce the number of traffic congestions by optimising traffic flow, thereby minimising gas emissions. That is achieved by forcing freight vehicles off motorways on time, making road diversions, additional variable message signs, and by coordinating all closures and operations of control centres.

I.16.7.8 Concern for animals in MW area of influence

The intrusion of wild animals on the motorway is an important risk for:

- the safety of all participants in motorway traffic and animals,
- the safety of motorway maintenance workers who have to remove or catch the animal,
- material damage and severe trauma,
- a serious accident resulting in a fatality or severe body injury.

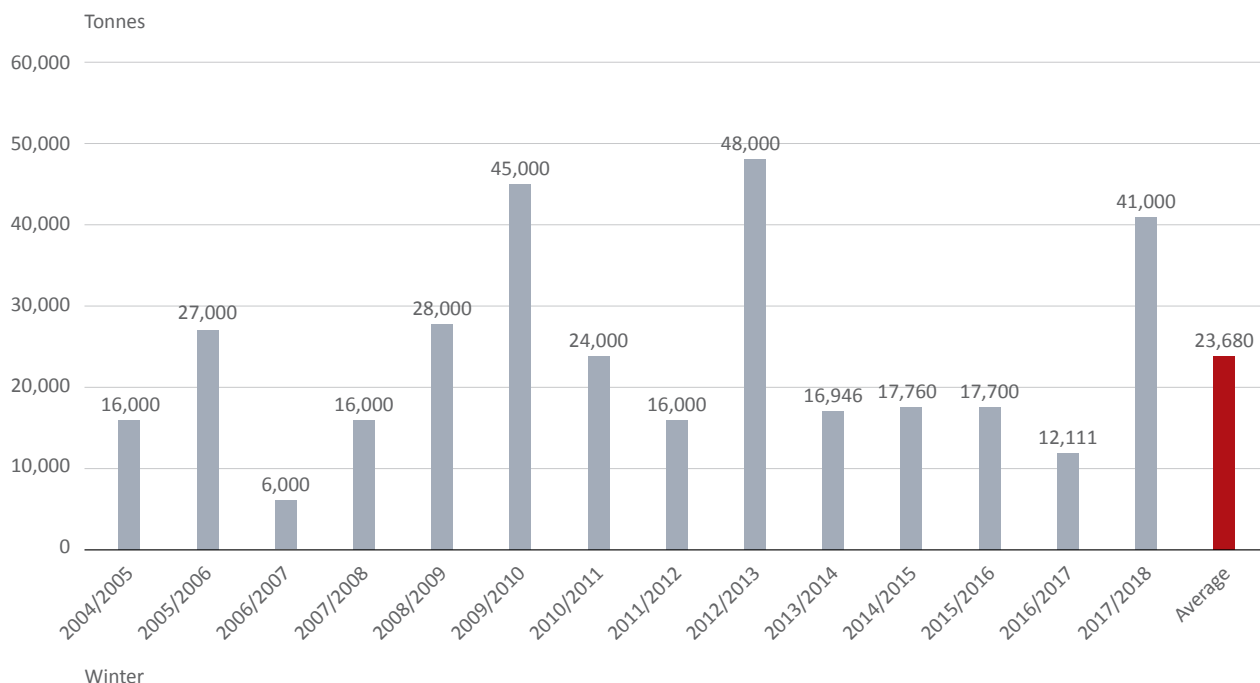
Hence, DARS has made efforts since the very start to make such cases minimal by regularly checking barriers, using deterrent devices and including the issue of animal passages in procedures to prepare a national spatial plan. All underpasses located in areas where animal passages were recorded were adjusted or enlarged to allow animal to pass safely. Prevention of animal road killings on all traffic routes (national roads, motorways and railways) is important both in terms of animal mortality rate and traffic safety improvement.

I.16.7.9 Impact of grit material on the environment

To maintain good driving conditions, substantial amounts of grit salt is used every winter on Slovenian motorways. Its impact on the environment is still uncertain and a current issue worldwide, since Europe and America mostly use NaCl and to a minor extent CaCl₂ and MgCl₂ at low temperatures. Due to a series of harmful effects of chlorides on the environment and structures, there is a strong tendency to reduce grit amounts in all countries.

To prevent slippery roads and ensure safe road conditions in winter, roads are gritted using various gritting materials. These materials have a minimum impact on the ground, quality of surface and groundwater, flora, fauna, humans and animals, facilities (road lanes, bridges, viaducts and buildings) and on vehicles.

Figure 41: Consumption of grit material in tonnes



In 2017, the effect of spreading salt on the environment was also monitored during the implementation of the Annual Programme of Operational Monitoring of rainwater from retention basins. Analyses of the individual samples taken showed no excess presence of salting elements; in each analysis, the salting elements were within the prescribed limits.

Wet salting

Based on foreign and domestic experiences in wet salting, DARS decided to use 20% NaCl solution for preventive gritting. Wet salting is when a saline solution is spread over a road lane. So far, the Company used FS30 wet salting (30% solution and 70% dry salt). Since the effect of wet salting is the same or even better, the Company intends to furnish all MMCs with the relevant equipment.

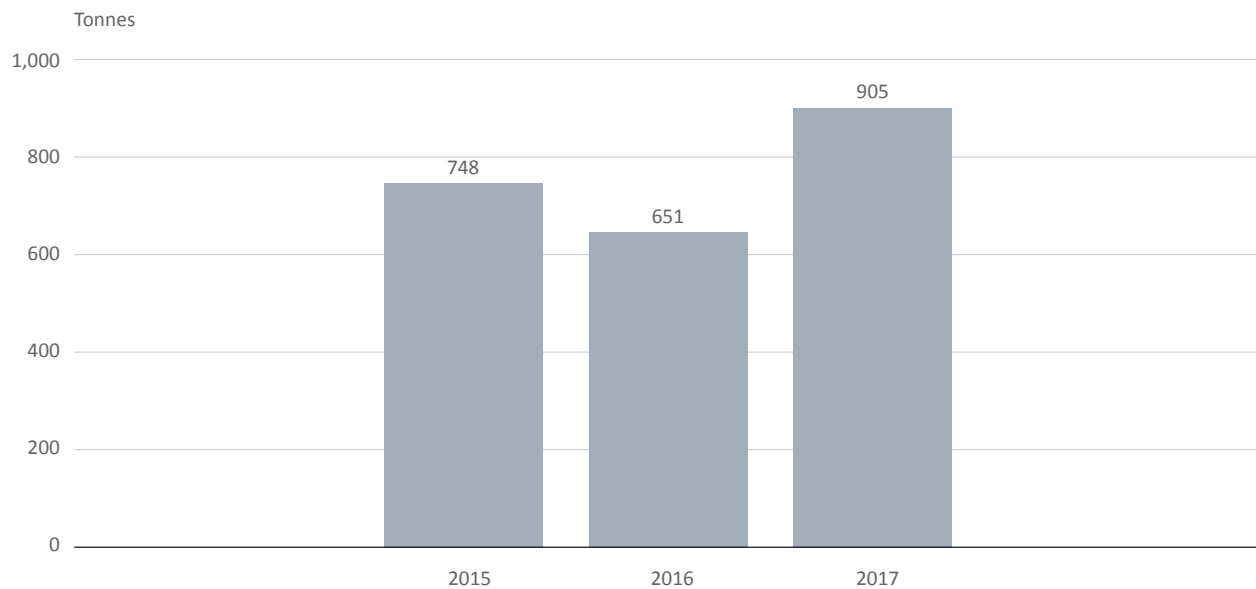
I.16.7.10 Protection of waters

Rainwater is removed from motorways using two methods: with dispersed water drainage and controlled water drainage through 735 retention basins at individual MW legs.

In 2017, the Company continued to carry out regular annual cleaning of all of the most burdened oil separators (at motorway maintenance centres and branches) and basic maintenance on retention basins (grass mowing, repairing damaged parts and railing, and cleaning sedimentation and grit basins). Hazardous and non-hazardous waste that was generated was handed over to a contractual recipient of such waste that disposes with a valid environmental permit issued by the Slovenian Environment Agency. Concerning the operation of retention basins in terms of protecting the natural environment, the Company implemented the Annual Programme of Operational Monitoring (APOM) for waste water from rainfall, which measures the pollutant load of the drainage water from the retention basins. The measurements showed that the parameters

of drainage water from the retention basins were within the limits laid down by the Regulation and could, as such, be discharged into nature without further treatment. The Company also collected tunnel waste water from washing in a controlled way and handed it over for treatment to waste disposal contractors as a specific type of waste, as shown in the chart below.

Figure 42: Amount of tunnel waste water handed over



1.16.7.11 Noise emissions

The Noise Action Programme for the First Phase Major Roads and Major Railways (OP HRUP) requires road and railway infrastructure operators to implement measures to limit excessive noise pollution. It comprises two lots. Lot B was implemented by DARS d.d. in 2014 and 2015 within the scope of the Operational Programme of Environmental and Transport Infrastructure Development through the project Construction of noise barriers at 5 motorway sections (Brezovica-Vrhnika, Dramlje-Celje, Celje-Arja vas and Malence-Šmarje - Sap) in the Republic of Slovenia, which was co-funded with European cohesion funds in amount of 85%. The implementation of noise protection measures ensured that traffic no longer caused excessive noise pollution at the relevant sections. A total of 31.4 kilometres or nearly 141 thousand square metres of new noise barriers were erected at five motorway sections within the scope of that project.

Based on the methodology used for monitoring the condition of noise protection on motorways and express ways, the Company started to make an inventory of the condition of noise protection in cooperation with a contractual expert in the relevant area. Based on the data collected and analysed, a part of noise protection was included in the Action Plan for Infrastructure from 2016 to 2018. The data collected was included in the preparation of expert bases for the renovation of noise barriers that are prepared in cooperation with an outsourcer. The document is the final stage of preparation.

Furthermore, the Company implements the governmental Noise Action Programme for the first phase major roads and major railways outside Municipality of Ljubljana for 2012-2017. Most measures on five motorway

sections have already been executed, while the protection of individual, the most affected residential buildings along the motorway network continues. In spring 2017, the Ministry of the Environment and Spatial Planning started carrying out activities to prepare a Noise Action Programme for 2013-2018. DARS d.d. representatives were included in an inter-ministerial working group for the preparation of the relevant document. DARS has erected noise barriers along the motorway alignment due to traffic since 1988. In that period, 181.1 kilometres of noise barriers of total surface area of 503,250 square metres were erected.

1.16.7.12 Waste management

In 2017, DARS d.d. continued and upgraded its environment protection policy, placing stress on controlled waste management as laid down by the applicable legislation. Hence, activities were aimed at proper waste management with consistent separation of waste already at its source. Furthermore, the Company continued to pursue its policy for controlled disposal of all types of waste.

Waste is broken down to two groups: non-hazardous and hazardous waste. Like in previous years, non-hazardous waste collected in 2017 mostly included waste generated in investment works for comprehensive reconstruction of individual MW sections (asphalt waste, concrete waste, scrap iron, waste soil). These are followed by waste generated in road maintenance, i.e. waste from grit basins, septic tank waste water, tunnel wash water, scrap plastic). The Company also noticed a growing trend in hazardous waste, i.e. mostly waste oil, water containing oil, sludge, waste paint and varnish and absorbent sand (used to clean up roads after accidents).

Figure 43: Volume of non-hazardous waste

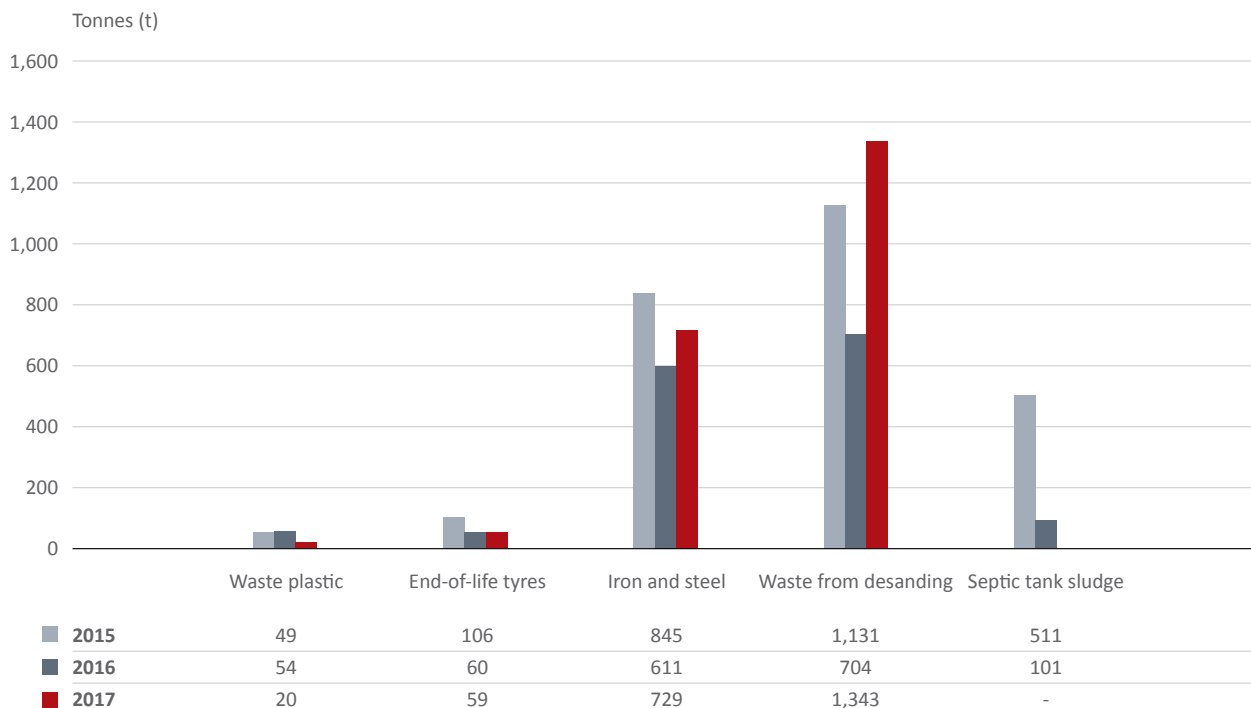
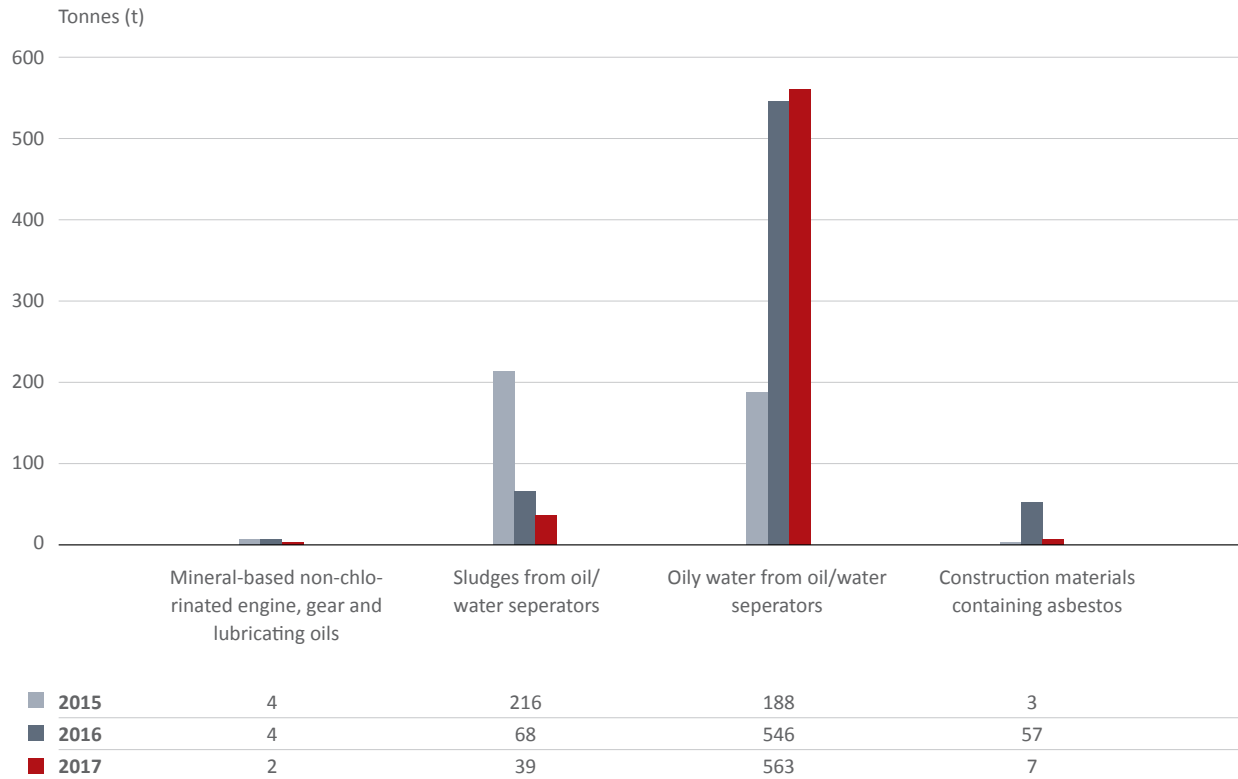


Figure 44: Volume of hazardous waste

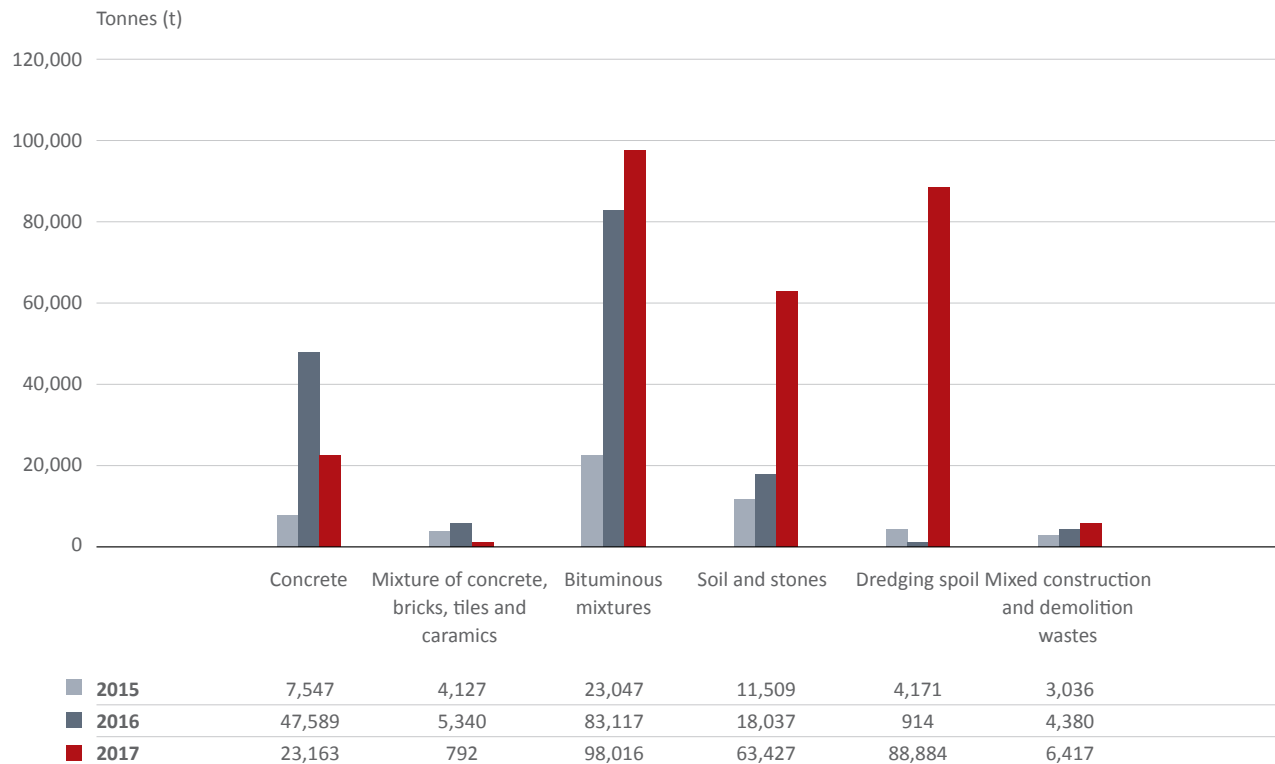


Due to greater consistency and increasing stress placed on waste separation, the volumes of waste continue to grow in most cases. This is, however, not true for municipal waste, which is managed by the public service obligation within the competence of a particular local community.

Construction waste management

In investments, DARS d.d. also acts as a producer of construction waste. The legal regulation of the area, was translated by DARS d.d. into its own investment execution process. Hence, an additional requirement is included in the Terms of Reference for the procurement of design documents, which provide the basis for the procurement of construction and execution of works, under which the design engineer is required to take due account of the applicable legislation in that area. The result is the Plan for handling construction waste, based on which requirements are transferred to the invitation to tender for the contractor. In addition to general requirements, designs also need to take account of all other environmental conditions deriving from other acts applicable in the relevant area (VVO, Natura, etc.). The invitation to tender obliges the contractor to manage construction waste properly.

Figure 45: Volume of construction waste handed over



DARS strives to have the generated construction waste used to the maximum possible extent in the execution of works, provided that the material is compliant with project requirements. Hence, several projects already involved in-situ recycling or materials were used in new asphalt mixtures or for the execution of certain other construction works (fills, embankments, etc.). In that area, DARS d.d. took an active part in the preparation of the Decree on green public procurement, which entered into force on 1 January 2018.

I.16.8 Inclusion in broader society

The local community is included in all stages of spatial location of the motorway and its proposals and incentives are observed in an appropriate manner.

Recognitions and awards

In recent years, DARS received recognitions and awards:

- DARS, one of the most respected employers for 2016;
- DARS, respected employer in 2015;
- DARS, the most respected employer in Logistics and Traffic for 2013;
- award by the European Network for Workplace Health Promotion (ENWHP) for a good practice example for 2013;
- recognition by the Ministry of Labour, Family, Social Affairs and Equal Opportunities for a good practice example in workplace health promotion for 2012;
- together with the Republic of Slovenia, DARS d.d. received a special Max Fabiani jubilee award in 2015.

Commitments to external incentives

DARS voluntarily participates in incentives promoting ethical conduct and environmental, social and economically sustainable operations.

Membership in international associations

DARS d.d. actively cooperates with related companies abroad and is a member of international organisations, such as the European Association of Operators of Toll Road Infrastructure (ASECAP), International Bridge, Tunnel and Turnpike Association (IBTTA) and is also included in PIARC (World Road Association) via the National PIARS Slovenia Committee, which is a non-political and non-profit global road association established with the purpose of exchanging knowledge in roads and traffic. A detailed presentation of the Company's international cooperation is shown in Chapter I.12 International cooperation and acquisition of European grants).

Sponsorship and donations

The fundamental mission of DARS d.d. is not only limited to motorway links, but is also focused on the broader social environment with its activities. The Company takes concern and responsibility to people and the environment in which it operates. The Company is well aware of the responsibility it has to people and the environment in which it operates. In corporate social responsibility, special attention is placed on contents relating to traffic safety, education and preventive actions on the roads managed by the Company.

I.16.9 Responsibility to suppliers/contractors

In 2017, DARS d.d. successfully cooperated with suppliers/contractors at home and abroad, although most business cooperation was focused on suppliers/contractors from Slovenia providing services, goods and construction works with respect to the specific nature of operations.

Criteria for the award of a public contract

When procuring goods, services and construction works, DARS d.d. is bound to observe the Public Procurement Act. Criteria for the award of a public contract are laid down in detail in Article 84 of the Public Procurement Act and require a contracting entity to award a public contract based on the most economically advantageous tender.

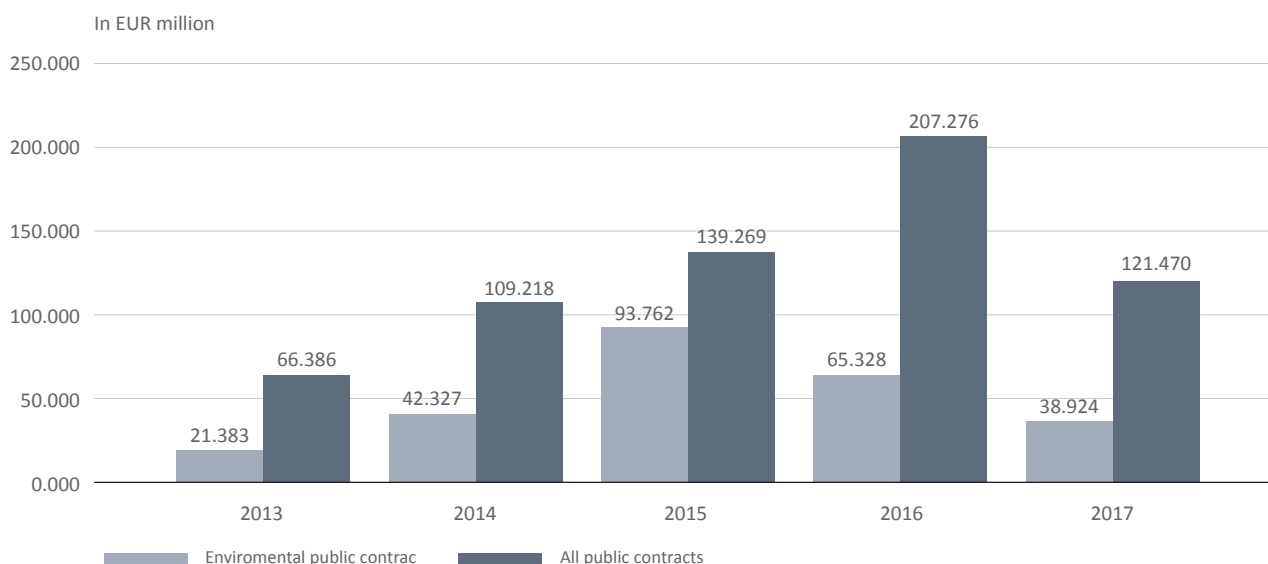
Suppliers of products and services (local, foreign)

The Public Procurement Portal eJN, which is managed by the Ministry of Public Administration, has the STATIST module, where it is possible to obtain statistical data relating to public procurement in the Republic of Slovenia. The data for 2017 shows that 1253 public contracting entities awarded public contracts amounting to €3,815,149,583 (excluding VAT). The total number of published contract notices was 13,116, while 55,258 were awarded. Environmental aspect was taken into account in 22,958 or 41.54% of awarded contracts.

Changes in total public contracts awarded by DARS and in the growth of public contract value in which the environmental aspect was observed from 2013 to 2017 (in € million) are shown below.

Source: <https://ejn.gov.si/statist>

Figure 46: All public contracts and environmental public contract from 2013 to 2017



I.16.10 Communications

Communication strategy

The media are primarily channels that are used to establish contact and build relationships between DARS d.d. and its internal and external audiences. DARS d.d. systematically maintains regular contact with domestic and, if necessary, foreign media and their representatives. The Company is guided by currency, professional approach and transparency.

Compliance with internal rules (Rules on the method of information provision to the media by DARS d.d.) and national regulations (Media Act, Public Information Access Act), proper organisation, a professional approach along with active and constructive cooperation of all those involved ensure that information is provided in due time, is credible and, most of all, in the best possible interest of DARS d.d.; and based on that the Company builds an open relationship with the media. In particular, sound internal cooperation of all stakeholders involved ensures that appearance in the media can be efficient, while reducing the risk of misinterpretation in media publications and misunderstandings.

Press releases are also published on the Company website and social networks. The Company prepares press releases for the media, organises press conferences, makes press statements and invites the media to important business events.

DARS d.d. uses rules laying down the protection of business secrets and information for members of the management and supervisory bodies and other persons with access to inside information during the term of office and after its expiry.

Publication of business reports and statements

The Company observes the highest publication standards for business reports, as laid down in the Financial Instruments Market Act and Ljubljana Stock Exchange Recommendations. It publishes a financial calendar indicating all major business publications and events on its website and SEOnet every year.

1.17 REPORT BY THE SUPERVISORY BOARD FOR 2017

In 2017, the composition of the Supervisory Board did not change. Supervisory Board Members were Marjan Mačkošek (Chairman), Miha Juhart, PhD, (Deputy Chair), Tatjana Colnar, MSc, and Igor Pirnat, MSc, as the owner's representatives, and Darko Kodrič and Rožle Podboršek as employee representatives.

The Supervisory Board consists of a balanced group of various experts who complement one another and focus on efficient performance of their primary functions. The Supervisory Board carried out work according to the law, the recommendations of the Slovenian Directors' Association and other good practice recommendations. It also followed the Slovenian Corporate Governance Code for Listed Companies, the Corporate Governance Code for Companies with Capital Assets of the State and the Code of Ethics of the Slovenian Directors' Association. Their principles were observed at all times.

Members are active at the sessions and participate in discussions in order to clarify any differing opinions and to reconcile them to an extent where they are professionally, legally and strategically harmonised. The harmonised activity of the Supervisory Board is confirmed by the fact that all resolutions adopted in 2017 were unanimous. Discussions show that the Members of the Supervisory Board thoroughly prepared for sessions to facilitate active and professional participation in discussions about individual items on the agenda. Constructive proposals were put forth, and competent decisions were taken based on professionally prepared and comprehensive written and oral information received from the Management Board pursuant to the rules of procedure, Company acts and statutory powers. All members attended sessions regularly.

Throughout the year, the Supervisory Board kept a balanced professional relationship with the Management Board and received timely, comprehensive and data-backed information from the latter. The Supervisory Board assesses the operations of the Management Board of DARS d.d. in 2017 as successful. The Chairman of the Supervisory Board and of the Management Board also worked together outside the official sessions.

The work performed by Supervisory Board Members, including work in Committees, was professional and directed towards efficient performance of a function. The work performed by the Supervisory Board was effectively backed in content by proposals put forth by Supervisory Board Committees. The Supervisory Board regularly informed interested public.

Pursuant to the Corporate Governance Code for Listed Companies, the Supervisory Board indicates in this report that all costs of its operation are disclosed in the Annual Report.

In 2017, the Supervisory Board of DARS d.d. met at twelve regular sessions and six correspondence sessions at which it discussed the regular reports on Company operations and other current affairs and important issues. The Supervisory Board and Management Board also devoted their efforts to laying down the Company strategy for the next four years. The Supervisory Board also conducted a self-assessment based on the methodology proposed by the Slovenian Directors' Association and adopted an action plan that will be implemented.

Among other things, the Supervisory Board of DARS d.d.:

- adopted the Company Management Policy,
- discussed and confirmed the 2016 Annual Report, and adopted a report on its activities for the previous year,
- discussed materials and confirmed proposals for the adoption of resolutions at the General Meeting,
- gave its consent to the Business Plan for 2018,
- gave its consent to the DARS d.d. Strategy from 2017 to 2020,
- gave its consent to transactions exceeding €1.5 million pursuant to the provisions of the Articles of Association,
- gave its consent to public contract notices pursuant to the Rules of Procedure for the Supervisory Board,
- kept track of the progress made in the FTF ETS project (Dars-Go),
- kept track of the progress of public procurement procedures,
- gave its consent to the Annual Plan of the Internal Auditing Department for 2017 and learned about the Report on the work performed by the Internal Auditing Department for 2016,
- proposed the auditor for the 2017-2021 financial years to the General Meeting of Shareholders, the award of a discharge to the Management Board for the 2016 financial years, and agreed with a proposal to the General Meeting regarding the use of distributable profit as at 31 December 2016,
- issued its consent to the Rules of Procedure for the Management Board,
- regularly discussed reports on Company operations,
- acquainted itself with the unaudited Semi-annual Report,
- was regularly acquainted with reports by Supervisory Board Committees,
- supplemented the Rules for determining the content of employment contracts for the Chairman and Members of the Board regarding remuneration and severance pay,

- monitored the realisation of self-assessment measures according to the EFQM excellence model,
- discussed the report of the Workers' Council regarding workers' participation in management,
- kept track of other information.

When making decisions on individual matters at Supervisory Board sessions, Supervisory Board Members observed general rules on corporate governance in relation to conflict of interests issues. Supervisory Board Members signed and submitted statements of independence pursuant to the Corporate Governance Code for Listed Companies, and the Company published them on its website.

Committees of the Supervisory Board of DARS d.d.

Two committees provided expert support to the Supervisory Board. They provided regular reports and advice to the Supervisory Board, with full decision-making power left to the latter. The two committees did not conduct a self-assessment in 2017.

In 2017, the Audit Committee met at six regular sessions. It prepared the Supervisory Board the basis for the confirmation of the Annual Report. It also conducted a discussion with auditors from KPMG d.o.o. The Committee discussed the audited annual report and put forth a proposal to the Supervisory Board for confirmation. It also discussed the report on the work performed by the Internal Audit Department for 2016, the 2017 plan of work for the Internal Audit Department and put forth a proposal to the Supervisory Board to issue a consent to the plan of work for the Internal Audit Department. Among other things, it monitored and discussed reports and recommendations provided by the Internal Audit Department, managed or participated in the procedure to select an auditor, and proposed the appointment of an auditor for the Company's Annual Report to the Supervisory Board. Furthermore, it took part in the preparation of a contract between the auditor and Company. It also prepared guidelines to provide the independence of the auditor of financial statements. The Committee discussed other issues and topics within the competence of the Audit Committee.

The Supervisory Board HR and Management Board Evaluation Committee met at four regular meetings in 2017. It discussed the reports of the HR Management Department, Occupational Safety and Health Department and a report on employee and motorway user satisfaction. It prepared amendments to the Rules for determining the content of employment contracts for the Chairman and Members of the Board regarding remuneration and severance pay.

Pursuant to paragraph 2 of Article 282 of the Companies Act, the Supervisory Board of DARS prepared a written report on the findings reached in the review of the Company's Annual Report for 2017 and a proposal of the Management Board on the use of distributable profit for the General Meeting. The mentioned report gives a detailed and true presentation of the activities performed by the Supervisory Board over the year.

Review and confirmation of the 2017 Annual Report

On 18 April 2018, the Management Board submitted to the Supervisory Board the Annual Report for 2017, which includes a business report with audited financial statements and the auditor's opinion. The Supervisory Board of DARS d.d. discussed the Annual Report of DARS d.d. for 2017 within the legally-prescribed period. It was informed about the auditor's report and certified the auditor's opinion of the audited financial statements for the 2017 financial year and found that the certified auditor found no false statements or irregularities that might affect the Company's financial statements. The Auditor's Report did not contain any remarks or reservations addressed to the Management Board or the Supervisory Board of the Company. The Supervisory Board had no comment to the report of the KPMG audit firm.

Pursuant to point 7.3.7 of the Company's Articles of Association, the Supervisory Board examined the submitted annual report and proposal of the Management Board on the use of distributable profit, based on which it will submit the report to the General Meeting of Shareholders. Following due verification of the Annual Report for the 2017 financial year, to which the Supervisory Board had no comment, the latter confirmed the audited Annual Report of DARS d.d. for 2017 with a unanimous decision.

Upon the adoption of the Annual Report, the Supervisory Board took a position to the Corporate Governance Statement included in the business report within the scope of the Company's Annual Report for 2017 and assessed that it reflected the actual state in Company governance in 2017.

Marjan Mačkošek

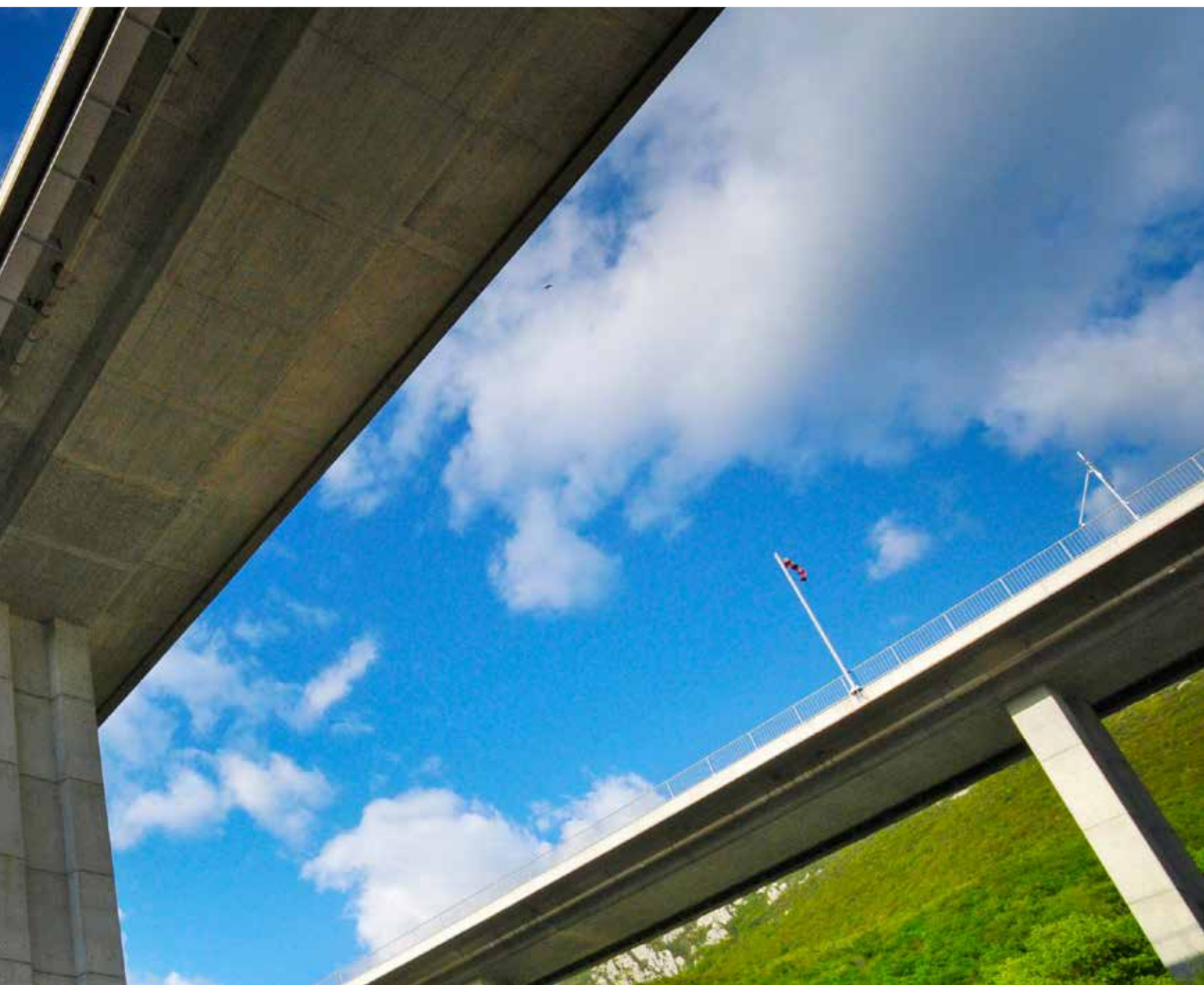
Chairman of the Supervisory Board



DARS



||. FINANCIAL REPORT



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II.1 FINANCIAL STATEMENTS OF DARS D.D.

Balance sheet as at 31 December 2017

In € (excl. cents)	Notes	31/ 12/ 2017	31/ 12/ 2016
ASSETS		5,751,989,678	5,680,666,379
A. LONG-TERM ASSETS		5,454,082,184	5,251,514,755
I. Intangible assets and long-term deferred costs and accrued revenues	II.5.1.1	1,246,400	1,273,864
1. Long-term property rights		1,246,400	1,273,864
II. Property, plant and equipment	II.5.1.2	5,167,303,904	5,218,771,008
1. Land and buildings		5,043,672,914	5,019,580,278
a) Land		200,715,444	204,622,614
b) Buildings		4,842,957,470	4,814,957,664
3. Other machines and equipment		17,329,322	18,012,273
4. Property, plant and equipment being acquired		106,301,668	181,178,457
a) Property, plant and equipment under construction and manufacture		106,301,668	181,178,457
III. Investment property	II.5.1.3	2,341,315	0
IV. Long-term investments	II.5.1.4	253,000,964	964
1. Long-term investments other than loans		253,000,964	964
c) Other shares and interests		964	964
č) Other long-term investments		253,000,000	0
V. Long-term operating receivables	II.5.1.5	24,826,591	25,968,165
2. Long-term trade receivables		30,761	30,764
3. Long-term operating receivables from others		24,795,830	25,937,401
VI. Deferred tax assets	II.5.1.6	5,363,010	5,500,753
B. CURRENT ASSETS		296,988,260	428,393,504
I. Assets (of disposal group) held for sale	II.5.1.7	169,129	160,691
II. Inventories	II.5.1.8	5,114,895	3,208,043
1. Material		3,170,408	3,201,086
3. Products and merchandise		1,944,487	6,957
III. Short-term investments	II.5.1.9	210,550,156	366,698,641
1. Short-term investments other than loans		1,050,156	598,641
c) Other short-term investments		1,050,156	598,641
2. Short-term loans		209,500,000	366,100,000
b) Short-term loans to others		209,500,000	366,100,000
IV. Short-term operating receivables	II.5.1.10	46,226,877	44,902,102
2. Short-term trade receivables		17,992,452	14,002,577
3. Short-term operating receivables from others		28,234,426	30,899,525
V. Cash and cash equivalents	II.5.1.11	34,927,203	13,424,027
C. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE	II.5.1.12	919,234	758,120

In € (excl. cents)	Notes	31/ 12/ 2017	31/ 12/ 2016
LIABILITIES		5,751,989,678	5,680,666,379
A. EQUITY	II.5.1.13	2,811,184,886	2,665,453,020
I. Called-up capital		2,322,284,140	2,319,866,345
1. Share capital		2,322,284,140	2,319,866,345
II. Capital surplus		26,576,528	26,576,494
III. Profit reserves		417,119,034	289,772,337
1. Legal reserves		25,017,383	17,960,990
4. Statutory reserves		88,915,873	55,398,007
5. Other profit reserves		303,185,778	216,413,340
V. Reserves due to valuation at fair value		-5,071,614	-7,257,795
VI. Retained net profit or loss		0	0
VII. Net profit or loss for the financial year		50,276,799	36,495,640
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	II.5.1.14	202,542,960	183,402,232
1. Provisions for pensions and similar liabilities		3,447,940	3,296,187
2. Other provisions		35,193,069	32,813,987
3. Long-term accrued costs and deferred revenue		163,901,951	147,292,058
C. LONG-TERM LIABILITIES	II.5.1.15	2,386,438,717	2,514,324,693
I. Long-term financial liabilities		2,244,468,973	2,364,024,512
2. Long-term financial liabilities to banks	II.5.1.16	1,924,029,739	2,140,400,323
3. Long-term financial liabilities for bonds	II.5.1.17	160,364,547	160,364,547
4. Other long-term financial liabilities	II.5.1.18	160,074,687	63,259,642
II. Long-term operating liabilities		141,770,215	150,186,440
2. Long-term trade liabilities	II.5.1.19	623,128	2,323,959
5. Other long-term operating liabilities	II.5.1.20	141,147,087	147,862,481
III. Deferred tax liabilities	II.5.1.21	199,530	113,742
D. SHORT-TERM LIABILITIES		322,726,671	288,971,521
II. Short-term financial liabilities	II.5.1.22	239,059,996	224,536,718
2. Short-term financial liabilities to banks		223,283,256	205,622,282
3. Short-term financial liabilities for bonds		3,414,923	3,410,736
4. Other short-term financial liabilities		12,361,816	15,503,700
III. Short-term operating liabilities	II.5.1.23	83,666,676	64,434,803
1. Short-term operating liabilities to Group companies		0	0
2. Short-term trade liabilities		34,744,737	27,095,216
4. Short-term operating liabilities for advances		634,256	148,778
5. Other short-term operating liabilities		48,287,684	37,190,808
E. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES	II.5.1.24	29,096,443	28,514,913

The accounting guidelines and explanatory notes are a constituent part of the financial statements and should be read in connection thereto.

Income statement for the period between 1 January and 31 December 2017 (version I)

In € (excl. cents)	Notes	1/ 1/ to 31/ 12/ 2017	1/ 1/ to 31/ 12/ 2016
1. Net sales revenues	II.5.2.1	442,244,312	372,161,638
Toll revenue		430,894,988	361,269,595
Revenue from rest stop leases		7,449,857	7,296,256
Revenue from closures and overweight load transports		834,351	652,445
Revenue from easement for maintenance centres and other		676,395	594,426
Revenue under the performance contract		330,295	383,902
Revenues from the lease of optical fibres		1,018,613	1,021,585
Other sales revenue		1,039,813	943,430
3. Capitalised own products and services	II.5.2.2	2,079,463	1,022,313
4. Other operating revenue	II.5.2.3	9,331,102	24,065,320
5. Cost of goods, material and services	II.5.2.4	-38,635,453	-36,740,431
a) Purchase value of goods and material sold and costs of material used		-9,397,092	-8,838,553
b) Cost of services		-29,238,361	-27,901,879
6. Labour costs	II.5.2.5	-39,730,512	-37,910,486
a) Cost of salaries and wages		-29,026,191	-27,575,205
b) Social security costs		-5,726,422	-5,448,645
c) Other labour costs		-4,977,899	-4,886,636
7. Write-offs	II.5.2.6	-161,140,888	-154,705,750
a) Depreciation/amortisation		-160,302,767	-154,106,846
b) Operating expenses from the revaluation of intangible assets and property, plant and equipment		-709,825	-80,143
c) Operating expenses from the revaluation of current assets		-128,295	-518,761
8. Other operating expenses	II.5.2.7	-3,466,600	-4,309,555
10. Financial revenue from loans given	II.5.2.8	2,132,858	1,919,171
b) Financial revenue from loans to others		2,132,858	1,919,171
11. Financial revenue from operating receivables	II.5.2.9	19,412	32,970
a) Financial revenue from operating receivables due from Group companies		0	0
b) Financial revenue from operating receivables due from others		19,412	32,970
12. Financial expenses for impairment and write-off of financial assets		0	-665,286
13. Financial expenses for financial liabilities		-41,597,306	-40,972,239
b) Financial expenses for loans received from banks	II.5.2.10	-29,869,027	-29,204,680
c) Financial expenses for bonds issued	II.5.2.11	-7,334,285	-7,348,296
d) Financial expenses for other financial liabilities	II.5.2.12	-4,393,994	-4,419,263
14. Financial expenses for operating liabilities	II.5.2.13	-166,461	-791,730
b) Financial expenses for trade liabilities and bills payables		-161,762	-788,650
c) Financial expenses for other operating liabilities		-4,699	-3,081
15. Other revenue	II.5.2.14	3,064,261	99,123
16. Other expenses	II.5.2.15	-309,307	-734,733
17. Corporate income tax	II.5.2.16	-32,981,826	-19,203,477
18. Deferred tax		302,088	-818,838
19. Net profit or loss for the accounting period		141,145,144	102,448,010

The accounting guidelines and explanatory notes are a constituent part of the financial statements and should be read in concert with them.

Statement of other comprehensive income for the period between 1 January and 31 December 2017

In € (excl. cents)	2017	2016
19. Net profit or loss for the financial year	141,145,144	102,448,010
Effective part of changes to the fair value of a hedging instrument for the risk against interest rate variability	2,766,419	-3,973,544
Change in deferred tax	-525,620	848,844
Other comprehensive income to be recognised in future profit or loss	2,240,799	-3,124,700
Changes in revaluation surplus for actuarial deficits and surpluses	-71,906	-77,228
Other comprehensive income not to be recognised in future profit or loss	-71,906	-77,228
23. Other components of comprehensive income	2,168,893	-3,201,929
24. Total comprehensive income for the reporting period	143,314,037	99,246,081

The accounting guidelines and explanatory notes are a constituent part of the financial statements and should be read in connection thereto.

Cash flow statement for the period between 1 January and 31 December 2017

In € (excl. cents)	2017	2016
A. Cash flow from operating activities		
a) Income statement items		
Operating revenue (other than from revaluation) and financial revenue from operating receivables	454,524,409	396,265,265
Operating expenses excluding amortisation and depreciation (other than for revaluation) and financial expenses for operating liabilities	-80,357,166	-79,983,383
Corporate income tax and other tax not included in operating expenses	-32,154,118	-20,871,158
	342,013,125	295,410,724
b) Changes in net current assets (and deferred and accrued items, provisions, and deferred tax assets and liabilities) of balance sheet operating items		
Opening less closing operating receivables	-178,600	782,477
Opening less closing deferred costs and accrued revenue	-161,113	231,107
Opening less closing deferred tax assets	137,743	-143,748
Opening less closing assets (of disposal group) held for sale	-8,438	5,327
Opening less closing inventories	-1,906,852	86,658
Closing less opening operating debts	9,042,325	-15,666,042
Closing less opening accrued costs and deferred revenue and provisions	19,722,258	19,507,127
Closing less opening deferred tax liabilities	85,788	113,742
	26,733,112	4,916,647
c) Positive or negative cash flow from operating activities (a + b)	368,746,237	300,327,371
B. Cash flow from investing activities		
a) Cash receipts from investing activities		
Cash receipts from interest and profit participation relating to investing activities	2,128,257	1,853,531
Cash receipts from disposal of property, plant and equipment	161,931	131,445
Cash receipts from disposal of financial assets	424,718,059	254,603,037
	427,008,247	256,588,012
b) Cash disbursements from investing activities		
Cash payments to acquire intangible assets	-577,503	-790,557
Cash payments to acquire property, plant and equipment	-108,891,260	-102,987,777
Cash payments to acquire financial assets	-521,950,156	-474,367,085
	-631,418,919	-578,145,419
c) Positive or negative cash flow from investing activities (a + b)	-204,410,672	-321,557,407
C. Cash flow from financing activities		
a) Receipts from financing activities		
Receipts from increase in financial liabilities	100,000,000	414,320,789
	100,000,000	414,320,789
b) Disbursements for financing activities		
Interest paid on financing activities	-39,823,983	-41,425,369
Disbursements for repayment of financial liabilities	-203,008,406	-349,956,759
	-242,832,389	-391,382,128
c) Positive or negative cash flow from financing activities (a + b)	-142,832,389	22,938,661
D. Closing balance of cash and cash equivalents	34,927,203	13,424,027
x) Net cash flow for the period (sum total of Aa, Bb and Cc)	21,503,176	1,708,624
y) Opening balance of cash and cash equivalents	13,424,027	11,715,403

The accounting guidelines and explanatory notes are a constituent part of the financial statements and should be read in connection thereto.

Statement of changes in equity for the period between 1 January and 31 December 2017

In € (excl. cents)	I. Called-up capital	II. Capital surplus
	1. Share capital	
A1. Balance as at 31/ 12/ 2016	2,319,866,345	26,576,494
B.1 Changes in equity – transactions with owners		
a) Registration of called-up share capital	2,417,794	35
B.2 Total comprehensive income for the period		
a) Entry of net profit or loss for the reporting period		
c) Changes in reserves from the valuation of financial assets at fair value		
d) Other elements of comprehensive income for the reporting period		
B.3 Changes in equity		
a) Allocation of the remaining portion of net profit YOY to other equity components		
b) Allocation of a portion of net profit for the reporting period to other equity components based on a management and supervisory board decision		
f) Other changes in equity		
D. Balance as at 31/ 12/ 2017	2,322,284,140	26,576,528
AVAILABLE PROFIT as at 31/ 12/ 2017		

The accounting guidelines and explanatory notes are a constituent part of the financial statements and should be read in connection thereto.

Statement of changes in equity for the period between 1 January and 31 December 2016

In € (excl. cents)	I. Called-up capital	II. Capital surplus
	1. Share capital	
A1. Balance as at 31/ 12/ 2015	2,319,866,345	26,576,494
B.2 Total comprehensive income for the reporting period		
a) Entry of net profit or loss for the reporting period		
c) Changes in reserves from valuation of financial assets at fair value		
d) Change in other component of comprehensive income for the reporting period		
B.3 Changes in equity		
a) Allocation of the remaining portion of net profit YOY to other equity components		
b) Allocation of a portion of net profit for the reporting period to other equity components based on a management and supervisory board decision		
f) Other changes in equity		
D. Balance as at 31/ 12/ 2016	2,319,866,345	26,576,494
AVAILABLE PROFIT as at 31/ 12/ 2016		

The accounting guidelines and explanatory notes are a constituent part of the financial statements and should be read in connection thereto.

	III. Profit reserves			V. Reserves due to valuation at fair value	VI. Retained net profit or loss	VII. Net profit or loss for the financial year	Total equity
	1. Legal reserves	4. Statutory reserves	5. Other profit reserves		1. Retained net profit or loss	1. Net profit for the period	
	17,960,990	55,398,007	216,413,340	-7,257,795	0	36,495,640	2,665,453,020
							2,417,829
						141,145,144	141,145,144
				2,240,799			2,240,799
				-71,906			-71,906
			36,495,640			-36,495,640	0
	7,056,393	33,517,866	50,276,799		17,288	-90,868,345	0
				17,288	-17,288		0
	25,017,383	88,915,873	303,185,778	-5,071,614	0	50,276,799	2,811,184,886
					0	50,276,799	50,276,799

	III. Profit reserves			V. Reserves due to valuation at fair value	VI. Retained net profit or loss	VII. Net profit or loss for the financial year	Total equity
	1. Legal reserves	4. Statutory reserves	5. Other profit reserves		1. Retained net profit or loss	1. Net profit for the period	
	12,838,795	31,067,581	144,548,447	-4,059,975	13,831,556	21,537,697	2,566,206,940
						102,448,010	102,448,010
				-3,124,700			-3,124,700
				-77,228			-77,228
			35,369,254		-13,831,556	-21,537,697	0
	5,122,195	24,330,426	36,495,640		4,109	-65,952,370	0
				4,109	-4,109		0
	17,960,990	55,398,007	216,413,340	-7,257,795	0	36,495,640	2,665,453,020
					0	36,495,640	36,495,640

Statement of available profit for 2017

In € (excl. cents)	31/ 12/ 2017	31/ 12/ 2016
A. Net profit or loss for the financial year	141,145,144	102,448,010
B. Retained profit or loss	-17,288	-4,109
C. Increase in profit reserves pursuant to the decision of the Management Board		
– Legal reserves	7,056,393	5,122,195
– Statutory reserves	33,517,866	24,330,426
– Other profit reserves	50,276,799	36,495,640
AVAILABLE PROFIT as at 31/ 12/ 2017	50,276,799	36,495,640

Net profit or loss for 2017 amounts to €141,145,144. While compiling the Annual Report, DARS d.d. formed legal reserves in the amount of €7,056,393, statutory reserves in the amount of €33,517,866 and other profit reserves in the amount of €50,276,799 pursuant to the Company's Articles of Association and Articles 64 and 230 of the Companies Act.

The available profit of DARS d.d. as at 31 December 2017 amounted to €50,276,798.61. The General Meeting of DARS d.d. will decide on the distribution of available profit pursuant to the Companies Act.

In line with Article 69 of the Companies Act, the Management and Supervisory Board of the Company propose that available profit for 2017 in the amount of €50,276,798.61 be distributed to other profit reserves.

11.2 REPORTING ENTITY

DARS d.d. is a registered legal entity with its registered office in Slovenia. The address of the registered office of the company is Ulica XIV. divizije 4, 3000 Celje.

DARS d.d. pursues the activity of motorway and express way construction, and operates and maintains existing motorways and express ways in the Republic of Slovenia. DARS d.d. performs tasks relating to spatial planning and locating motorways in the environment, and tasks relating to real estate acquisition for the purposes of motorway construction on behalf of the Republic of Slovenia and for its account.

The Company compiles the financial statements and reports defined in paragraph 1 of Article 60 of the Companies Act in accordance with the Slovenian Accounting Standards (SAS). The Management Board of DARS d.d. confirmed the financial statements on 14 March 2018.

11.3 SIGNIFICANT ACCOUNTING POLICIES

Basis for the Preparation of the Financial Statements

The financial statements of DARS d.d., together with notes and disclosures of the most important categories, have been prepared in accordance with the accounting and reporting requirements of the Slovenian Accounting Standards (SAS) and the provisions of ZGD-1 and ZDARS-1.

The financial statements are compiled as separate financial statements of the Company for general purposes. The financial statements were compiled for the reporting period starting on 1 January 2017 and ending on 31 December 2017 pursuant to SAS 2016.

When preparing the financial statements, the Company observed two fundamental accounting assumptions, i.e. the accrual and the going concern.

The financial statements are compiled in euro currency (€), excluding cents. Transactions that are expressed in a foreign currency are converted by the Company at the reference exchange rate of the European Central Bank as at the date of transaction. Cash and cash equivalents and liabilities that are expressed in a foreign currency as at the balance sheet date have been converted to the domestic currency at the reference exchange rate of the European Central Bank applicable as at the last day of the accounting period. Foreign exchange gains or losses are recognised in the income statement.

While compiling financial statements, the management must provide assessments, estimates and opinions affecting the use of accounting policies and disclosed values of assets, liabilities, revenues and expenses. Actual values may differ from the estimated ones. Estimates and assumptions are examined regularly. The effect of a change of accounting estimate is used prospectively and affects only the period in which the accounting estimate was changed and subsequent periods.

These statutory financial statements have been compiled for the purposes of compliance with legal requirements. Pursuant to the law, the Company is required to provide an independent audit of these financial

statements. The audit is limited to the audit of statutory financial statements for general purposes, thus fulfilling the legal requirement for the audit of statutory financial statements. The audit covers statutory financial statements as a whole and provides no guarantee on individual items, accounts or transactions. Audited financial statements are not intended for use by any party for the purposes of decision-making in relation to ownership, funding or any other specific transactions referring to the Company. Therefore, the users of statutory financial statements cannot rely exclusively on financial statements and are required to carry out other appropriate procedures before making any decision.

Intangible assets and long-term deferred costs and accrued revenues

Intangible assets cover investments in the acquired rights to industrial property (licences, computer software).

Intangible assets are valued at cost upon initial recognition. The cost comprises of all expenses incurred for their purchase and the cost required to put them into service. After initial recognition, intangible assets are disclosed at cost less amortisation allowance.

The Company independently specifies annual amortisation rates based on the useful life of an individual long-term intangible asset with a finite useful life.

Intangible assets are disclosed in the balance sheet as a collective item at their carrying amount, which is the difference between the cost and accumulated allowance.

Intangible fixed assets are valued using the cost model.

Impairments of assets or a cash-generating unit are recognised whenever their book value exceeds their recoverable value. Impairments are disclosed in the income statement. If the Company operates at a sufficient profit and within the scope of business plans, there is no need for impairment.

Property, plant and equipment

Property, plant and equipment include land plots, buildings, equipment and property, plant and equipment under construction and manufacture. Such assets are disclosed in the balance sheet as a collective item, by type of asset and at their carrying amount, which is the difference between the cost and accumulated allowance. Property, plant and equipment that can no longer be used by the Company for being defective, obsolete or similar are permanently removed from service.

An item of property, plant and equipment is valued at cost upon initial recognition. The cost comprises the purchase price, import duties, non-refundable purchase taxes and any directly attributable costs of putting them into service.

Subsequent expenses associated with property, plant and equipment increase their cost if they increase future economic benefits compared to those originally assessed or prolong the useful lives of such assets. A motorway section is activated on the day it is opened for traffic and the costs incurred after that date that are related with the construction of the motorway section increase its cost once a year, i.e. with the balance as at 31 December of the current year.

The cost of an item of property, plant and equipment also comprises borrowing costs related with its acquisition until it is put into service. Borrowing costs include the following:

- interest;
- other Company costs related with financial asset borrowing.

Borrowing costs that can be directly attributed to the purchase, construction or manufacture of an item of property, plant and equipment can be capitalised as part of the cost of that asset. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Costs that are directly related with the borrowing intended for funding motorway construction increase the cost of motorways as long as the motorway sections for which the loans were hired are under construction (until they are put into service). The Company ceases to capitalise borrowing costs when motorway sections are open for traffic.

The cost of an asset built or made at the Company covers direct costs incurred by its construction or manufacture and indirect attributable costs incurred by its construction or manufacture.

Repairs or maintenance of property, plant and equipment is intended for restoring or maintaining future economic benefits that are expected based on the originally estimated level of asset performance. When they take place, they are recognised as expenses.

Property, plant and equipment are valued using the cost model.

If the cost of an item of property, plant and equipment is important, it is broken down to its components. If such components have different useful lives and/or usage patterns that are relevant in relation to the total cost of an item of property, plant and equipment, each component is considered separately.

The difference between the net proceeds upon disposal and the carrying amount of an item of property, plant and equipment disposed of is transferred to operating revenue from revaluation if the former exceeds the latter, or to operating expenses from revaluation if the latter exceeds the former. The Company annually checks the carrying amount of property, plant and equipment in order to ascertain whether there are any signs of impairment. If such signs exist, the recoverable amount of the asset is assessed. The –recoverable value is considered to be the net sales value of an asset or value in use, whichever is higher. The impairment of an asset is recognised when its book value exceeds its recoverable value. Impairments are disclosed in the income statement.

If the Company reasonable assumes that an item of property, plant and equipment will be sold in the next 12 months, the item is reallocated to non-current assets held for sale.

Pursuant to ZGD-1 and SAS 2016, the Company reallocated its right of superficies from intangible fixed assets to land.

The right of superficies was established pursuant to ZDARS-1 to the benefit of DARS d.d. on the land owned by the Republic of Slovenia over which motorways run as structures that had been built or started to be built prior to the enforcement of ZDARS-1. The right of superficies has been established for a 50-year period (from 4 December 2010 to 4 December 2060) free of charge. The Fiscal Balance Act made the right of superficies payable and, therefore, subject to an annual charge pursuant to the annual performance contract based on Article 4 of ZDARS-1.

As one of real estate rights, the right of superficies is valued at cost upon initial recognition. It has a definite useful life and is depreciated over that period, i.e. the period for which it had been established. The useful life of the right of superficies is a period during which the Company has a legal right to use. The company uses the straight-line amortisation method.

Depreciation/amortisation

The carrying amount of property, plant and equipment and intangible assets is decreased by depreciation or amortisation, respectively. The basis for the calculation of depreciation for property, plant and equipment and amortisation for intangible assets is the full cost of fixed assets. Following activation, all subsequent investments that increase the future benefits of a fixed asset or enable a prolonged useful life of a fixed asset (e.g. investment maintenance, reconstruction of road lanes and structures) are included in the base.

The Company lays down annual depreciation/amortisation rates with respect to the useful life of an item of property, plant and equipment and intangible fixed asset.

The useful life depends on:

- the expected physical exploitation;
- the expected technical obsolescence;
- the expected economic obsolescence;
- the expected legal or other restrictions on the use.

The useful life of a particular asset is the shortest useful life with respect to each of the mentioned factors.

An item of property, plant and equipment starts depreciating on the first day of the month following its availability for use. Property, plant and equipment – motorways – start being used on the day they are opened for traffic, whereby an investment need not be completed and all deficiencies need not be remedied.

The book value of an intangible asset with a finite useful life decreases with amortisation. Amortisation starts when an intangible asset with a finite useful life is put into service.

The Company depreciates/amortises property, plant and equipment or intangible fixed assets separately using the straight line depreciation method. Land, motorway substructures and assets under construction or acquisition are not depreciated.

If the cost of an item of property, plant and equipment is important, it is broken down to its components. If such components have different useful lives and/or usage patterns that are relevant in relation to the total cost of an item of property, plant and equipment, each component is considered separately.

Depreciation/amortisation rates for property, plant and equipment and intangible assets

Groups of fixed assets	Key components	Average depreciation/amortisation rate in 2017
Land	Land for motorway maintenance centres, business and residential buildings, rest areas and excess land along the motorway, investment property land	0 %
Right of superficies		2 %
Motorway substructure	Construction works (preparatory works, ground works), landscaping costs, archaeological excavation costs, demolition costs, etc.	0 %
Motorway superstructure	a) Superstructure (motorway alignment pavement, buffer zones, etc.)	3 %
	b) Project costs, cost of motorway construction funding, cost of motorway construction supervision and cost of services necessary for the construction of individual motorway sections, and other costs	3 %
	c) Drainage facilities (sewerage, oil separators, retention basins, water protection facilities)	6 %
	d) Barriers (guard rails and crash barriers, noise barriers)	6 %
	e) Traffic signalling and equipment (vertical and horizontal signalling, street lighting, emergency call system, RWS, cable ducts, etc.)	6 %
	f) Traffic control and management system – electromechanical equipment	12 %
	g) Traffic control and management system – civil engineering	9 %
Motorway structures (viaducts, bridges, tunnels, overpasses, underpasses, retaining walls, etc.)	a) Construction	3 %
	b) Tunnel equipment and electrical and mechanical installations	6 %
Road infrastructure – other operators	State or municipal roads other than motorways that were built by DARS d.d. pursuant to NMCP	0 %
Buildings	Motorway maintenance bases, toll stations with booths and canopies, other facilities constructed along the motorway (sanitary facilities at rest areas, etc.), office building in Celje, holiday facilities and apartments, investment property	3 %
Computers and computer equipment		45 %
Other equipment		20 %
Computer programs – tolling system		4 %
Computer programs – other		39 %
Easement		3 %

The depreciation allowance does not apply to the following:

- a) land,
- b) property, plant and equipment until the start of depreciation,
- c) property, plant and equipment of cultural, historic or artistic importance,
- d) motorway substructure including construction works (preparatory works, ground works), landscaping costs, archaeological excavation costs, demolition costs, etc., and
- e) other road infrastructure including state or municipal roads other than motorways that were built by DARS d.d. pursuant to NMCP.

The annual amortisation/depreciation of property, plant and equipment and intangible assets, respectively, represents the Company's operating expenses.

Amortisation/depreciation should also be accounted if an asset is no longer in use or has been removed from use, i.e. until it is fully amortised.

Amortisation/depreciation costs of assets acquired by government grants and donations are compensated in favour of operating revenue and corresponding decrease in long-term deferred revenue.

Property, plant and equipment are disclosed in the balance sheet as a collective item, by type of asset and at their carrying amount, which is the difference between the cost and allowance.

Investment property

The Company owns investment property for lease purposes.

Investment property is valued at cost upon initial recognition. The cost of investment property covers its purchase price and all costs directly attributable to it. Upon initial recognition, investment property is valued at cost decreased by the accumulated depreciation allowance and loss due to impairment.

Investment property is depreciated separately based on a straight-line depreciation method, throughout its estimated useful life. Land is not depreciated.

The useful life of investment property is the same as for property, plant and equipment of the same kind. The Company checks for signs of impairments in the same manner as for property, plant and equipment.

Long-term investments

Long-term investments are investments that the Company plans to hold for a period longer than one year and which are not held for trading. Long-term investments are held by the Company to increase its financial revenue with their returns.

Long-term investments are valued at cost upon initial recognition, which equals the paid amount of cash or cash equivalents.

Long-term investments in subsidiaries are valued at cost less any impairment in the financial statements.

Long-term operating receivables

Long-term operating receivables are receivables that fall due in a period longer than one year. Long-term operating receivables include trade receivables and a long-term receivable for input VAT for the right of superficies. Based on the annual performance contract as per Article 4 of ZDARS-1, the short-term portion of the long-term liability for input VAT is transferred to short-term liabilities.

Deferred tax assets

Deferred tax assets are recognised for the amounts of corporate income tax that will be reimbursed in future periods. The amount of deferred tax is identified with the use of expected tax rate in the following years.

Deferred tax assets are only recognised if it is likely that taxable profit will be available to the debit of which deferred tax assets can be used.

Insignificant amounts for deferred tax assets are not recognised.

Deferred tax is recorded directly to the debit or credit of equity, if it refers to items that are recorded directly to the debit or credit of equity in the same or some other period.

Assets held for sale

Assets held for sale comprise property, plant and equipment (land) that meet the conditions for reallocation to assets held for sale:

- a) an asset is available for immediate sale in the current condition,
- b) a sale is very likely (the management adopted a plan to sell it and a buyer is being sought),
- c) the sale of an asset is being actively marketed,
- d) it is expected that sale will be completed within a year of the reallocation.

It is reasonably anticipated that the book value of assets held for sale will be settled primarily through the sale in the next 12 months (after the balance sheet date) and not through further use. An asset is no longer depreciated when it is defined as a non-current asset held for sale. Such a non-current assets held for sale are measured at book value or fair value, decreased by the costs of sale, whichever is lower.

Sale is very likely in the event the Company's Management Board adopted a resolution on the sales plan. The Company checks on an annual basis whether assets still meet the criteria for disclosure as assets held for sale. If an asset fails to meet such criteria, the Company reallocates it back to property, plant and equipment.

Inventories

A unit of material inventories is valued at cost upon initial recognition, which comprises the purchase price including all discounts granted, import duties and direct purchase costs. The purchase price is reduced by any discounts granted.

Inventories are valued using the first-in, first-out (FIFO) method.

The Company writes off of inventories if their sale has been completely terminated or if they are obsolete.

If the book value exceeds the historical cost of an inventory item, the latter is revalued at the end of a financial year.

Short-term investments

A short-term investment is a financial investment held by the Company for less than one year or an investment held for trading.

A financial derivative may be one of the short-term investments held by the Company for hedging.

Short-term investments are valued at cost upon initial recognition, i.e. at the amount of invested cash and cash equivalents. The Company makes a revaluation of short-term investments to fair value during and at the end of a financial year and enters any difference under financial revenue or financial expenses.

Short-term financial investments denominated in a foreign currency are converted to domestic currency as at the date they arise using the reference exchange rate of the European Central Bank.

Short-term operating receivables

Short-term operating receivables comprise short-term trade receivables due from domestic and foreign customers, operating receivables for the account of third parties, short-term receivables for interest charged on demand deposits and financial investments, advances given, input VAT receivables, short-term receivables for European funds, and other receivables.

Upon initial recognition, short-term operating receivables are disclosed at the amounts deriving from the relevant documents assuming that they will be repaid. Interest is charged pursuant to the contract as at the

maturity date of a short-term receivable and as at the balance sheet date. Receivables denominated in a foreign currency are converted to domestic currency as at the date on which they arise using the reference exchange rate of the European Central Bank.

The adequacy of the amount of a particular receivable disclosed is assessed by the Company at the end of an accounting period within the scope of annual inventory listing and based on substantiated proof of its recoverability. The Company forms an allowance for doubtful receivables that are believed not to be settled or not to be settled in full. Allowances for receivables are disclosed to the credit of special adjusting receivable accounts and to the debit of operating expenses for revaluation.

The adequacy of the amount of a particular receivable disclosed is assessed by the Company at the end of an accounting period within the scope of annual inventory listing and based on substantiated proof of doubt as regards its recoverability. Doubtful receivables are subject to an allowance for receivables that are believed not to be settle or not to be settled in full. Allowances are disclosed to the debit of operating expenses for revaluation in the full amount of such receivables.

An allowance is made for a particular receivable that has a historic cost (including VAT) exceeding €5,000 and maturity as follows:

- no allowance for receivables is made for receivables past due for up to 30 days,
- an allowance for receivables past due from 31 to 90 days is made in the amount of 10% of their value,
- an allowance for receivables past due from 91 to 180 days is made in the amount of 30% of their value,
- an allowance for receivables past due from 181 to 365 days is made in the amount of 60% of their value,
- an allowance for receivables past due more than 365 days is made in the amount of 100% of their value.

Based on a Management Board decision, the Company makes a 100% write-off of receivables for the repayment of which it took all actions of a good manager or for which it has established that further legal proceedings would be economically non-viable or that bankruptcy or compulsory composition proceeding have been completed.

The Company performs a complete write-off of receivables for which all actions were taken with due diligence to achieve the repayments of receivables or for which it has established that further legal procedures are not economically justified or where bankruptcy or compulsory composition proceedings has been completed. To write off receivables, the Company needs adequate documenting evidence: rejected confirmation of the balance of receivables, a court decision, a compulsory composition decision, a decision on bankruptcy proceedings, and other.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash at bank, cash in transit, deposits redeemable at notice and overnight deposits at bank. Cash in transit is cash transferred from the register to a suitable bank account and is not registered as credit on the same day.

Cash and cash equivalents are disclosed separately in domestic and foreign currencies. Cash and cash equivalents expressed in domestic currency are disclosed at nominal value. Foreign currency is converted to domestic currency using the reference exchange rate of the European Central Bank as at the date of receipt. The balance of cash and cash equivalents in a foreign currency is converted to domestic currency as at the last day of a financial year using the reference exchange rate of the European Central Bank. The deriving foreign exchange gains or losses increase either financial revenue or financial expenses.

Equity

Equity is the Company's liability to its owners that does not fall due if the Company ceases operating. The Company's capital comprises called-up capital, capital surplus, profit reserves (legal reserves, statutory reserves and other profit reserves), fair value reserves and still available net profit for the financial year.

Equity reflects owner financing of the company and represents the company's liabilities to its owners. It is determined by both the amounts invested in the company by owners and by the amounts generated during the company's operation.

The Company's capital surplus comprises the value of the tangible property transferred to the Company in 2004 by the Republic of Slovenia upon its reorganisation for the purposes of motorway management and maintenance, and a general equity revaluation adjustment that was transferred to capital surplus on 1 January 2006 (upon transfer to SAS 2006), surplus assets representing the difference between the in-kind contribution of the Republic of Slovenia and the value of newly issued Company shares in 2010, the difference in the merger of the subsidiary DELKOM d.o.o. in 2015, and surplus assets representing the difference between the in-kind contribution made by RS and the value of newly issued shares in 2017.

Legal reserves are the reserves laid down in the Companies Act. The Company must form legal reserves in such an amount that the sum total of legal reserves and capital surplus from points 1 to 3 of paragraph 1 of Article 64 of ZGD-1 accounts for at least 10% of the Company's share capital. If the sum total of legal reserves and capital surplus from points 1 to 3 of paragraph 1 of Article 64 of the Companies Act does not reach 10% of the Company's share capital and the Company discloses a net profit in a financial year, it is required to allocate 5% of the net profit decreased by the amount used to cover any losses brought forward from previous periods to legal reserves while compiling the balance sheet.

The Company forms statutory reserves up to 25% of its share capital. Statutory reserves are formed by using 25% of net profit that is left after being used to cover any losses brought forward and to form legal reserves and reserves for own shares for forming statutory reserves until these reach 25% of the share capital. These reserves are not intended for distribution.

Pursuant to paragraph 3 of Article 230 of ZGD-1, managing and supervisory bodies may, upon the adoption of the Annual Report, form other profit reserves from the amount of net profit that is left after being used for the purposes laid down in paragraph 1 of Article 230 of ZGD-1, but no more than half of the net profit left after being used for the purposes laid down in paragraph 1 of that Article.

Other profit reserves comprise non-nominated capital and increase annually through the distribution of net profit.

Reserves from the valuation at fair value comprise the following:

- actuarial gains and losses related with provisions for severance pay upon retirement as per the actuarial calculation, and
- the effects of a change in the fair value of financial derivatives that have been defined as successful in hedging.

The Company discloses equity components and changes in the statement of changes in equity and balance sheet.

Provisions and long-term accrued costs and deferred revenues

Provisions are formed for current liabilities deriving from binding past events that are expected to be settled within a period not defined with certainty and the amounts for of which can be assessed reliably for settlement. Long-term provisions are formed as accrued costs or expenses and are decreased due to utilisation for the purposes for which they were formed.

Pursuant to legal regulations, collective agreement and internal rules, the Company is obliged to pay employees jubilee benefits and severance pay upon retirement, for which it forms long-term provisions in the amount of the estimated future payments for jubilee benefits and severance pay discounted as at the balance sheet date. The provisions are formed on the basis of an actuarial calculation prepared by a certified actuary. The calculation is made for each employee taking into account the cost of severance pay upon retirement and the cost of all expected jubilee benefits until retirement. Upon the closure of each financial year, the amount of such provisions is checked and increased or decreased as required. Payments for severance pay upon retirement and jubilee benefits decrease by the provisions set aside. Labour costs, interest costs are recognised in the income statement, while the recalculation of post-employment benefits or non-realised actuarial gains or losses deriving from severance pay are recognised in other comprehensive income.

The Company also forms long-term provisions deriving from long-term accrued costs for severance pay for redundant employees at toll stations, which will be incurred upon the introduction of the new tolling system (explained in point II.5.1.14) and from long-term accrued costs for payments upon retirement to employees who are not included in the collective voluntary supplementary pension insurance scheme pursuant to an agreement between trade unions and the Company.

Long-term provisions for long-term accrued costs deriving from expected losses incurred due to tort claims for lawsuits related with motorway construction, reconstruction, management and maintenance, and for employee lawsuits deriving from employment relationships. Provisions for liabilities deriving from lawsuits are formed on the basis of an estimate on the likely outcome of such lawsuits, i.e. at the time when the likelihood for a negative outcome for the Company exceeds 50%.

Long-term accrued costs and deferred revenue comprise long-term deferred revenue that will cover estimated expenses in a period longer than one year. Deferred revenue is translated into charged revenue when the relevant services have been performed or when they are eligible to be included in the income statement and when the relevant costs need to be settled.

Long-term deferred revenue also includes targeted government grants to acquire fixed assets. The grants are intended to cover depreciation/amortisation costs for such fixed assets and are utilised through transfer to operating revenue.

Deferred revenue deriving from government grants are recognised when they are received or when there is an acceptable assurance that the Company will receive deferred revenue and meet the conditions related with it. Deferred revenue deriving from the government grants received for the acquisition of fixed assets are utilised through transfer to operating revenue pursuant to the amortisation/depreciation accounted. Deferred revenue deriving from the government grants received to cover other costs are utilised through transfer to operating receive pursuant to the emergence of costs for which the grants were received.

Long-term deferred revenue is also formed for the assets received from the warranty bonds, performance bonds and bid bonds drawn. The bond amounts drawn are used to cover the cost of the intention to draw bonds or, in case of drawing performance bonds, for the purposes of a warranty bond.

Long-term financial liabilities to banks

Long-term financial liabilities to banks include long-term loans received for the acquisition of fixed assets.

Long-term financial liabilities that will fall due within a year of the balance sheet date are disclosed as short-term financial liabilities.

Upon initial recognition, long-term financial liabilities are valued at the amounts indicated in relevant documents evidencing the receipt of cash and cash equivalents. Debts denominated in a foreign currency are converted to domestic currency on the date they are incurred using the reference exchange rate of the European Central Bank.

Based on foreign loans received, long-term financial liabilities are translated at the reference exchange rate of the European Central Bank as at the last day of a financial year.

Payments of interest on long-term loans hired for the purchase of fixed assets increase the cost of a fixed asset until the fixed asset for which the loan was hired is being acquired. After a fixed asset is put into service, payments of interest on loans hired represent financial expenses.

The Company borrows on its behalf and for its account. All liabilities deriving from loans hired are secured with a government guarantee.

Long-term liabilities for bonds

Upon initial recognition, long-term liabilities for bonds issued are valued at the amounts indicated in the relevant documents proving the receipt of cash and cash equivalents.

Payments of coupons deriving from the bonds issued increase the cost of a fixed asset until the fixed asset for which bonds were issued is being acquired. After a fixed asset is put into service, payments of coupons deriving from the bonds issued represents financial expenses.

The Company borrows on its behalf and for its account. The liabilities deriving from the bonds issued are secured with a government guarantee.

Long-term operating liabilities

Long-term operating liabilities include the liability deriving from the charge for the right of superficies. Based on the annual performance contract based on Article 4 of ZDARS-1, the short-term part of a long-term liability is transferred to short-term liabilities.

Long-term operating liabilities also include liabilities amounting to the cost of co-financing motorway construction by local communities and public infrastructure construction companies for the purposes of such co-financiers where DARS d.d. is required to transfer the structures built to individual financiers following the completion of works.

Short-term financial liabilities

Short-term financial liabilities for loans hired to acquire property, plant and equipment comprise:

- the short-term share of long-term liabilities that fall due in the following year,
- accrued interest as at 31 December 2017 and charged interest as at 31 December 2017 for loans hired and bonds issued for motorway construction and reconstruction, and accrued interest for financial derivatives taken to secure bank loans against interest rate risks, and
- liabilities for financial derivatives.

The Company uses financial derivatives to protect its cash flow against exposure to interest rate risk.

Upon the introduction of hedging, the Company keeps official documents on hedging, on the purpose of the Company's risk management, on the strategy of the hedging project, and on the methods used to assess the efficiency of hedging. The Company assesses hedging in the established manner and upon its introduction, whenever highly successful hedging is expected in the attainment of offset changes to fair value or cash

flows that are attributed to a hedged risk, and whenever the actual results of each hedged item achieve 80 to 125%. In cash flow hedging, the foreseen transaction subject to hedging must be very likely and exposed to cash flow variability that may have a decisive impact on profit or loss.

Financial derivatives are initially recognised at fair value, while the costs related with a transaction are recognised in the profit or loss upon their occurrence. Following initial recognition, financial derivatives are measured at fair value, while the associated changes are considered as described below.

Cash flow hedging

When a financial derivative is set as a hedge of the exposure to the variability of cash flow that is attributable to a particular risk associated with a recognised asset or liability or very likely forecast transactions that may affect profit or loss, the successful portion of changes to the fair value of a financial derivative is recognised in other comprehensive income for the period and disclosed under hedging reserves or equity item. The unsuccessful portion of changes to the fair value of a financial derivative is recognised directly in profit or loss.

The amount recognised in equity is transferred to profit or loss for the same period where the hedged item has no effect on profit or loss. The Company typically terminates hedge accounting if a hedging instrument no longer meets the criteria for hedge accounting, if a hedging instrument is sold, cancelled or realised or if the Company revokes the designation. If the forecast transaction is no longer expected, the amount in other comprehensive income must be recognised directly in profit or loss.

Short-term operating liabilities

Short-term operating liabilities include short-term liabilities to suppliers, contractors (including contractually withheld amounts) and third parties, liabilities arising from purchase consideration and indemnification in land acquisition, employee payables, and liabilities to state institutions for taxes and contributions. A special type of short-term operating liabilities are liabilities to buyers for the advances and short-term securities received.

Short-term operating liabilities are initially recognised in the amounts indicated in the relevant documents, provided that creditors request their settlement. Liabilities denominated in a foreign currency are converted to domestic currency on the date they are incurred using the reference exchange rate of the European Central Bank.

Short-term deferred and accrued items

Accruals and prepaid expenditure include short-term accrued revenue and short-term deferred costs that are not debited to the Company's activities upon their occurrence and have no effect on profit or loss. Deferred costs and accrued revenue also comprise deferred costs of commission to vignette sales agents and deferred costs of vignette printing, which are recognised in the relevant share of each recognised revenue amount from the vignettes sold.

Accrued and deferred liabilities items comprise accrued costs and short-term deferred revenue.

Accrued costs are costs that are debited to the profit or loss for the period. The obligation for payment is envisaged in the next accounting period. Accrued costs also include costs associated with business performance bonuses for the Management Board and executive officers.

Short-term deferred revenue arises when the services charged or even paid have not been rendered yet. Short-term deferred revenue was formed for toll revenue collected in the form of balances on electronic toll media (ABC tags, DARS cards and DARS Transporter cards) that were invoiced and paid in 2017, but not fully spent in the same year. Revenue will be deferred until service users pass toll gantries. Short-term deferred revenue also includes revenue from yearly vignettes charged in 2017 that will be valid in 2018 and from one-

track half-yearly vignettes that will be partly or fully valid for motorway use in 2018 (a half-yearly vignette is valid 6 months from the date of purchase, while the yearly vignette for 2018 is valid from 1 December 2017 to 31 January 2019).

Revenue

Revenue is recognised if increased economic benefits in an accounting period are associated with increased assets or decreased debt and if such increase can be reliably measured. Revenue is recognised when it is reasonably expected to result in cash receipts, unless such receipts were realised upon the occurrence of revenue.

Revenue includes the sales value of the goods sold and services rendered in the period. Revenue is recognised without value-added tax, other tax and any discounts related with sales.

Revenue is broken down to operating, financial and other revenue.

Operating revenue comprises:

- toll revenue,
- revenue from rentals for surfaces for accompanying activities,
- revenue from motorway closures and exceptional freight transport,
- revenue from easement for the installation of public interest facilities and devices along the motorway,
- revenue from telecommunications,
- revenue under the performance contract,
- other operating revenue,
- capitalised own products and services.

Capitalised own products and services apply to capitalised own services rendered on motorways (investments and investments in increasing traffic safety on motorways). The cost of an asset produced by the Company includes the cost of material, direct labour costs and other costs that are directly attributable to putting the asset into intended use.

Other operating revenue related with business effects are subsidies, government grants, recourse, offsets, premiums and similar revenues. Government grants received for the acquisition of fixed assets or for covering certain costs are provisionally kept under deferred revenue and are transferred to operating revenue pursuant to the depreciation of the fixed assets acquired or occurrence of the costs they are intended to cover.

Financial revenue comprises interest revenue and foreign exchange gains. Financial revenue is recognised if there is no reasonable doubt as to its amount and collectability. Interest is accounted in proportion to the expired period taking into account the outstanding share of principal and applicable interest rate.

Other revenue comprises unusual items that increase profit or loss in the relevant financial year (damages received, remuneration for the employment of disabled persons above the statutory quota, etc.).

Expenses

Expenses are recognised if decreased economic benefits in an accounting period are related with decreased assets or increased debt and if such decrease can be reliably measured. Expenses are broken down to operating, financial and other expenses.

Operating expenses are recognised when material is consumed or a service is rendered, i.e. for the period to which they refer. The Company's operating expenses include expenses associated with motorway construction, reconstruction, management and maintenance and consist of the following:

- cost of material and cost of goods sold,

- costs of services,
- labour costs,
- write-offs (disclosures related with accounted amortisation/depreciation are shown within the scope of disclosures of intangible assets and property, plant and equipment),
- other operating expenses.

Financial expenses are expenses for interest on loans received and bonds issued, expenses for financial derivatives used for hedging, foreign exchange losses, default interest and impairment of investments. Financial expenses are recognised as accounted notwithstanding the payments related with them.

Other expenses comprise unusual items that decrease profit or loss in the relevant financial year. Other operating expenses comprise:

- payment of court-ordered indemnifications,
- reimbursement of auditing costs,
- other fines.

Corporate income tax and deferred tax

Corporate income tax is calculated pursuant to the Corporate Income Tax Act. Corporate income tax for 2017 is calculated at 19% rate on the taxable profit generated by the Company in a tax year.

Deferred tax is intended to cover temporary differences arising between the tax value of assets and liabilities and their book value, and is calculated using the liability method at the tax rates applicable at the time.

A deferred tax asset is recognised in an amount that is likely to be covered by future taxable income, to the debit of which a deferred tax asset may be used in future.

Cash flow statement

The cash flow statement was prepared using the indirect method (version II) on the basis of data from the balance sheets as at 31 December 2016 and 31 December 2017, income statement for 2017 and additional information required to adjust inflows and outflows.

The cash flow statement comprises cash flows from operating, investing and financing activities.

11.4 FINANCIAL RISKS

Financial risks may have a negative effect on the ability to generate revenue, manage expenses, preserve the value of assets and settle liabilities.

By managing various types of financial risks, the Company strives to achieve optimal stability of operations and reduce the exposure to individual types of risk to an acceptable level. The Company's goal is to achieve a stable cash flow that enables the settlement of liabilities deriving from loans for motorway construction in due time.

Seq. No.	Description of risk	Risk assessment		Level of risk	Risk management (control)
		Probability of risk occurrence	Implications of risk occurrence		
1	2	3	4	5 = 3 x 4	6
1	Risk of exchange rate variability	1	1	1	Use of natural protection to match cash flows, regular monitoring of foreign exchange markets, hedging with appropriate financial instruments
2	Risk of interest rate variability	3	3	9	Monitoring interest rate changes, negotiations with credit institutions, hedging with appropriate financial instruments
3	Credit risk	2	2	4	Monitoring exposure to an individual partner and its credit and financial rating
4	Liquidity risk	2	2	4	Control over cash flows, planning needs for liquid assets, pre-arranged indicative credits and limits, monitoring and regular analysis of credit portfolio sustainability.

Probability of risk occurrence: 1 – low, 2 – medium, 3 – high
Implications: 1 – good, 2 – moderate, 3 – bad

Risk of exchange rate variability

Most transactions at DARS d.d. are made in euro currency. Toll stations allow payments in foreign currencies, which are immediately converted to euro. Despite that, the Company regularly monitors developments on foreign exchange markets.

Risk of interest rate variability

DARS d.d. continuously monitors exposure to interest rate risk. The goal of interest rate risk management is to achieve a stable cash flow in terms of fulfilling the obligation to settle a debt. As at 31 December 2017, the Company had thirty-seven hired long-term loans that are partly or fully linked to the EURIBOR reference interest rate (6-month or 3-month).

The average value of EURIBOR in 2017 and at the end of 2017 were lower than at the end of 2016. In 2017, the 6-month EURIBOR rate ranged between -0.22 and -0.27%. The key ECB interest rate as at 31 December 2017 amounted to 0%. The total interest rate at which DARS borrows funds (average pondered interest rate) as at 31 December 2017 amounted to 1.66% and did not derogate substantially from that recorded as at 31 December 2016 (1.60%).

Interest rate risk is unpredictable and may have a large impact on the Company's profit or loss with respect to the size of its debt. A share of variable interest rates on long-term loans is hedged with the use of appropriate financial instruments with which a variable interest rate was changed into a fixed interest rate. When deciding on additional hedging, the Company takes into account interest rate forecasts and decide when to provide additional hedging according to conditions on the financial market. In the period between 1 January and 31 December 2017, the Company made two new interest rate hedging transactions, one in the amount of €50 million and the other in the amount of €49.5 million, for a period of 10 years, hence a total of €99.5 million. The Company has recently also managed exposure to fixed interest rates by borrowing anew. Due to the mentioned, the Company exercises the principle of borrowing at a fixed interest rate.

As at 31 December 2017, 63.64% of the Company's loans are hired on a fixed interest rate, 35.32% at a variable interest rate, while 1.04% was interest-free debt. By taking into account the interest-free debt, the Company has a total 64.7% of its credit portfolio protected against interest rate risks, while 35.3% of the credit portfolio is exposed to variable interest rates.

A simulation of the risk of interest rate variability on financial expenses in 2017 with respect to the balance of the Company's debt and interest rate structure as at 31 December 2017 shows that an annual increase of EURIBOR by 1 percentage point would imply an increase in financial expenses by some €8.7 million. Change to EURIBOR, therefore, have a grave impact on the Company's net profit or loss.

Credit risk

The credit risk of business partners represents a possibility that receivables will be repaid only partially or not at all. DARS d.d. regularly monitors outstanding receivables from individual business partners and, if necessary, takes appropriate action. Such risk is present in the sale of vignettes through sales agents and issuers of payment cards that can be used to pay toll at toll stations, and in the payment of toll for vehicles exceeding 3,500kg using electronic media where payment is made for the previous month on the basis of an issued monthly invoice. Hedging instruments are required for a certain segment of business partners. Individual procedures to monitor the credit ratings of business partners have been put in place (upon each contract extension; regular monitoring of published bankruptcies, liquidations, insolvency proceedings). In the event of unacceptable credit risks, contractually agreed mechanisms are used (e.g. discontinuation of service provision (toll) and supply of goods (vignettes), contract termination) and, in case of late payment, debt recovery procedures are activated.

Liquidity risk

In 2017, risks related with solvency were mitigated with quality liquidity management and the formation of a highly liquid investment portfolio. The ability to borrow for the purposes of refinancing the existing debt is extremely important, since annual liabilities for debt repayment will consume a substantial share of the Company's cash flow from operating activities until 2021. The basic principle of borrowing and credit portfolio management is to align the goal to achieve minimum borrowing costs with a maturity structure that provides minimum exposure to liquidity risk.

In 2015, the parliament adopted the Act Regulating the Guarantee of the Republic of Slovenia for Obligations of DARS d.d. for Loans and Debt Securities Raised or Issued for Refinancing Existing Debts of DARS d.d. (Official Gazette of the Republic of Slovenia, No. 30/15). The Act enables DARS d.d. to actively manage the existing debt, restructure its loan portfolio and provide in due time all necessary sources of funds for settling due liabilities arising from the existing debt. For the purposes of refinancing the existing debt, the Company can borrow with 100% government guarantee. Hence, the Company refinanced a part of its existing debt in the amount of €100 million in 2017 based on that Act. To fund the deployment of the electronic tolling system, a new contract was concluded with EIB in November 2017 for a loan amounting to €51 million. The loan has not been drawn yet.

Pursuant to the new ZDARS-1, the fundamental source for the repayment of liabilities deriving from borrowing is revenue from toll, which also has to cover liabilities deriving from loans. However, the credit portfolio is monitored intensely, since negative changes on financial markets can quickly and significantly change the amount of annual liabilities arising from loans. To achieve sustainable Company operations in the long term, it will be required, in addition to refinancing, to adjust toll rates every year in a manner allowing the maintenance of an adequate volume of revenue for the coverage total infrastructural costs and debt servicing.

II.5 NOTES TO THE FINANCIAL STATEMENTS

II.5.1 Notes to the balance sheet

II.5.1.1 Intangible assets and long-term deferred costs and accrued revenue

The Company's intangible assets comprise computer software and easement.

Changes in intangible assets in 2017

In € (excl. cents)	Intangible fixed assets under construction	Computer software	Total
Cost			
Balance as at 31/ 12/ 2016	21,550	9,261,097	9,282,647
Purchases	577,503	0	577,503
Activation	-349,849	349,849	0
Eliminations (disposals, write-offs)	0	-27,549	-27,549
Balance as at 31/ 12/ 2017	249,204	9,583,397	9,832,601
Allowance			
Balance as at 31/ 12/ 2016	0	8,008,783	8,008,783
Depreciation/amortisation	0	604,967	604,967
Eliminations (disposals, write-offs)	0	-27,549	-27,549
Balance as at 31/12/ 2017	0	8,586,201	8,586,201
Present value			
Balance as at 31/ 12/ 2016	21,550	1,252,314	1,273,864
Balance as at 31/ 12/ 2017	249,204	997,196	1,246,400

Changes in intangible assets in 2016

In € (excl. cents)	Intangible fixed assets under construction	Computer software	Total
Cost			
Balance as at 31/ 12/ 2015	15,600	8,529,584	8,545,184
Purchases	790,557	0	790,557
Activation	-784,607	784,607	0
Eliminations (disposals, write-offs)	0	-53,094	-53,094
Balance as at 31/ 12/ 2016	21,550	9,261,097	9,282,647
Allowance			
Balance as at 31/ 12/ 2015	0	7,444,947	7,444,947
Depreciation/amortisation	0	616,930	616,930
Eliminations (disposals, write-offs)	0	-53,094	-53,094
Balance as at 31/ 12/ 2016	0	8,008,783	8,008,783
Present value			
Balance as at 31/ 12/ 2015	15,600	1,084,637	1,100,237
Balance as at 31/ 12/ 2016	21,550	1,252,314	1,273,864

Major purchases of intangible assets in 2017:

- upgrade to the DARS d.d. Project Information System in the amount of €94,896,
- upgrade to the toll system software in the amount of €3,220,
- upgrade to vignette control and sale software in the amount of €22,120,
- upgrade to the system support software for TIS infrastructure in the amount of €31,037,
- upgrade to the road database software in the amount of €20,530,
- upgrade to the electronic document management and storage system in the amount of €60,210,
- upgrade to information support for KAŽIPOT II traffic monitoring and information provision in the amount of €49,720,
- upgrade to the Navision software in the amount of €48,262,
- upgrade to the GIS application in the amount of €19,855.

As at 31 December 2017, no intangible assets were pledged as security for liabilities and no signs of impairment were observed for intangible assets, since the latter mostly include newly acquired intangible fixed assets.

Contractual obligations for intangible assets as at 31 December 2017 amount to €141,725 and predominantly refer to the purchase of software and licences, software development and system software upgrades.

II.5.1.2 Property, plant and equipment

Property, plant and equipment include land, buildings, equipment and property, plant and equipment under construction or manufacture.

Land is the land on which motorway maintenance centres, business and residential buildings, and rest stops are erected along with excess land along the motorway and real estate rights.

Pursuant to ZDARS-1, the right of superficies was established to the benefit of DARS d.d. on the land owned by the Republic of Slovenia over which motorways run as structures that had been built or started to be built prior to the enforcement of ZDARS-1. The right of superficies was established for a 50-year period (from 4 December 2010 to 4 December 2060) free of charge. The Fiscal Balance Act made the right of superficies payable and subject to an annual charge pursuant to the annual performance contract as per Article 4 of ZDARS-1.

The right of superficies has a definite useful life and is amortised during the period for which it had been established. The useful life of the right of superficies is the period during which the Company has a legal right to exploit it.

At the request of the Ministry of infrastructure, a certified real estate appraiser supplemented on 29 February 2016 a Report on the appraisal of a charge for the establishment of the right of superficies as at 31 May 2012, which now amounts to €190,760,000, excluding VAT. DARS d.d. adjusted the value of the right of superficies to the newly assessed value, which is now €50,787 lower than originally assessed.

Buildings comprise motorways (substructure, superstructure, structures, road infrastructure – other operators) and other buildings (motorway maintenance centres, toll stations, office building in Celje, holiday facilities and apartments). The Slovenian Accounting Standards do not specify which costs comprise the cost of motorway substructure, which is why the Company alone defined the cost. The breakdown of costs comprising the cost of motorway substructure and superstructure is shown in the chapter dealing with accounting policies.

Equipment refers to movable equipment intended for management, maintenance and toll collection activities.

If the cost of an item of property, plant and equipment is important, the Company breaks it down to significant components of such an item of property, plant and equipment pursuant to SAS. If such components have different useful lives and/or usage patterns that are relevant in relation to the total cost of an item of property, plant and equipment, each part is considered separately.

Major acquisitions and activation of property, plant and equipment in 2017 were:

- investments in motorways and other buildings in the amount of €178,910,310,
- purchase of machinery, devices and connectors in the amount of €2,009,445,
- purchase of work, cargo and trailer vehicles in the amount of €2,204,108,
- purchase of office furniture and other office supplies in the amount of €161,640,
- purchase of computer equipment in the amount of €245,639,
- purchase of personal and combined vehicles in the amount of €218,942,
- upgrade to the electrical and mechanical equipment of the traffic control and management system (TCMS) in the amount of €50,416,
- upgrade to video surveillance in the amount of €15,726,

No property, plant and equipment of DARS d.d. was pledged as security for liabilities as at 31 December 2017. Loans and bonds issued for financing property, plant and equipment belonging to DARS d.d. are secured with a government guarantee.

Changes in property, plant and equipment in 2017

In € (excl. cents)	Land	Land Right of superficies	Motorways (substructure, superstructure, structures, road infrastructure – other operators)	Buildings (MMC, TS, of- fice building in Celje, holiday facilities, apart- ments, etc.)	Equipment and small tools	property, plant and equipment under con- struction	Total
Cost							
Balance as at 31/12/2016	31,862,967	190,760,000	5,563,213,472	77,265,999	122,002,272	181,178,457	6,166,283,167
Acquisitions in 2017	0	0	0	0	0	108,955,402	108,955,402
Movements between items	0	0	3,334,694	-3,334,694	0	0	0
Activation	64,142	0	177,889,739	956,429	4,905,916	-183,816,226	0
Eliminations in 2017 (disposals, write-offs)	-44,956	0	0	-767,270	-2,356,883	-15,965	-3,185,074
Balance as at 31/12/2017	31,882,153	190,760,000	5,744,437,905	74,120,464	124,551,305	106,301,668	6,272,053,495
Allowance							
Balance as at 31/12/2016	0	18,000,353	811,239,061	14,282,745	103,989,999	0	947,512,159
Depreciation in 2017	0	3,926,356	147,911,439	2,318,964	5,528,669	0	159,685,428
Movements between items	0	0	665,148	-665,148	0	0	0
Eliminations in 2017 (disposals, write-offs)	0	0	0	-151,311	-2,296,685	0	-2,447,997
Balance as at 31/12/2017	0	21,926,709	959,815,648	15,785,250	107,221,983	0	1,104,749,591
Present value							
Balance as at 31/12/2016	31,862,967	172,759,647	4,751,974,411	62,983,254	18,012,273	181,178,457	5,218,771,008
Balance as at 31/12/2017	31,882,153	168,833,291	4,784,622,257	58,335,214	17,329,322	106,301,668	5,167,303,904

Changes in property, plant and equipment in 2016

In € (excl. cents)	Land	Land Right of superficies	Motorways (substructure, superstructure, structures, road infrastructure – other operators)	Buildings (MMC, TS, of- fice building in Celje, holiday facilities, apart- ments, etc.)	Equipment and small tools	property, plant and equipment under con- struction	Total
Cost							
Balance as of 31/12/2015	31,785,479	190,810,787	5,505,355,092	76,973,919	118,177,868	141,789,655	6,064,892,800
Acquisitions in 2016	0	0	0	0	0	103,038,564	103,038,564
Movements between items	22,183	-50,787	0	0	0	0	-28,604
Activation	79,001	0	57,858,380	375,769	5,277,365	-63,590,515	0
Eliminations in 2016 (disposals, write-offs)	-23,696	0	0	-83,690	-1,452,961	-59,247	-1,619,594
Balance as at 31/12/2016	31,862,967	190,760,000	5,563,213,472	77,265,998	122,002,272	181,178,457	6,166,283,166
Allowance							
Balance as at 31/12/2015	0	14,073,523	669,370,010	12,005,855	100,074,647	0	795,524,035
Depreciation in 2016	0	3,926,830	141,869,052	2,344,440	5,349,594	0	153,489,916
Eliminations in 2016 (disposals, write-offs)	0	0	0	-67,550	-1,434,242	0	-1,501,792
Balance as at 31/12/2016	0	18,000,353	811,239,062	14,282,745	103,989,999	0	947,512,159
Present value							
Balance as at 31/12/2015	31,785,479	176,737,264	4,835,985,082	64,968,064	18,103,221	141,789,655	5,269,368,765
Balance as at 31/12/2016	31,862,967	172,759,647	4,751,974,411	62,983,254	18,012,273	181,178,457	5,218,771,008

II.5.1.3 Investment property

In € (excl. cents)	Land	Buildings	Total
Cost			
Balance as at 31/ 12/ 2016	0	0	0
Increases	1,363,906	989,781	2,353,687
Balance as at 31/ 12/ 2017	1,363,906	989,781	2,353,687
Allowance			
Balance as at 31/ 12/ 2016	0	0	0
Depreciation	0	12,372	12,372
Balance as at 31/ 12/ 2017	0	12,372	12,372
Present value			
Balance as at 31/ 12/ 2016	0	0	0
Balance as at 31/ 12/ 2017	1,363,906	977,408	2,341,315

In 2017, the Company acquired real estate in order generate revenue from rentals.

II.5.1.4 Long-term investments

As at 31 December 2017, long-term loans to others amounted to €253,000,000 and included:

- long-term deposits at banks in the amount of €253,000,000 with an average maturity of 570 days and average weighted interest rate of 0.20%.

Long-term investments are not exposed to credit risk or, rather, there is only minimum risk that a counterparty will not fulfil its obligations, since the Company invests its surplus liquidity assets in deposits at banks domiciled in the Republic of Slovenia. The book value of long-term investments in others equals fair value.

II.5.1.5 Long-term operating receivables

Long-term trade receivables in the amount of €30,754 refer to a receivable deriving from the confirmation of compulsory composition of T-2 d.o.o.

Short-term operating receivables from others in the amount of:

- €24,726,429 refer to the long-term share of receivables for input VAT deriving from the charge for the establishment of the right of superficies, and
- €69,401 refer to the accrued interest on long-term bank deposits.

II.5.1.6 Deferred tax assets

Changes in deferred tax assets in 2017

In € (excl. cents)	31/ 12/ 2016	Recognised in income statement	Recognised in statement of other comprehensive income	31/ 12/ 2017
Provisions for severance pay and jubilee benefits	321,173	-26,455	0	294,718
Provisions for redundancies	34,486	8,475	0	42,960
Provisions for civil claims	3,604	-3,604	0	0
Provisions for electronic tags	3,831	-3,831	0	0
Cash flow hedging related with interest swaps	1,760,484	0	-439,832	1,320,652
Allowance for receivables	3,062,711	-23,743	0	3,038,968
Fixed assets	314,466	351,246	0	665,712
	5,500,753	302,088	-439,832	5,363,010

Deferred tax assets and liabilities are calculated on the basis of temporary differences using the balance sheet liability method with respect to the corporate income tax rate. In the relevant period, corporate income is subject to a 19% tax rate.

II.5.1.7 Assets held for sale

Short-term assets include real estate in the value of €169,129 that the Company intends to use for business purposes and for which the Company's Management Board decided to sell. The sale is expected in the following 12 months.

II.5.1.8 Inventories

Inventories of material include inventories of material, spare parts, small tools and packaging. Compared to the balance as at 31 December 2016, inventories of material decreased by 2%. In the inventory structure, inventories of material account for a 50% share and, within that scope, inventories of grit materials account for 29%, inventories of barriers account for 14%, inventories of vignettes for 2018 account for 11% and inventories of spare parts account for 11%.

In € (excl. cents)	31/ 12/ 2017	Share	31/ 12/ 2016	Index
Material	2,545,049	50 %	2,607,975	98
Spare parts	344,380	7 %	293,899	117
Small tools and packaging	280,979	5 %	299,212	94
Merchandise	1,944,487	38 %	6,957	-
Total	5,114,895	100 %	3,208,043	159

The sale of 2017 vignettes for personal and motor vehicles was closed on 30 November 2017. Pursuant to SAS 4.41, the inventory of unsold 2017 vignettes was written off to the debit of revaluatory operating expenses in the amount of €73,020, which is the cost of vignettes.

During the annual stocktaking of material and small tools, the Company found a deficit amounting to €22,702 and a surplus amounting to €14,812.

Inventories of merchandise comprise:

- inventories of DARS cards in the amount of €6,796,
- inventories of DarsGo unit in the amount of €1,931,691, and
- inventories of DarsGo unit brackets in the amount of €6,000.

No inventories of DARS d.d. were pledged as security for liabilities as at 31 December 2017. The book value of inventories does not exceed their realisable value. DARS d.d. inventories represent current inventories.

The inventories are not obsolete and show no sign of impairment, which is why no impairment was made.

II.5.1.9 Short-term investments

Other short-term investments in the amount of €1,050,156 refer to receivables due from financial derivatives as at 31 December 2017.

Financial derivatives are disclosed in detail in the note on short-term financial liabilities.

As at 31 December 2017, short-term loans to others amount to €209,500,000 and include:

- short-term bank deposits in the amount of €209,500,000 with an average maturity of 303 days and average weighted interest rate of 0.12%.

Short-term investments are not exposed to credit risk or, rather, there is only minimum risk that a counterparty will not fulfil its obligations, since the Company invests its surplus liquidity assets mostly in deposits at banks domiciled in the Republic of Slovenia. The book value of short-term financial investments in others equals their fair value.

II.5.1.10 Short-term operating receivables

In € (excl. cents)	31/ 12/ 2017	Share in %	31/ 12/ 2016	Index
Short-term trade receivables:	17,992,452	39%	14,002,577	128
- toll receivables	16,825,427	36%	13,038,394	129
- receivables from the use of motorway service areas	416,267	1%	355,495	117
- receivables from motorway closures	262,578	1%	236,982	111
- other short-term receivables	1,759,863	4%	1,745,701	101
- allowance for short-term trade receivables	-1,271,683	-3%	-1,373,995	93
Short-term operating receivables due from others:	28,234,426	61%	30,899,525	91
- for advances given for current assets	12,951	0%	18,066	72
- short-term receivables from operations for the account of third parties	38,519,786	83%	41,605,491	93
- allowance for short-term receivables for the account of third parties	-14,434,530	-31%	-14,434,530	100
- short-term receivables from financial revenue	111,967	0%	139,265	80
- allowance for short-term receivables from financial revenue	0	0%	-24,167	-
- input VAT receivables	3,717,973	8%	3,285,544	113
- other short-term receivables due from state institutions	57,766	0%	61,410	94
- other short-term receivables	2,371,743	5%	535,286	443
- allowance for other short-term receivables	-2,123,230	-5%	-286,839	740
Total	46,226,877	100%	44,902,102	103

The majority share of short-term operating receivables are receivables due from the Republic of Slovenia totalling €19,271,298, which refer to operations for the account of third parties for transactions as per Article 4 of ZDARS-1 in the amount of €18,325,740, fee from the performance contracts in the amount of €945,558, and receivables due from domestic commission agents and foreign sales agents in the amount of €20,102,570. An allowance for a share of receivables due from RS was made as disclosed below.

Based on Article 4 of ZDARS-1, DARS d.d. does business on behalf of and for the account of the state. Such transactions are disclosed in books of account as transactions for the account of third parties. They involve tasks related with the spatial planning and location of motorways in the environment, and with real estate acquisition for the purposes of motorway construction, which the Company performs pursuant to the performance contract. DARS d.d. records receivables due from the Republic of Slovenia for the transactions executed. Funds for such transactions are guaranteed from the Republic of Slovenia budget pursuant to Article 10 of ZDARS-1.

As at 31 December 2017, the Company disclosed an allowance for short-term receivables due from the Republic of Slovenia in the amount of:

- €14,434,530 deriving from receivables due from the Republic of Slovenia on account of operations for the account of third parties as per Article 4 of ZDARS-1 that were performed in 2010, and
- €801,718 deriving from receivables for the fee under the performance contract for 2010.

For the mentioned receivables from 2010, the Company filed a legal action against the Republic of Slovenia.

On 31 December 2017, the Company still believed that it was entitled to the mentioned receivables, but nevertheless made an allowance in 2011 in the total amount of the receivables due to the fact that the State did not acknowledge the receivables and with respect to their maturity.

Breakdown of important items of short-term operating receivables by maturity

In € (excl. cents)	Not due	Up to 60 days	Over 60 days	Total
Short-term operating receivables from operations for third party account	19,612,606	4,472,650	14,434,530	38,519,786
Allowances for receivables from operations for third party account	0	0	-14,434,530	-14,434,530
Short-term trade receivables	17,711,353	119,243	1,433,540	19,264,135
Allowances for trade receivables	0	0	-1,271,683	-1,271,683

In 2017, the Company formed an allowance for short-term operating receivables in the amount of €1,847,905.

In € (excl. cents)	31/ 12/ 2017	31/ 12/ 2016
Balance as at 1/ 1/	16,119,532	15,885,834
Write-downs	84,286	130,046
Elimination of allowances	53,706	15,146
Formation	1,847,905	378,890
Balance as at 31/ 12/	17,829,444	16,119,532

The assessment method for making an allowance for receivables in 2017 remained unchanged. In 2017, the Company made an allowance for other short-term receivables in the amount of €1,834,873 that had no effect on 2017 revaluatory operating expenses. The mentioned allowance was made for a receivable deriving from an acknowledged legal subrogation in the bankruptcy proceedings of CPM d.d. in bankruptcy. Since the recoverability of the receivable is doubtful, the Company made an allowance for it upon its creation.

No receivables of DARS d.d. were pledged as security for liabilities as at 31 December 2017. Short-term operating receivables of DARS d.d. include current Company receivables have been secured with bank guarantees and enforcement drafts in the amount of €21,991,900.

11.5.1.11 Cash and cash equivalents

In € (excl. cents)	31/ 12/ 2017	Share	31/ 12/ 2016	Index
Cash at bank	1,387,254	4 %	2,376,905	58
Deposit redeemable at notice	32,500,000	93 %	10,000,000	325
Overnight bank deposit	122,387	0 %	92,872	132
Cash in hand and cheques received	1,122	0 %	1,246	90
Cash in hand at toll stations	366,390	1 %	375,060	98
Cash in transit	550,050	2 %	577,944	95
Total cash and cash equivalents	34,927,203	100 %	13,424,027	260

Deposits redeemable at notice are deposits that can be redeemed at any time. The average weighted interest rate on deposits redeemable at notice amounts to 0.007%. Overnight bank deposits are short-term bank deposits tied over night in the amount of €122,387 at a 0.01% interest rate.

Cash in transit is cash from the toll collected that has not been deposited to the Company's transaction account yet. Following the annual inventory listing of cash in transit from the toll collected on 30 November 2017, the Company reconciled the balance disclosed in the books of account with the actual balance.

II.5.1.12 Short-term deferred costs and accrued revenue

In € (excl. cents)	31/ 12/ 2017	Share	31/ 12/ 2016	Index
Short-term deferred costs – other	410,727	45 %	365,827	112
Short-term deferred costs – commission for sales agents on the 2018 vignettes sold	381,823	42 %	380,903	100
Short-term deferred costs – cost of the 2018 vignettes sold	12,027	1 %	11,391	106
Short-term accrued revenue	1,868	0 %	0	-
VAT on advances received	112,788	12 %	0	-
Total	919,234	100 %	758,120	121

II.5.1.13 Equity

Changes in equity are disclosed in the statement of changes in equity for the period between 1 January 2017 and 31 December 2017, which also shows the reasons for each change in individual equity items.

Share capital

The Company's share capital amounts to €2,322,284,140 and is divided into 55,650,231 ordinary registered no par value shares, owned by the Republic of Slovenia. In 2017, share capital increased by €2,417,794, which is an in-kind contribution in the form of RS investment property. The book value of a share as at 31 December 2017 was €50.52. It is calculated as the ratio between total equity value and the number of shares. Shares give the owner full right to participate in Company management, the right to a profit share (dividend) and the right to an adequate share of remaining assets upon Company liquidation or bankruptcy.

Capital surplus

Capital surplus in the amount of €26,576,528 comprises the amount of tangible assets transferred by the Republic of Slovenia to the Company upon its reorganisation in 2004 for the purposes of motorway management and maintenance (€26,202,240) a general equity revaluation adjustment, which was transferred to capital surplus (€225,817) on 1 January 2006 (upon transfer to SAS 2006), surplus assets representing the difference between the in-kind contribution of the Republic of Slovenia from 2010 and the value of newly issued Company shares (€27) and the difference in the merger of the subsidiary DELKOM d.o.o. in 2015 amounting to €148,410, and surplus assets representing the difference between an in-kind contribution by RS from 2017 and the value of newly issued Company shares (€34.53).

Reserves made due to valuation at fair value

Reserves made due to valuation at fair value in the amount of -€5,071,614 refer to:

- a change in revaluation surplus for actuarial deficits and surpluses.
Actuarial deficits and surpluses include changes in the present value of employee payables due to changes in actuarial assumptions. At the end of 2017, revaluation surplus amounted to €292,093;
- change in the fair value of a financial derivative for interest rate hedging, which includes changes in the value of financial derivatives used for the purposes of cash flow protection, and is evident from the statement of comprehensive income, amounting to €4,779,521 at the end of 2017 (less deferred tax assets). Financial derivatives are disclosed in detail in policies and notes on short-term financial liabilities.

In 2017, the reserves made due to valuation at fair value increased by €2,186,181. Changes in individual surplus components in 2017 are shown in the statement of other comprehensive income for 2017.

Retained earnings

At the 11th General Meeting of DARS d.d. held on 29 June 2017, shareholders adopted a resolution on the use of 2016 available profit in the amount of €36,495,640, which was distributed to other profit reserves according to the resolution.

Other changes in retaining earnings in the amount of €17,288 relate to a decrease in retained earnings referring to the transfer of a proportionate share of actuarial losses related with the utilisation of provisions for severance pay upon retirement.

Net profit or loss for the financial year

Net profit or loss for 2017 amounts to €141,145,144. While compiling the Annual Report, DARS d.d. formed legal reserves in the amount of €7,056,393, statutory reserves in the amount of €33,517,866 and other profit reserves in the amount of €50,276,799 pursuant to the Company's Articles of Association and Articles 64 and 230 of the Companies Act.

II.5.1.14 Provisions and long-term accrued costs and deferred revenue

Changes in provisions and long-term accrued costs and deferred revenue in 2017

In € (excl. cents)	Balance as at 31/ 12/ 2016	Realisation in 2017	Reversal in 2017	Additional formation in 2017	Balance as at 31/ 12/ 2017
Provisions for severance pay upon retirement	2,043,069	366,339	0	500,435	2,177,164
Provisions for employee jubilee benefits	1,218,995	125,622	0	151,297	1,244,671
Provisions for voluntary supplementary pension insurance	34,123	8,018	0	0	26,105
Provisions for claims related with motorway management and maintenance	72,256	0	72,256	0	0
Provisions for employment-related claims	514,104	664	0	35,032	548,472
Provisions for claims related with construction and reconstruction	31,864,621	207,163	473,558	3,008,484	34,192,384
Provisions for severance pay upon the change of tolling system	363,006	0	0	89,206	452,212
Free-of-charge acquisition of fixed assets	243,944	8,043	0	50	235,951
Return of electronic tags	40,325	307	40,018	0	0
Lease of optical fibres	484,462	79,176	0	142,939	548,225
Guarantees drawn	12,032,089	5,047,046	0	275,657	7,260,701
Government grants received	134,491,238	5,447,072	0	26,812,908	155,857,074
Total	183,402,232	11,289,448	585,831	31,016,008	202,542,960

Provisions for jubilee benefits and severance pay are formed on the basis of legal regulations, collective agreement and internal acts binding the Company to pay its employees jubilee benefits and severance pay upon retirement. Provisions are formed on the basis of an actuarial calculation that is prepared by a certified actuary. At the end of each financial year, the amount of provisions is checked and increased or decreased as required. The actuarial calculation as at 31 December 2017 was made for each employee in a manner taking into account the cost of severance pay upon retirement and the cost of all expected jubilee benefits

until retirement. Provisions are formed in the amount of estimated future payments for severance pays and jubilee benefits discounted at the end of the reporting period. The actuarial calculation observed the following assumptions:

- the nominal long-term interest rate is assessed at 0.75% with respect to average maturity at the Company, which amounts to 15.2 years;
- currently valid amount of severance pay upon retirement and jubilee benefits as laid down in internal acts;
- the expected long-term growth of jubilee benefits and non-taxable amounts in the calculation amounts to 1% per annum;
- employee fluctuation, which depends primarily on their age;
- expected employee mortality rate in line with mortality tables for Slovenia for the 2000-2002 period, separately by gender;
- future long-term nominal salary increase – 1% per annum.

Based on the actuarial calculation, provisions were set aside as at 31 December 2017 for jubilee benefits in the amount of €1,244,671 and for severance pay upon retirement in the amount of €2,177,164.

In 2006, the Company started implementing a collective voluntary supplementary pension insurance scheme. In line with an agreement concluded with trade unions, all Company's employees were given the possibility to join the scheme, except for those being of retirement age as at 31 December 2006, i.e. 50 years for women and 55 years for men. Upon retirement, the employer pays such employees a one-off amount equalling the sum total non-interest-bearing premiums that would be paid in to the benefit employees had they been included in the pension scheme. To that end, the Company set aside long-term provisions in the amount of €26,105 as at 31 December 2017.

Based on the legal opinions obtained and the management's assessment, the Company discloses provisions amounting to €34,192,384 for lawsuits related with construction and reconstruction claims and €548,472 for claims arising from employment relationships.

Provisions for liabilities under lawsuits have been formed based on an assessment of the probable outcome that was made with a high level caution. The due date for the liabilities cannot be specified. Lawsuits for which provisions have been set aside are in various stage of proceedings.

In previous years, the Company set aside long-term provisions for long-term accrued costs deriving from employment relationships that would incur as a result of transfer to the free-flow electronic tolling system. The final vision and goal of the Slovenian tolling is to establish an electronic tolling system where motorway users pay the cost of motorway based on the distance travelled. The Government of the Republic of Slovenia adopted an Action plan for the introduction of ETS in FTF on 26 November 2009. In June 2012, the Ministry of Infrastructure and Spatial Planning ordered DARS d.d. to carry out all necessary activities to transfer to ETS in FTF for vehicles with a maximum permissible mass exceeding 3500kg in the coming years. As at 31 December 2017, the Company reassessed the necessary long-term provisions for restructuring toll collection department and, based on the restructuring programme, adopted a decision to reconcile the long-term provisions set aside for severance pay for redundant employees with an assessment of foreseen costs, i.e. to €452,212.

In previous years, long-term accrued costs and deferred revenue were set up from grants in the amount of the cost of holiday facilities and apartments, which are used to cover depreciation cost for the holiday facilities including furniture and apartments throughout their service life. As at 31 December 2017, free-of-charge acquisition of fixed assets amounted to €235,951.

Under long-term accrued costs and deferred revenue, the Company discloses long-term deferred revenue from the prepaid lease of optical fibres in the amount of €548,225.

The Company forms long-term deferred revenue for the assets received from the warranty bonds, performance bonds and bid bonds drawn. The amounts drawn are used to cover the cost of the intention to draw them or, if performance bonds are drawn, also for the purposes of warranty bonds. As at 31 December 2017, the bonds drawn amounted to €7,260,701.

The Company formed long-term deferred revenue for the funds from the EU and other co-financiers that were received for the preparation of spatial planning and design documentation, and for motorway construction or associated tasks (traffic safety improvement – construction of traffic control and management systems). The company received funds within the framework of the EU Cohesion Fund, the TEN-T and CROCODILE projects, the EasyWay and TEMPO-CONNECT programmes, and others. As at 31 December 2017, the Company discloses long-term accrued costs and deferred revenue for governments grants received for the purchase of fixed assets in the total amount of €155,857,074. The increase in 2017 refers to the funds received:

- from the EU Cohesion Fund for the "A4 motorway: Slivnica-Gruškovje: Draženci-Gruškovje international border crossing" project in the amount of €24,852,328;
- for the CROCODILE II project in the amount of €294,171;
- from the Connecting Europe Facility (CEF) instrument for the preparation of Building Permit/Executive Design documents for the additional construction of the second tube of the Karavanke motorway tunnel in the amount of €1,590,440, and
- for the C-Roads Slovenia project in the amount of €75,968;

The amount of long-term deferred revenue is decreased by the amount of depreciation of property, plant and equipment and by the amounts of other costs for which funds have been received.

II.5.1.15 Long-term financial liabilities

The Company borrows funds on international and domestic financial markets for its business purposes. The main purpose of borrowing is to finance motorway construction and reconstruction, and refinance the existing debt. All loans hired are secured with a government guarantee. In 2017, a share of the existing debt was refinanced with the issue of the Namensschuldverschreibung (NSV or registered note) in the total amount of €100 million. To fund the deployment of the electronic tolling system, a new contract was concluded with EIB in November 2017 for a loan amounting to €51 million. The loan has not been drawn yet.

Interest rates and methods for calculating interest on loans received are specified with a contract and represent a business secret, whereas the weighted annual interest rate for the Company's total loan amounted to 1.66% as at 31 December 2017. As at 31 December 2017, the interest rate for the total Company debt by interval ranged from 0 to 4.96%.

Long-term financial liabilities entirely refer to motorway construction and reconstruction.

In € (excl. cents)	31/ 12/ 2017	Share
Long-term loans acquired from domestic banks	893,627,554	40 %
Long-term loans acquired from foreign banks	1,030,402,184	46 %
Long-term loans acquired from foreign entities	22,294,687	1 %
Loan based on the Schuldschein promissory note	37,780,000	2 %
Issued NSV registered notes	100,000,000	4 %
Long-term bonds issued	160,364,547	7 %
Total	2,244,468,972	100 %

Long-term financial liabilities by maturity

In € (excl. cents)	31/ 12/ 2017	Share
Long-term financial liabilities with a maturity of up to 5 years	760,182,494	34 %
Long-term financial liabilities with a maturity over 5 years	1,484,286,478	66 %
Total	2,244,468,972	100 %

Changes in long-term financial liabilities in 2017

Long-term financial liabilities	Balance as at 31/ 12/ 2016	Increase in 2017	Decrease in 2017	Balance as at 31/ 12/ 2017
European Investment Bank	790,536,565	0	66,966,970	723,569,595
Nova Ljubljanska banka	362,019,231	0	0	362,019,231
Kreditanstalt für Wiederaufbau	234,265,625	0	37,718,750	196,546,875
Consortium of Slovenian banks	191,492,258	0	56,536,665	134,955,593
Depfa Bank	113,095,238	0	23,809,524	89,285,714
UniCredit Banka Slovenija	36,681,689	0	8,335,837	28,345,852
KA FINANZ	35,000,000	0	14,000,000	21,000,000
Addiko Bank (Hypo Alpe Adria Bank)	38,976,383	0	6,669,505	32,306,878
Autovie Venete S.p.A.	25,479,642	0	3,184,955	22,294,687
Intesa Sanpaolo	89,333,333	0	2,333,333	87,000,000
Schuldschein	37,780,000	0	0	37,780,000
Abanka	50,000,000	0	0	50,000,000
SKB banka	50,000,000	0	0	50,000,000
Unicredit + Intesa Sanpaolo	99,000,000	0	0	99,000,000
SID	50,000,000	0	0	50,000,000
NSV	0	100,000,000	0	100,000,000
Bonds	160,364,547	0	0	160,364,547
Total	2,364,024,511	100,000,000	219,555,539	2,244,468,972

II.5.1.16 Long-term financial liabilities to banks

Long-term share of loan principals by lender

Lender	Balance as at 31/ 12/ 2017	In € (excl. cents)
		Share
Consortium of Slovenian banks	134,955,593	7 %
Addiko Bank (Hypo Alpe Adria Bank)	32,306,878	2 %
UniCredit Banka Slovenija	28,345,852	1 %
Intesa Sanpaolo	87,000,000	5 %
Unicredit + Intesa Sanpaolo	99,000,000	5 %
NLB	362,019,231	19 %
Abanka	50,000,000	3 %
SKB banka	50,000,000	3 %
SID	50,000,000	3 %
European Investment Bank	723,569,595	38 %
Kreditanstalt für Wiederaufbau	196,546,875	10 %
Depfa Bank	89,285,714	5 %
KA FINANZ	21,000,000	1 %
Total	1,924,029,738	100 %

a) Loans from the consortium of Slovenian banks

From 1996 to 2004, DARS d.d. hired seven loans from the consortium of Slovenian banks. The loans were repaid in 2017 in the total amount of €39,905,762.

Long-term liabilities to the consortium of Slovenian banks and repayment periods

Type	Repayment period	In € (excl. cents)
II	from 2004 to 2019	9,112,629
III	from 2007 to 2019	21,028,248
IV	from 2008 to 2020	20,664,978
V	from 2007 to 2020	28,981,787
VI	from 2009 to 2021	27,027,243
VII	from 2012 to 2024	28,140,709
Total		134,955,593

b) Addiko Bank loans (Hypo Alpe Adria Bank until 11 July 2016)

The Company hired three loans from Addiko Bank in 2003, 2004 and 2005. Addiko Bank loans were repaid in 2017 in the total amount of €5,419,942.

Long-term liabilities to Addiko Bank and repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2011 to 2023	14,994,755
II	from 2012 to 2024	6,879,808
III	from 2014 to 2023	10,432,315
Total		32,306,878

c) UniCredit Banka Slovenija loans

The Company hired three loans from UniCredit Banka Slovenija in 2005, 2006 and 2009. The loan hired in 2006, intended for refinancing or early repayment of the loans hired from Kreditanstalt für Wiederaufbau, was repaid early in full in 2016. UniCredit Banka Slovenija loans were repaid in 2017 in the total amount of €8,335,837.

Long-term liabilities to Unicredit Banka Slovenija and repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2011 to 2023	8,345,852
II	from 2007 to 2021	20,000,000
Total		28,345,852

d) Intesa Sanpaolo loan

In 2006, DARS d.d. hired a loan from Intesa Sanpaolo (former Banka Koper), intended for refinancing or early repayment the loans hired from Kreditanstalt für Wiederaufbau, which was fully repaid early in 2016.

In 2016, the Company hired a loan from Intesa Sanpaolo in the amount of €80 million to refinance loans.

Intesa Sanpaolo loans were repaid in the total amount of €2,333,333 in 2017.

Long-term liability to Intesa Sanpaolo and repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2007 to 2021	7,000,000
II	from 2021 to 2036	80,000,000
Total		87,000,000

e) NLB loans

In 2007, 2008 and 2013, DARS d.d. hired three loans from NLB, which were fully used for financing motorway construction. In 2016 NLB I and NLB II loans were rescheduled to extend loan maturity.

Long-term liability to NLB and repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2020 to 2027	183,750,000
II	from 2020 to 2025	128,269,231
III	2028	50,000,000
Total		362,019,231

f) Abanka loan

In 2015, the Company hired a loan of €50 million from Abanka that was intended for refinancing and early repayment of loans.

Long-term liability to Abanka and repayment period

Type	Repayment period	In € (excl. cents)
I	from 2021 to 2029	50,000,000
Total		50,000,000

g) SKB loan

In 2015, the Company hired a loan of €50 million from SKB that was intended for refinancing and early repayment of loans.

Long-term liability to SKB and repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2021 to 2028	50,000,000
Total		50,000,000

h) Unicredit Banka Slovenija and Intesa Sanpaolo loan

In 2016, the Company hired a loan from Intesa Sanpaolo in the amount of €99 million for loan refinancing or early repayment.

Long-term liability to Unicredit Banka Slovenija and Intesa Sanpaolo and repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2021 to 2036	99,000,000
Total		99,000,000

i) SID loan

In 2016, the Company hired a loan of €50 million from SID Bank for refinancing and early repayment of loans.

Long-term liability to SID and repayment period

Type	Repayment period	In € (excl. cents)
I	from 2024 to 2036	50,000,000
Total		50,000,000

j) European Investment Bank (EIB) loans

The European Investment Bank loans hired between 1994 and 2006 were repaid in the amount of €71,300,303 in 2017. The final loan maturity is between 2018 and 2041.

In 2017, the Company hired a new loan from the European Investment Bank in the amount of €51 million to fund the electronic tolling system project. The loan has not been drawn yet.

Long-term liabilities to the European Investment Bank and repayment periods

Type	Repayment period	In € (excl. cents)
III	from 2004 to 2019	5,833,333
IV	from 2005 to 2019	10,666,666
V	from 2007 to 2027	51,000,000
VI	from 2012 to 2029	66,110,000
VII	from 2014 to 2037	205,681,818
VIII	from 2015 to 2034	239,277,778
IX	from 2022 to 2041	145,000,000
Total		723,569,595

k) Kreditanstalt für Wiederaufbau (KfW) loans

In 2008 and 2009, DARS d.d. hired three loans from Kreditanstalt für Wiederaufbau to finance motorway construction. The loans were repaid in the amount of €37,718,750 in 2017.

Long-term liabilities to Kreditanstalt für Wiederaufbau and repayment periods

Type	Repayment period	In € (excl. cents)
II	from 2013 to 2029	175,546,875
III	from 2014 to 2019	11,000,000
IV	from 2014 to 2019	10,000,000
Total		196,546,875

l) Pfandbriefsbank (DEPFA) loans

In 2006, DARS d.d. hired two loans from Depfa Bank in the total amount of €225,000,000. The loans were repaid in the amount of €23,809,523 in 2017.

Long-term liabilities to Depfa Bank and repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2014 to 2024	39,285,714
II	from 2013 to 2021	50,000,000
Total		89,285,714

m) KA FINANZ AG (former Kommunalkredit) loan

In 2010, DARS d.d. hired a loan from Kommunalkredit Austria AG (currently KA FINANZ AG) in the amount of €70,000,000. The loan was hired at a fixed interest rate. The principal of the loan was repaid in the amount of €14,000,000 in 2017.

Long-term liabilities to KA FINANZ AG and repayment period

Type	Repayment period	In € (excl. cents)
I	from 2015 to 2020	21,000,000
Total		21,000,000

II.5.1.17 Long-term financial liabilities for bonds

DARS d.d. issued three series of bonds in 2004 and 2005 to finance motorway construction and reconstruction. Liabilities arising from the bonds issued are secured with a government guarantee.

Issue	Maturity	Size of issue In € (excl. cents)
DRS1	2024	56,042,047
DRS2	2025	61,758,920
DRS3	2020	42,563,580
Total		160,364,547

a) 1st issue bonds by DARS (DRS1)

In 2004, DARS d.d. issued first issue bonds designated DRS1 in the total nominal amount of €56,042,047. The principal will fall due in its total amount in 2024 and the annual coupon interest rate is 5.1%. The bonds are traded with on the Ljubljana Stock Exchange.

b) 2nd issue bonds by DARS (DRS2)

2nd issue bonds (DRS2) were issued by DARS in 2005 were issued in the total nominal amount of €61,758,920. The principal falls due in its total amount in 2025, the annual coupon interest rate being 4.5%. The bonds are traded with on the Ljubljana Stock Exchange.

c) 3rd issue bonds by DARS (DRS3)

In 2005, DARS d.d. issued bonds of third issue designated DRS3 in the total nominal amount of €42,563,580. The principal falls due in its total amount in 2020, the annual coupon interest rate being 4%. The bonds are traded with on the Ljubljana Stock Exchange.

II.5.1.18 Other long-term financial liabilities

a) Autovie Venete (AVV) loan

The loan from Autovie Venete was obtained on the basis of a memorandum of understanding between the Government of the Republic of Slovenia and the Government of the Republic of Italy for the construction of motorway structures required to connect the Slovenian motorway network with the Italian network. The loan was hired in 2000. In 2017, the loan from Autovie Venete was paid off in the amount of €3,184,955.

Long-term liabilities to AVV and repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2011 to 2025	22,294,687
Total		22,294,687

b) Loan based on the Schuldschein promissory note

In 2015, DARS d.d. hired a loan on the basis of the "Schuldschein" promissory note in the amount of €37.78 million. The loan was hired for a period of 15 years.

Long-term liabilities deriving from the Schuldschein loan and repayment period

Type	Repayment period	In € (excl. cents)
I	2030	37,780,000
Total		37,780,000

c) Namensschuldverschreibung (NSV or registered note) instrument

In 2017, DARS issued the instrument Namensschuldverschreibung (NSV or registered note) in the amount of €100 million. The principal will fall due in total amount in 2037. The instrument is not subject to trading on the stock market.

Long-term liabilities deriving from the registered note and repayment period

Type	Repayment period	In € (excl. cents)
I	2037	100,000,000
Total		100,000,000

II.5.1.19 Long-term trade liabilities

As at 31 December 2017, the Company disclosed long-term trade liabilities in the amount of €623,128, which mostly comprise the following:

- funds withheld for motorway construction contractors due to the received subcontractors' claims in the amount of €344,487 and
- funds withheld for motorway construction contractors for the purposes of eliminating any deficiencies in the warranty period amounting to €278,641.

II.5.1.20 Other long-term operating liabilities

Other long-term operating liabilities include a liability deriving from the right of superficies charge in the amount of €137,119,286. Based on the annual performance contract (as per Article 4 of ZDARS-1 for 2018), the short-term share of the long-term liability is transferred to short-term liabilities.

Pursuant to ZDARS-1, the right of superficies was established to the benefit of DARS d.d. on the land owned by the Republic of Slovenia over which motorways run as structures that had been built or started to be built prior to the enforcement of ZDARS-1. The right of superficies was established for a 50-year period (from 4 December 2010 to 4 December 2060) free of charge. Pursuant to the Fiscal Balance Act, a charge is paid for the right of superficies.

The value of the charge was set at €190,810,787, excluding VAT, on the basis of an opinion provided by a certified real estate appraiser on 7 June 2012. On 29 February 2016, the certified real estate appraiser reappraised the right of superficies at the request of the Ministry of Infrastructure, i.e. to the amount of €190,760,000, excluding VAT. DARS d.d. adjusted the value of the right of superficies to the newly assessed value, which is now €50,787 lower than originally assessed.

Other long-term operating liabilities also include liabilities to the co-financiers of accompanying infrastructure (mostly municipalities) in amount €4,027,802 that is built within the scope of motorway infrastructure, but does not constitute a motorway, and must be handed over to co-financiers by the Company following the completion of construction work.

II.5.1.21 Deferred tax liabilities

Changes in deferred tax liabilities in 2017

In € (excl. cents)	31/ 12/ 2016	Recognised in income statement	Recognised in statement of other comprehensive income	31/ 12/ 2017
Cash flow hedging from interest swaps	113,742	0	85,788	199,530
Total	113,742	0	85,788	199,530

II.5.1.22 Short-term financial liabilities

Short-term financial liabilities totalling €239,059,996 represent the short-term share of long-term financial liabilities that fall due in the following year, accrued interest on loans and bonds issued, and liabilities from financial derivatives.

Short-term financial liabilities to banks in the total amount of €223,283,256 include:

- a. a share of the principal of short-term bank loans for the purchase property, plant and equipment that falls due in 2018;

Lender	31/ 12/ 2017	In € (excl. cents) 31/ 12/ 2016
European Investment Bank II	4,333,334	8,666,667
European Investment Bank III	11,666,667	11,666,667
European Investment Bank IV	10,666,667	10,666,667
European Investment Bank V	6,000,000	6,000,000
European Investment Bank VI	6,270,000	6,270,000
European Investment Bank VII	11,363,636	11,363,636
European Investment Bank VIII	16,666,667	16,666,667
Kreditanstalt für Wiederaufbau 267.5	16,718,750	16,718,750
Kreditanstalt für Wiederaufbau 55	11,000,000	11,000,000
Kreditanstalt für Wiederaufbau 50	10,000,000	10,000,000
KA FINANZ	14,000,000	14,000,000
Pfandbriefsbank (DEPFA) I	7,142,857	7,142,857
Pfandbriefsbank (DEPFA) II	16,666,667	16,666,667
Intesa Sanpaolo I	2,333,333	2,333,333
Consortium of banks II	13,445,072	8,963,381
Consortium of banks III	21,028,249	21,028,249
Consortium of banks IV	10,332,489	344,416
Consortium of banks V	5,955,162	794,022
Consortium of banks VI	659,201	659,201
Consortium of banks VII	5,116,493	5,116,493
Addiko Bank (Hypo Alpe Adria) I	3,332,168	2,082,605
Addiko Bank (Hypo Alpe Adria) II	1,250,874	1,250,874
Addiko Bank (Hypo Alpe Adria) III	2,086,463	2,086,463
Unicredit bank I	1,669,171	1,669,170
Unicredit bank II	6,666,667	6,666,667
Total principals	216,370,584	199,823,451

- b. accrued interest on long-term bank loans as at 31 December 2017 in the amount of €6,912,672.

Short-term financial liabilities for interest refer to interest accrued until 31 December 2017. Interest rates and interest calculation method for the transactions made are specified in a contract ranged in intervals from 0 to 4.96% per annum as at 31 December 2017.

Short-term financial liabilities for bonds in the amount of €3,414,923 refer to interest accrued until 31 December 2017.

Other short-term financial liabilities in the amount of €12,361,817 refer to:

In € (excl. cents)	31/ 12/ 2017	31/ 12/ 2016
Short-term share of the Autovie Venete loan principal	3,184,955	3,184,955
Short-term financial liabilities for accrued interest from others	1,557,950	1,159,412
Interest on financial derivatives	557,240	300,482
Liabilities for financial derivatives	7,061,672	10,858,850
Total	12,361,817	15,503,699

For the purposes of interest rate hedging, the Company decided in previous years to reduce its exposure to the risk of interest rate variability on the market pursuant to its active financial risk management policy. Hence, as at 31 December 2017, 35% of the Company's debt portfolio value was exposed to a variable interest rate, while 64% was exposed to a fixed interest rate. Interest-free loans account for the remaining percentage.

Liabilities from financial derivatives in the amount of €7,061,672 refer to liabilities deriving from the valuation of financial derivatives as at 31 December 2017.

A detailed description of the financial derivatives concluded by the Company as at 31 December 2017.

Interest rate hedging in the amount of €40 million

In 2007, DARS d.d. concluded an interest risk hedge transaction in the amount of €40,000,000 with 3-year maturity. That transaction allowed DARS d.d. to partially insure the loan hired from UniCredit Banka Slovenija. The loan was insured for a period of three years at a fixed interest rate and option of extension for another 7 years. In 2010, the option to extend the transaction was enforced for another seven years.

Interest rate hedging in the total amount of €150 million

In the second half of 2014, DARS d.d. concluded three interest rate hedge transactions in the total amount of €150,000,000 with 10-year maturity. Each €50 million transaction allowed DARS d.d. to partially insure the loans hired from KfW (KfW 267.5 loan) and NLB (loans for €245 million and €145 million). The loans were insured for 10 years at a fixed interest rate.

Interest rate hedging in the total amount of €100 million

In 2016, DARS d.d. concluded two interest rate hedge transactions in the total amount of €100,000,000 with 10-year maturity. Each €50 million transaction allowed DARS d.d. to partially insure the loans hired from NLB (NLB 50 loan) and SKB (SKB 50 loan). The loans were insured for 10 years at a fixed interest rate.

Interest rate hedging in the total amount of €99.5 million

In 2017, DARS d.d. concluded two interest rate hedge transactions in the total amount of €99,500,000 with 10-year maturity. The transactions, one amounting to €50 million and the other to €49.5 million, allowed DARS d.d. to partially insure the loans hired from KfW (KfW 267.5 loan) and Unicredit Banka (Unicredit + Intesa Sanpaolo loan). The loans were insured for 10 years at a fixed interest rate.

II.5.1.23 Short-term operating liabilities

In € (excl. cents)	31/ 12/ 2017	Share in %	31/ 12/ 2016	Index
Short-term trade liabilities	34,744,737	42 %	27,095,216	128
Short-term liabilities for advances	634,256	1 %	148,778	426
Short-term employee payables	3,739,243	4 %	3,246,701	115
Short-term payables to the state	38,294,527	46 %	32,177,531	119
- corporate income tax liability	13,307,675	16 %	8,194,895	162
- VAT liability	8,272,719	10 %	7,236,902	114
- liabilities for taxes and contributions deriving from salaries and other remuneration	1,809,942	2 %	1,504,961	120
- short-term liability for the right of superficies	14,700,000	18 %	14,984,606	98
- other liabilities to the state	204,190	0 %	256,168	80
Short-term liabilities to others	2,988,356	4 %	1,251,886	239
Short-term liabilities to subcontractors	3,265,558	4 %	514,690	634
Total	83,666,676	100 %	64,434,803	130

The Company's trade liabilities comprise outstanding liabilities for the works performed and accounted in motorway construction as provided by domestic and foreign suppliers (including contractually withheld amounts), liabilities for indemnifications in land acquisition for transactions on behalf of and for the account of the Republic of Slovenia, operating liabilities deriving from motorway management and maintenance, and other short-term operating liabilities.

Contractually withheld funds include a performance guarantee and are withheld in an amount not exceeding 5% of the contract value until all contractual obligations of the contractor (acceptance of works, elimination of all deficiencies, and handover of warranty guarantees) are fulfilled. The funds withheld under the contracts concluded with contractors belong to the contractors and are transferred to their accounts when they fulfil their contractual obligation and deliver the required documents to the investor. As at 31 December 2017, short-term trade liabilities based on withheld funds amounted to €11,765,907 and accounted for a 34% share of total trade liabilities.

Short-term operating liabilities also include the short-term share of a long-term liability for the right of superficies charge, which amounts to €14,700,000 pursuant to the annual performance contract as per Article 4 of ZDARS-1.

Short-term trade liabilities as at 31 December 2017

In € (excl. cents)	Not due	up to 60 days	over 60 days	Total
Short-term trade liabilities (current liabilities)	22,443,416	534,525	889	22,978,830
Short-term trade liabilities (withheld amounts)	11,765,907	0	0	11,765,907

Trade liabilities as at 31 December 2017

In € (excl. cents)	31/ 12/ 2017	Share
EURO - ASFALT d.o.o. Sarajevo – subsidiary	5,014,642	14 %
LOCAL COURT OF PIRAN	2,894,616	8 %
ALPINE BAU GMBH, Salzburg – Celje subsidiary - in bankruptcy	2,019,960	6 %
KOLEKTOR CPG d.o.o.	1,474,751	4 %
DRI upravljanje investicij, d.o.o.	1,254,266	4 %
CP Ljubljana, d.d. – in bankruptcy	1,088,509	3 %
CPK d.d.	1,056,097	3 %
SCT d.d., Ljubljana, Slovenia – in bankruptcy	1,050,451	3 %
CPM d.d., in bankruptcy	830,567	2 %
POMGRAD d.d.	741,962	2 %
Other suppliers	17,318,915	50 %
Total	34,744,737	100 %

The Company's employee payables predominantly include the calculated December salaries, salary compensation and reimbursement of work-related costs to employees paid out in January 2018.

II.5.1.24 Short-term accrued costs and deferred income

In € (excl. cents)	31/ 12/ 2017	Share	31/ 12/ 2016	Index
Short-term accrued costs	590,670	2 %	686,511	86
Short-term deferred revenue	28,505,773	98 %	27,828,401	102
Total	29,096,443	100 %	28,514,913	102

The Company's liabilities include accrued costs or expenses comprising accrued costs for the auditing of 2017 financial statements in the amount of €31,219, the cost of an actuarial calculation of provisions for jubilee benefits and severance pay as at 31 December 2017 in the amount of €460, accrued cost of a supervisory engineer for completed investment projects in the amount of €24,823, accrued cost of variable remuneration for the Management Board in the amount of €286,322 and for the variable share of the salaries paid to executive officers in the amount of €247,845.

Short-term deferred revenue arises when services already invoiced or even paid are yet to be rendered. Short-term deferred revenue includes revenue from prepaid toll in the form of a credit on electronic toll media (ABC tags, DARS cards and DARS Transporter cards) that was invoiced and paid in 2017 but not fully spent in the same year. The revenue is deferred until service users pass toll gantries. Short-term deferred revenue also includes revenue from yearly vignettes charged in 2017 that will be valid in 2018 and from one-track half-yearly vignettes that will be partly or fully valid for motorway use in 2018 (a half-yearly vignette is valid 6 months from the date of purchase, while a yearly vignette for 2018 is valid from 1 December 2017 to 31 January 2019).

Short-term deferred revenue comprises:

- revenue from yearly 2018 vignettes and half-yearly vignettes that will be partly or fully valid for motorway use in 2018 in the total amount of €15,247,758 (a half-yearly vignette is valid 6 months from the date of purchase, while a yearly vignette for 2018 is valid from 1 December 2018 to 31 January 2019);
- revenue from credit balances on prepaid electronic tolling media (DARS cards, ABC tags) that was charged and paid in 2017, but not fully spent in the same year, in the amount of €13,168,288. The revenue is deferred until service users pass toll gantries;
- other short-term deferred revenue in the amount of €89,727.

II.5.1.25 Off-balance sheet items

As at 31 December 2017, the Company disclosed the following items in its off-balance sheet records:

1. An amount of €123,825,657 referring to potential cash and cash equivalents or receivables due from obtained performance or warranty guarantees or other security instruments.

In € (excl. cents)	31/ 12/ 2017	31/ 12/ 2016
Performance bonds	48,210,321	43,334,528
Warranty bonds	51,996,392	54,307,670
Deficiency guarantees	23,026,744	23,707,744
Tender bonds	592,200	1,150,300
Total	123,825,657	122,500,241

2. The amount of €274,283 refers to potential receivables due from municipalities based on improperly invoiced and collected charges for the use of building plots along with default interest.
3. Inventories of vignettes for toll roads in the Republic of Austria that are sold by DARS d.d. amount to €718,046.
4. As at the reporting date, lawsuits worth €80,763,352 (principal amounts) were lodged against the Company, 99% of which relate to motorway construction and reconstruction works. Within the scope of the mentioned lawsuits, the Company set aside provisions for lawsuits in the amount of €34,740,857 (principals and default interest) based on the obtained legal opinions and the management's assessment (note II.5.1.14, Provisions and long-term accrued costs and deferred revenue). Potential liabilities for lawsuits as at 31 December 2017 amount to €57,347,416. With respect to the course of proceedings, it is hard to predict when a particular case will be closed with adequate degree of reliability.
5. In November 2017, the Company signed a contract for a loan with EIB for the specific purpose of deploying the electronic tolling system in the amount of €51,000,000. Pursuant to the loan agreement, DARS can draw the loan successively. The final date for loan drawing is 36 months following the signing of the loan agreement. As at 31 December 2017, the project to "deploy the DarsGo system" was not completed yet, which is why there was no need to draw the loan. The loan is disclosed in off-balance sheet items in its full amount.

None of the mentioned liabilities as at 31 December 2017 meets the conditions for recognition under balance sheet items and the Company expects no material implications from it.

II.5.2 Notes to the income statementa

II.5.2.1 Net sales revenue

In € (excl. cents)	2017	Share	2016	Index 2017/2016
Toll revenue	430,894,988	97 %	361,269,595	119
- revenue from vignette sales	180,421,374	42 %	170,262,417	106
- toll revenue from freight traffic	250,473,614	58 %	191,007,178	131
Revenue from rest stop leases	7,449,857	2 %	7,296,256	102
Revenue from closures and overweight load transports	834,351	0 %	652,445	128
Revenue from easement for maintenance centres and other	676,395	0 %	594,426	114
Revenue from the lease of optical fibres	1,018,613	0 %	1,021,585	100
Revenue under the performance contract	330,295	0 %	383,902	86
Other sales revenue	1,039,813	0 %	943,430	110
Total net sales revenue	442,244,312	100 %	372,161,638	119

Revenue from the toll collected in 2017 amounted to €430,894,988 and accounted for 97% of total sales revenue, which is 19% more than in 2016. Within that scope, toll revenue collected from vehicles weighing under 3.5 tonnes (vignette system) amounted to €180,421,374 and accounted for 42% of toll revenue, while toll revenue collected from vehicles weighing over 3.5 tonnes amounted to €250,473,614 or 58%.

Toll revenue is followed by revenue from leases for rest stops, which amounted to €7,449,857 in 2017. Lease revenue is generated by leasing the right to use land plots along the motorways for the provision of catering services and the erection of petrol service stations. Revenue from leases increased by 2% compared to 2016.

Sales revenues also include revenue from road closures and overweight road transports in the amount of €834,351, revenue from the lease of optical fibres in the amount of €1,018,613 and revenue from easement charged in the amount of €676,395.

Revenue under the performance contract for 2017 amounted to €330,295. The revenue refers to the execution of tasks performed by DARS d.d. on behalf of and for the account of RS based on an annual performance and Article 4 of ZDARS-1. The tasks include spatial planning and integrating motorways in the environment as well as real estate acquisition for purposes of motorway construction.

Other sales revenue in the amount of €1,039,813 includes revenue from the commission generated in the sale of Austrian vignettes, revenue from the sale of electronic tags, revenue from towing, snow ploughing and clearing road accidents, revenue from rentals for holiday facilities and apartments, revenue from the sale of waste material and other sales revenue.

Net sales revenue was fully generated on the domestic market.

II.5.2.2 Capitalised own products and services

In 2017, the Company capitalised own services of motorways investments that had not been charged to outsourcers providing motorway reconstruction services. In 2017, revenue from capitalised own services amounted to €2,079,463.

II.5.2.3 Other operating revenue

In € (excl. cents)	2017	Share	2016	Index
Reversal of long-term provisions	1,137,941	12 %	18,165,810	6
Insurance compensations	1,942,774	21 %	2,145,476	91
Revenue from the consumption of long-term deferred revenue	6,009,598	64 %	3,372,501	178
Profit from equipment and real estate sales	167,531	2 %	336,187	50
Other operating revenue	73,259	1 %	45,346	162
Total other operating revenues	9,331,102	100 %	24,065,320	39

Revenue from the reversal of long-term provisions in the amount of €1,137,941 among other things includes the reversal of provisions for lawsuits, the reversal of provisions for unused annual leave in 2016, the reversal of provisions for variable remuneration for the Management Board for 2016, and the reversal of long-term deferred revenue from the sale of electronic tags.

Revenue from insurance compensations includes revenue received from insurance companies for the repair of damage on motorway sections and structures along the motorway. In 2017, such revenue amounted to €1,942,774.

Revenue from the consumption of long-term deferred revenues in the amount of €6,009,598 refers to the use of funds from the EU and other co-financiers received for the preparation of spatial planning and design documents and motorway construction or associated tasks (traffic safety improvement – construction of traffic control and management systems) as well as other projects. The amount of long-term deferred revenue decreases in line with the costs incurred (accounted depreciation of fixed assets and any other types of costs for which the funds were received) and is transferred to revenue. In 2017, the Company transferred long-term deferred revenue amounting to €4,805,199 to revenue, which was received within the framework of the EU Cohesion Fund, the TEN-T and CROCODILE projects, and the EasyWay and TEMPO-CONNECT programmes. Long-term deferred revenue from co-funding by municipalities (MOL), ELES and other project co-financiers amounting to €643,824 was transferred to revenue. The amount of €560,575 refers to the use of funds from the guarantees drawn in relation to motorway construction and reconstruction.

II.5.2.4 Costs and operating expenses

Overview of costs and expenses

In € (excl. cents)	2017	Share	2016	Index
Cost of material	9,397,092	4 %	8,838,553	106
Cost of services	29,238,361	12 %	27,901,879	105
Labour costs	39,730,512	16 %	37,910,486	105
Depreciation/amortisation	160,302,767	66 %	154,106,846	104
Operating expenses for revaluation of intangible assets and property, plant and equipment	709,825	0 %	80,143	886
Operating expenses for the revaluation of current assets	128,295	0 %	518,761	25
Other operating expenses	3,466,600	1 %	4,309,555	80
Total operating expenses	242,973,453	100 %	233,666,223	104

Breakdown of the cost of material

In € (excl. cents)	2017	Share	2016	Index
Cost of material	3,464,690	37 %	3,201,432	108
Energy costs	4,077,919	43 %	3,936,947	104
Cost of spare parts	571,966	6 %	508,438	112
Write-off of small tools	1,060,951	11 %	999,343	106
Other costs of material	221,566	2 %	192,392	115
Total	9,397,092	100 %	8,838,553	106

The cost of materials accounts for a 4% share of total operating expenses and increased by 6% compared to 2016.

Breakdown of the cost of services

In € (excl. cents)	2017	Share	2016	Index
Cost of supervising engineer	547,697	2 %	654,846	84
Services related with recruitment agencies	557,646	2 %	0	-
Cost of fixed asset maintenance	5,937,561	21 %	6,386,673	93
Rent	1,481,659	5 %	1,235,381	120
Cost of payment transactions and insurance premiums	2,939,141	11 %	2,975,514	99
Commissions on vignettes sold	7,036,489	25 %	6,667,445	106
Cost of other services	10,738,168	38 %	9,982,020	108
Total	29,238,361	105 %	27,901,879	105

The cost of services accounts for a 12% share of total operating expenses. Major services in 2017 included commissions on vignettes sold (25%), the cost of fixed asset maintenance (21%) and the cost of payment transactions and insurance premiums (11%).

Due to a phase of parallel operation of both tolling systems (existing and DarsGo) and replacements for the employees already referred to various training courses related with the deployment of the new DarsGo system, the Company started recruitment workers through a recruitment agency in August 2017. On average, 53 agency workers were employed at the Company in 2017 (calculated on the basis of working hours).

Due to the nature of Company operations, costs are not disclosed by functional group.

II.5.2.5 Labour costs

Labour costs account for 16% of total operating expenses of DARS d.d. In 2017, labour costs increased by 5% compared to 2016.

Type of labour costs	2017	Share	2016	Index
Cost of salaries and wages	29,026,191	75%	27,575,205	105
Pension insurance costs	3,285,132	8%	3,096,964	106
Other social security costs	2,441,290	6%	2,351,681	104
Other labour costs	4,977,899	11%	4,886,636	102
Total	39,730,512	100%	37,910,486	105

Labour costs include the cost of supplementary pension insurance premiums in the amount of €881,236.

As at 31 December 2017, the Company employed 1,240 persons. The average staff count in 2017 was 1,213 (calculated on the basis of working hours).

In 2017, wages and salaries were paid in line with the Corporate Collective Agreement of DARS d.d., while the salaries for the Management Board of DARS d.d. were paid in line with the Act Governing the Remuneration of Managers of Companies with Majority Ownership held by the Republic of Slovenia or Self-Governing Local Communities (Official Gazette of the Republic of Slovenia, No. 21/2010; "ZPPOGD").

Average salary at DARS d.d. in 2017 (in €)

Average gross salary	2017	2016
DARS d.d.	1,989	1,887
Republic of Slovenia	1,627	1,585

The number of employees and the educational structure of employees as at 31 December 2017 are presented in the Business Report of the Annual Report, in chapter Human Resources Management (point I.16.6).

The total gross remuneration received by Management Board Members at DARS d.d. amounted to €520,977 in 2017. The table presents the remuneration received by the Company's Management Board by member.

In € (excl. cents)	Matjaž Knez, Chairman of the Board until 13 January 2016	Tine Svoljšak, Member of the Board until 9 January 2015	Franc Skok, Member of the Board until 13 January 2016	Gašper Marc, Member of the Board	Marjan Sisinger, Member of the Board/ Labour Manager	Tomaž Vidic, PhD, Chairman of the Board as of 13 January 2016	Vili Žavrlan, Member of the Board as of 7 October 2016	TOTAL
Gross salary	0	0	0	101,879	89,919	111,022	101,071	403,891
Disbursement of variable remuneration	21,127	18,498	19,098	7,399	14,539	7,895	1,702	90,259
Fringe benefits	0	0	0	5,069	7,817	2,988	4,977	20,851
Reimbursement of costs	0	0	0	888	936	936	936	3,697
Supplementary pension insurance	0	0	0	456	581	606	636	2,279
TOTAL	21,127	18,498	19,098	115,692	113,793	123,447	109,321	520,977

Employees with an employment contracts that is not subject to the Tariff Section of the Collective Agreement received gross remuneration in the amount of €565,128 in 2017.

The remuneration received by Supervisory Board Members in 2017 is shown below.

In € (excl. cents)	Remuneration for the function of Supervisory Board Member	Supervisory Board meeting fees	Remuneration for the function of Audit Committee Member	Audit Committee meeting fees	Remuneration for the function of HR Committee Member	HR Committee meeting fees	Travel expenses	Fringe benefits	Total
Rožle Podboršek	13,000	4,400	0	0	3,250	880	0	278	21,808
Marjan Mačkošek	19,500	4,125	0	0	0	0	1,416	278	25,320
Miha Juhart, PhD	14,300	3,850	1,760	1,100	4,740	880	0	182	26,812
Tatjana Colnar, MSc	13,000	4,400	4,604	1,100	1,896	880	129	182	26,192
Igor Pirnat, MSc	13,000	4,400	3,250	1,320	0	0	284	182	22,436
Darko Kodrič	13,000	4,400	0	0	0	0	1,337	278	19,015
Mojca Lahajner	0	0	3,250	1,320	0	0	82	0	4,652
Total	85,800	25,575	12,865	4,840	9,885	2,640	3,248	1,383	146,235

The 2017 remuneration deriving from employment relationship of Supervisory Board Members who are employee representatives is shown in the table below.

In € (excl. cents)	Rožle Podboršek	Darko Kodrič	Total
Gross salary	45,731	39,914	85,645
Holiday allowance	1,107	1,107	2,214
2017 performance bonus	800	800	1,600
Other bonuses	2,150	1,200	3,350
Fringe benefits	4	137	140
Long-service bonuses	453	0	453
Reimbursement of costs	1,387	2,742	4,129
Supplementary pension insurance	546	581	1,127
TOTAL	52,177	46,481	98,658

No other remuneration was received by Supervisory Board Members.

Employee claims deriving from labour disputes that are contested by the Management Board of DARS d.d. are disclosed in notes to long-term provisions.

II.5.2.6 Write-offs

In € (excl. cents)	2017	Share	2016	Index
Amortisation of intangible long-term assets	604,967	0.38 %	616,930	98
Depreciation of property, plant and equipment	159,685,428	99.10 %	153,489,916	104
Depreciation of investment property	12,372	0.01 %	0	-
Operating expenses for the revaluation of intangible fixed assets and PPE	709,825	0.44 %	80,143	886
Operating expenses for the revaluation of current assets	128,295	0.08 %	518,761	25
Total	161,140,888	100.00 %	154,705,750	104

Depreciation of property, plant and equipment also includes the depreciation of the right of superficies, which amounted to €3,926,356 in 2017. Pursuant to ZDARS-1, the right of superficies was established to the benefit of DARS d.d. on the land owned by the Republic of Slovenia over which motorways run as structures that had been built or started to be built prior to the enforcement of ZDARS-1. The right of superficies was established for the period of 50 years.

Operating expenses for the revaluation of current assets mostly comprise allowances for trade receivables in the amount of €13,031, write-offs of receivables in the amount of €40,942 and revaluation of 2017 vignette inventories, the sale of which ended on 30 November 2017, i.e. in the amount of €73,020.

II.5.2.7 Other operating expenses

Other operating expenses amounting to €3,466,600 include the following:

- long-term accrued costs for contingent losses in tort claims related with motorway construction and reconstruction in the amount of €3,008,484 and for employee lawsuits deriving from employment relationship in the amount of €35,032,
- provisions set aside for severance pay for redundant workers upon the change of tolling system in the amount of €89,206, and
- other operating expenses in the amount of €333,878.

II.5.2.8 Financial revenue from loans given

Financial revenue from loans given in the amount of €2,132,858 derives, inter alia, from short-term deposits made by DARS d.d. at banks in the amount of €648,878 and from the revaluation of financial derivatives in the amount of €1,482,274.

II.5.2.9 Financial revenue from operating receivables due from others

Financial revenue from operating receivables due from others in the amount of €19,412 comprises financial revenue from operating receivables, default interest charged and foreign exchange gains.

II.5.2.10 Financial expenses for loans received from banks

Financial expenses in the amount of €29,869,027 include interest charged on long-term loans. The average weighted interest rate for long-term loans as at 31 December 2017 stood at 1.66%.

II.5.2.11 Financial expenses for bonds issued

Financial expenses in the amount of €7,334,285 include interest charged on long-term securities issued. The average weighted interest rate on long-term securities as at 31 December 2017 stood at 4.35%.

II.5.2.12 Financial expenses for other financial liabilities

Financial expenses for other financial liabilities in the amount of €4,393,994 refer to:

- negative interest on financial derivatives in the amount of €4,249,347, which is the difference between variable interest rate on a secured loan and fixed interest rate on a financial derivative,
- interest charged on long-term loans received from others in the amount of €113,177, and
- net interest on provisions for jubilee benefits and severance pay in the amount of €27,701.

II.5.2.13 Financial expenses for operating liabilities

Financial expenses from operating liabilities in the amount of €166,461 include, inter alia, default interest in the amount of €161,762 charged on liabilities that were not settled in due time.

II.5.2.14 Other revenues

Other revenues amounting to €3,064,261 include damages received under lawsuits, contractual penalties charged, bonuses for exceeding the disability quota, and similar.

II.5.2.15 Other expenses

Other expenses in the amount of €309,307 primarily include damages paid under court judgements, reimbursed costs in audit procedures as per the Public Procurement Act, donations given and similar.

II.5.2.16 Corporate income tax

Corporate income tax is calculated in line with the Corporate Income Tax Act (ZDDPO-2). Corporate income tax for 2017 is accounted at the 19% rate on the taxable profit generated by the Company in a tax year.

In € (excl. cents)	2017	2016
1 Revenue	458,871,408	399,300,535
2 Expenses	285,046,526	276,830,211
3 Total profit (1-2)	173,824,881	122,470,324
4 Decrease in revenue	76,076	7,321,564
5 Increase in expenses	0	0
6 Decrease in expenses for provisions and revaluation of receivables	384,158	842,388
7 Decrease in expenses, other non-recognised expenses	3,154,523	1,998,608
8 Increase in recognised expenses	161,262	1,362,713
9 Difference between revenue and expenses recognised for tax purposes (1 - 2 - 4 + 5 + 6 + 7 - 8)	177,126,225	116,627,044
10 Tax base (9)	177,126,225	116,627,044
11 Change of tax base due to a change of accounting policies and error elimination	-402,293	-96,118
12 Increase in tax base by the tax relief used	32,517	1,231
13 Tax relief for investments	1,847,663	2,341,269
14 Relief for employment of disabled persons	314,879	280,566
15 Relief for practical work within the scope of professional training	2,107	2,391
16 Tax relief for supplementary pension insurance	881,236	853,182
17 Tax relief for donations	122,009	93,120
18 Tax base (10 + 11 + 12 - 13 - 14 - 15 - 16 - 17)	173,588,556	112,961,629
19 Corporate income tax	32,981,826	19,203,477

Total profit as identified in the income statement and decreased by the liability for corporate income tax for the accounting period and deferred tax is the net profit or loss for the period.

In € (excl. cents)	2017	2016
Tax payable	-32,981,826	-19,203,477
Deferred tax	302,088	-818,838
Tax	-32,679,737	-20,022,315

In € (excl. cents)	2017	2016
Profit or loss before tax	173,824,881	122,470,324
Tax	-32,679,737	-20,022,315
Effective tax rate	18.80 %	16.35 %

TDeferred tax assets are recognised for the amounts of corporate income tax that will be recovered in future periods.

The effective tax rate calculated as the ratio between total tax and total profit or loss before tax for 2017 amounted to 18.80%.

11.6 OPERATIONAL RISKS

Operational risks are presented in the Business Report of the Annual Report in chapter I.8.

11.7 TRANSACTIONS WITH OWNERS AND RELATED PARTIES

The sole founder and shareholder of DARS d.d. is the Republic of Slovenia, which is represented by Slovenian Sovereign Holding (SSH) pursuant to the new Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 25/2014; "ZSDH-1").

Companies related with owners are companies in which the Republic of Slovenia and SSH hold together and directly at least a 20% shareholding. A list of such companies is published on SSH website (<http://www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb>).

In 2017, DARS d.d. made transactions worth €171,291,189 with companies in which the State has direct or indirect dominant influence, i.e. from sales to such undertakings in the amount of €154,810,922 and from purchasing in the amount of €16,480,267. Most sales referred to services related with toll collection, while the largest purchases referred to the cost of a supervising engineer for motorway construction and reconstruction, energy, commission on vignettes sold and insurance. As at 31 December 2017, the Company disclosed receivables due from such undertakings in the amount of €15,515,323 and liabilities amounting €2,452,540.

All transactions between related parties are made at market prices.

Transactions between DARS d.d. and the Republic of Slovenia are disclosed within the scope of other notes.

11.8 EVENTS AFTER THE BALANCE SHEET DATE

Significant business events that occurred after the balance sheet date:

April

On 1 April 2018, Slovenia introduced electronic toll collection for vehicles with maximum permissible mass exceeding 3.5 tonnes (heavy vehicles) entitled DarsGo system.

According to ZDARS-1, DARS d.d. has real estate by other operators recorded in its books of account. Upon the cooperation of a wider circle of stakeholders, the Company's Management Board made an active approach to the execution of a comprehensive solution and will devote all efforts to the transfer or selling of the mentioned assets at the existing book value.

Events that occurred after the balance sheet date had no impact on the financial statements of DARS d.d. for 2017.

11.9 AUDITING OF THE ANNUAL REPORT FOR 2017

The contractual price for the auditing of the 2017 Annual Report of DARS d.d. amounts to €39,024 (excluding VAT). The audit was carried out by KPMG SLOVENIJA d.o.o., Ljubljana.

11.10 AUDITOR'S REPORT



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Independent Auditor's Report

To the owner of DARS d.d.

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of the DARS d.d. (»the Company«), which comprise the balance sheet as at 31 December 2017, the income statement, the statements of other comprehensive income, the statement of cash flows, and statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Slovenian Accounting Standards (2016).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and EU Regulation (EU) No 537/2014. Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Financial Statements* section of our report. We are independent in accordance with both the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Slovenia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide an opinion on these matters.

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KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba
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TRR: SI 56 2900 0000 1851 102
vpis v sodni register: Okrožno sodišče v Ljubljani
št. reg. vL: 061/12062100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556



Recognition of revenue

Revenue from vignette sales and toll revenue from freight traffic in 2017: EUR 430.894.988 (2016: EUR 361.269.595); short-term deferred revenue as at 31 December 2017 EUR 28.505.773 (31 December 2016: EUR 27.828.401)

We refer to the financial statements: Note II.3. Significant accounting policies, Revenue, Short-term deferred and accrued items (accounting policies), Note II.5.2.1. Revenue and Note II.5.1.24. Short-term deferred revenue (notes to the financial statements).

Key audit matter	Our response
<p>The Company's revenue is generated primarily from the distribution of time-based (weekly, monthly and annual) vignettes, and user charges associated with freight transport (as collected at toll stations and via an electronic collection system).</p> <p>Revenue from the sales of vignettes is recognised based on data supplied by the Company's agents (such as gas stations or retail points operators) on actual sales of vignettes to drivers. The Company controls the transferred and registered vignettes by means of regular bi-weekly reconciliations with the agents (including in respect of the vignettes returned as unsold). Revenue relating to the vignettes sold in the current financial period but to be used (valid) in the next is deferred.</p> <p>Revenue from user charges for freight transport is recognised based on the actual usage of the highways. Since a portion of these charges might be pre-prepaid, the Company defers related revenue to be then released to profit or loss once the actual use of the highways takes place.</p> <p>The Company uses a complex information system for recording of truck toll station transitions, which concurrently provides input data for accounting toll and user charges and for deferral of related income.</p> <p>In view of the above-mentioned factors, revenue recognition was an area of our increased audit risk and attention, and as such was considered by us to be a key audit matter.</p>	<p>Our audit procedures in the area included, among others:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the revenue process, and testing the design, implementation and operating effectiveness of the Company's internal controls in the area of revenue recognition. This included, among other things: <ul style="list-style-type: none"> ◦ assessing the compliance of the revenue recognition policies applied against the relevant financial reporting standards; ◦ testing internal controls over the reconciliation of vignettes distributed to the agents to those registered and returned; ◦ testing internal controls over user charges, including those over daily reconciliations of proceeds and cash collections. • Assisted by our own IT specialists, testing controls within the information system supporting the reporting of truck toll station transitions, such as, among other things, the controls over system access and program changes; • Developing an independent estimate of the annual income from user charges, based on the traffic volume data derived from the recording of toll station transitions and the publicly available pricing data per cargo vehicle; • For a sample of accounts receivable balances, obtaining independent confirmations as at 31 December 2017, and seeking explanations for any differences between the amounts confirmed and those recognized by the Company;

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	<ul style="list-style-type: none">• Inspecting a sample of user charges-related credit notes issued in the reporting period and after the reporting date through the date of our report, in order to assess whether the related revenues were recognized in the appropriate accounting period;• Inspecting the revenue-related manual journal entries throughout the year and after the reporting date, including the supporting documentation in order to assess the rationale for the above entries as well as their accuracy.• Assessing the adequacy and appropriateness of Company's disclosures related to revenue and deferred revenue.
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Property, plant and equipment – component accounting and useful lives

The carrying amount of property, plant and equipment (PPE) as at 31 December 2017: EUR 5.167.303.904 (31 December 2016: EUR 5.218.771.008); depreciation of PPE recognized in 2017: EUR 159.685.428 (2016: EUR 153.489.916).

We refer to the financial statements: Note II.3 Significant Accounting Policies – PPE and Depreciation/amortisation (accounting policies), Note II.5.1.2. PPE and Note II.5.2.6. Depreciation of PPE (financial disclosure).

Key audit matter	Our response
<p>Property, plant and equipment includes primarily motorways and related assets (structures, facilities and road infrastructure), and represents the most significant element of the total assets in the Company's balance sheet as at 31 December 2017 (90% of the amount of total assets). In the financial statements, property, plant and equipment is carried at its cost less any accumulated depreciation, and any accumulated impairment losses. The Management Board regularly assesses which related expenditure represents regular maintenance of the motorways and related assets, and which should be recognized as an increase in the utility and consequently in the carrying amount of the motorway-related assets.</p> <p>Further, as motorway traffic has increased significantly in the recent years, one of the key aspects of accounting in the area is the determination of the useful lives of these assets, and consequently the depreciation rates applied. If an item of property, plant and equipment belonging to a significant asset category, such as motorways, comprises individual components for which different depreciation methods or rates are appropriate, then each such component is depreciated separately based on the Management Board's assessment of its individual useful life. The identification of such components and determination of their respective expected useful lives requires significant management judgement. To that end, the Company closely monitors and regularly reassesses the main drivers behind the life span of the major components of the motorway-related assets.</p>	<p>Our procedures in the area included, among others:</p> <ul style="list-style-type: none">• Testing the design, implementation and operating effectiveness of controls over the accuracy and existence of additions to the carrying amount of PPE, including controls over the determination of whether the additions meet the relevant criteria for accounting as separate components, and over the appropriateness of the assets'/components' assessed useful lives;• Challenging the Management Board's assessment of which expenditure represents regular maintenance of motorways and which contributes towards the given asset's utility, and as such should increase the carrying amount of the motorways or related assets. The procedure included, among other things, inspecting of a sample of recognised maintenance expense items and a sample additions to the carrying amounts of the motorways and related assets, and, by reference to our knowledge of the Company's business, assessing those against the relevant capitalization / expensing criteria of the relevant financial reporting standards.• On a sample basis, assessing the reasonableness of the allocation of property, plant and equipment-related expenditure capitalized in 2017 to significant components;

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Due to the above factors, we considered this area to be our key audit matter.

- Challenging the reasonableness of the estimates made in respect of the asset lives by means of:
 - detailed inquiries of the Company's technical personnel,
 - by reference to our industry knowledge and
 - an independent assessment of the historical accuracy of the Company's estimates in the area, which included, among other things, inspecting a sample of transactions for assets disposal, for any significant gains or losses on disposal that would be indicative of inaccurate estimated useful lives.

Other Information

Management is responsible for other information. The other information comprises the Business Report, which is a constituent part of the annual report but does not include the financial statements and our auditor's report thereon. We obtained Business Report before the date of issuance of the auditor's report, except for the Report of the Supervisory Board, which is to become available at a later date.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Business Report, we have considered whether the Business Report includes the disclosures required by the Company's Act (hereafter referred to as "the applicable legal requirements").

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedures above, in our opinion:

- the information given in the Business Report for the financial year for which the financial statements are prepared, is consistent, in all material respect, with the financial statements; and
- the Business Report has been prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this respect.

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Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Slovenian Accounting Standards (2016), and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using of the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences.

Report on Other Legal and Regulatory Requirements

We were appointed by the shareholder of DARS d.d. at on the shareholders meeting dated on 11 of October 2017 to audit the financial statements of the DARS d.d., for the year ended 31 December 2017. Our total uninterrupted period of engagement is two years, covering the periods ending 31 December 2016 and 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 18 April 2018;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit;

For the period to which our statutory audit relates, in addition to the audit, we have not provided any other services to the Company.

On behalf of the audit company

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Helena Kobal
Certified Auditor

Danilo Bukovec
Certified Auditor
Director

Ljubljana, 18 April 2018

KPMG Slovenija, d.o.o.
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DARS

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