

ANNUAL REPORT 2019



DARS



Ljubljana, April 2020



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Acronyms and abbreviations

ABC	Automatic non-cash toll collection
MW	Motorway
ASECAP	L'Association Européenne des Concessionnaires d'Autoroutes et Ouvrages à Péage (European association of Operators of Toll Road Infrastructures)
RDB	Road data bank
DARS d.d.	Družba za avtoceste v Republiki Sloveniji d.d. (Motorway Company in the Republic of Slovenia)
DMR	Digital radio connections
NSP	National spatial planning
EBITDA	Earnings before interest, taxes, depreciation and amortisation
ETS	Electronic tolling system
EIS	Energy information system
BP	Building permit
GRI GS	Global Reporting Initiative Global Standards
EW	Expressway
IBTTA	International Bridge, Tunnel and Turnpike Association
PD	Preliminary Design
ITS	Intelligent transportation systems
IBCP	International border crossing point
MESP	Ministry of the Environment and Spatial Planning
MI	Ministry of Infrastructure
NMCP	National Motorway Construction Programme in the Republic of Slovenia
BPD	Building Permit Design
PIARC	World Road Association
TIC	Traffic information centre for public roads
AADT	Average annual daily traffic
FTF	Free traffic flow
ED	Executive Design
R3	Motor vehicles with two or three axles and a maximum permissible laden weight exceeding 3500kg and groups of motor vehicles with two or three axles and a maximum permissible laden weight exceeding 3500kg.
R4	Motor vehicles with more than three axles and a maximum permissible laden weight exceeding 3500kg and groups of motor vehicles with more than three axles and a maximum permissible laden weight exceeding 3500kg.
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-UPB1) (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, Nos. 65/2009 – official consolidated text, 33/11, 91/11, 32/12, 57/12, 44/13 – CC dec., 82/13, 55/15 and 15/17)
ZUJF	Fiscal Balance Act (Official Gazette of the Republic of Slovenia, No. 40/2012)



I Business report

Statement of management's responsibilities

Members of the Management Board of DARS d.d., responsible for the compilation of the Annual Report of DARS d.d. for 2019, certify herewith that this Annual Report, including the Corporate Governance Statement, has been compiled and published in compliance with the Companies Act, the Market in Financial Instruments Act and the Slovenian Accounting Standards.

The Annual Report of DARS d.d. for 2019, along with the financial statements and notes, provides a true and fair presentation of the assets and liabilities, financial situation 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 amendments to them have been disclosed.

The Management Board is also responsible for the appropriate accounting system and the adoption of measures to secure and preserve the value of the Company assets, as well as to prevent and detect fraud and other irregularities and/or illegal acts.

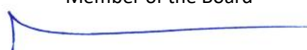
Tomaž Vidic, PhD
Chairman of the Board



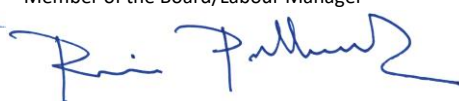
Gašper Marc, MSc
Member of the Board



Vili Žavrlan
Member of the Board



Rožle Podboršek
Member of the Board/Labour Manager



Celje, 9 April 2020

I.1 Information about the Company and key business data

NAME	Družba za avtoceste v Republiki Sloveniji d.d. DARS d.d.
REGISTERED OFFICE	Ulica XIV. divizije 4, 3000 Celje Phone: +386 (0)3 426 40 71 Fax: +386 (0)3 544 20 01
BRANCH OFFICE	Dunajska 7, 1000 Ljubljana Phone number: +386 (0)1 300 99 00 Fax: +386 (0)1 300 99 01
WEBSITES	www.dars.si www.promet.si
YEAR OF ESTABLISHMENT	1993
REG. ENTRY NO.	1/06158/00, District Court of Celje
FOUNDER	Republic of Slovenia
SHAREHOLDER	Republic of Slovenia
REGISTRATION NUMBER	5814251000
VAT ID NUMBER	S192473717
SHARE CAPITAL	€2,086,559,144.07
SHARES ISSUED	55,650,231 ordinary no par value shares

DARS d.d. was established in 1993 based on the 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, the Slovenian Corporate Governance Code for Listed Companies, and the Recommendations and Expectations of the 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.

The 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.

The 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 to the construction of new motorway sections. The ZDARS-1 also stipulates that DARS d.d. is to perform individual tasks relating to spatial planning and locating motorways in the environment, as well as 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 further stipulates that DARS d.d. must continue building motorways and expressways that commenced prior to the enforcement of the ZDARS-1, and continue managing and maintaining the existing motorways and expressways in the Republic of Slovenia.

According to the Fiscal Balance Act (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	2015	2016	2017	2018	2019	2019/2018 index
Revenue	373,067,610	399,300,535	458,871,408	495,428,367	523,120,872	106
Expenses	300,621,245	276,830,211	285,046,526	308,286,955	350,751,597	114
Net sales revenues	360,880,094	372,161,638	442,244,312	465,605,859	480,750,876	103
Operating revenue	370,468,252	397,249,272	453,654,877	489,380,078	522,055,233	107
Operating expenses	250,917,003	233,666,223	242,973,453	266,985,138	311,065,228	117
Operating profit or loss	119,551,249	163,583,049	210,681,424	222,394,940	210,990,006	95
EBITDA	269,429,961	318,288,799	371,822,312	397,476,660	422,009,626	106
Net profit or loss for the accounting period	60,456,694	102,448,010	141,145,144	154,421,963	139,611,455	90
Share capital	2,319,866,345	2,319,866,345	2,322,284,140	2,322,284,140	2,086,559,144	90
Equity as at 31 December	2,566,206,940	2,665,453,020	2,811,184,886	2,963,264,000	2,863,136,410	97
Total assets as at 31 December	5,510,535,999	5,680,666,379	5,751,989,678	5,656,311,816	5,307,039,906	94
Debt as at 31 December	2,502,668,888	2,567,032,918	2,464,024,512	2,269,468,973	2,056,619,825	91
Debt repayment – principal	228,478,238	349,956,759	203,008,406	219,555,539	212,849,148	97
Payment of interest*	50,020,548	41,234,923	40,414,027	40,624,860	37,889,189	93
No. of employees	1,242	1,247	1,240	1,232	1,257	102
Operating margin	33.1%	44.0%	47.6%	47.8%	44.1%	92
EBITDA margin	74.7%	85.5%	84.1%	85.4%	87.8%	103
Net margin	16.8%	27.5%	31.9%	33.2%	29.2%	88
Return on equity (ROE)	2.4%	3.9%	5.2%	5.3%	4.8%	90

* The data refers to actual outflows for interest on received loans and bonds in an individual year.

Calculation of indicators:

Operating margin = operating profit or loss / net sales revenue

EBITDA margin = EBITDA / net sales revenue

Net margin = net profit or loss for the accounting period / net sales revenue

ROE (return on equity) = net profit for the accounting period / average equity for the period

Figure 1: Total revenues, expenses and net profit or loss for 2015-2019

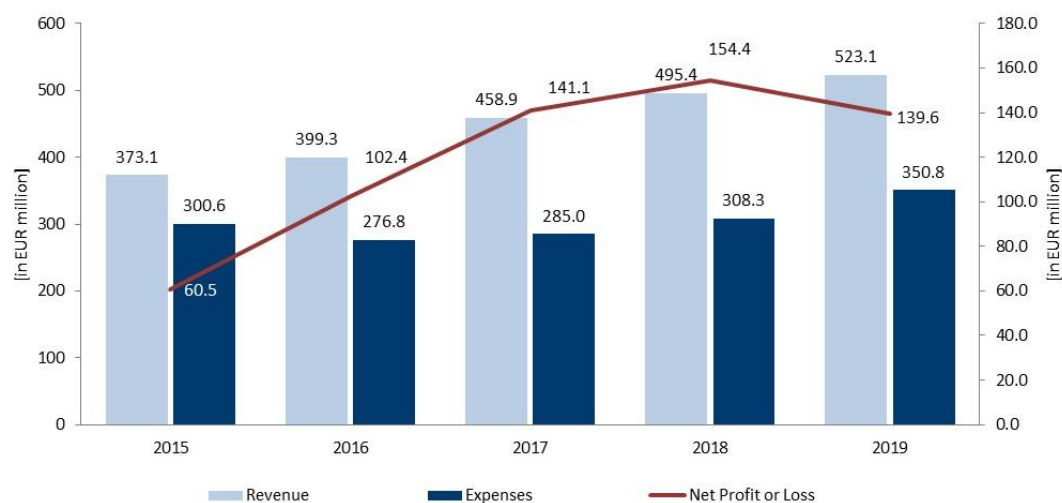


Figure 2: Net sales revenues and cash flow from operating activities (EBITDA) for 2015-2019

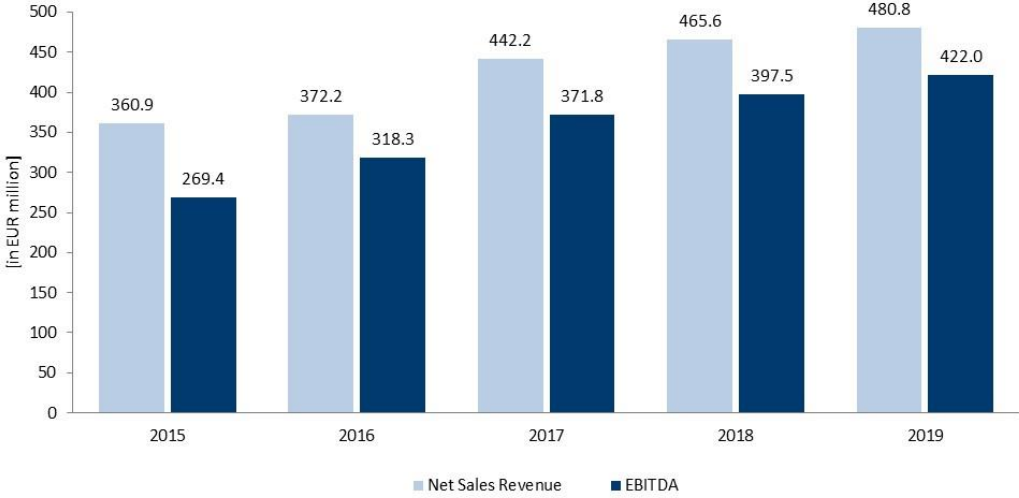


Figure 3: Debt as at 31 December, principal repayment and interest payments in the 2015-2019 period

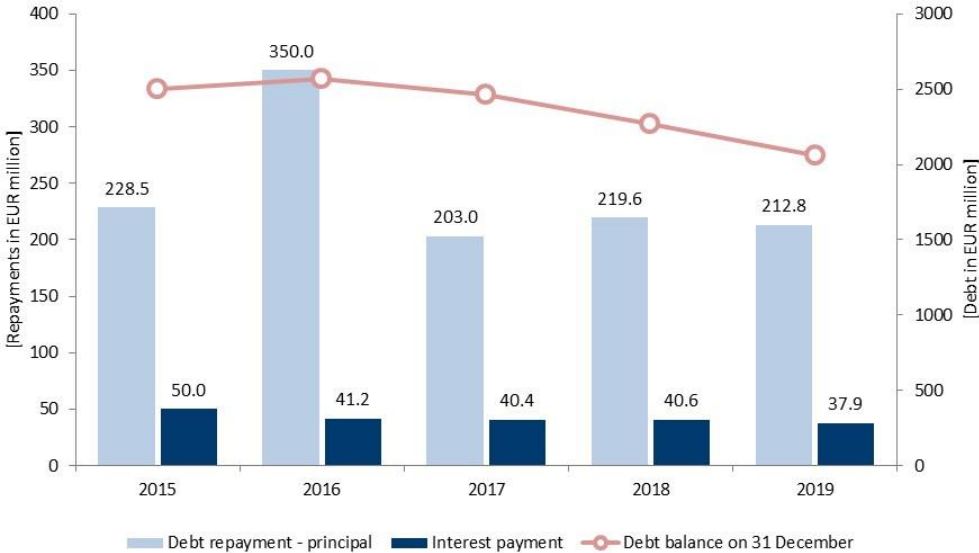


Figure 4: DARS d.d. revenues in 2018

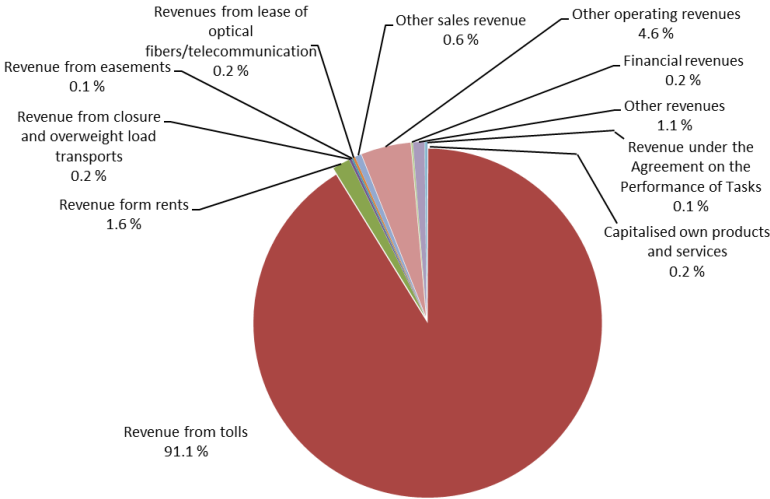


Figure 5: DARS d.d. revenues in 2019

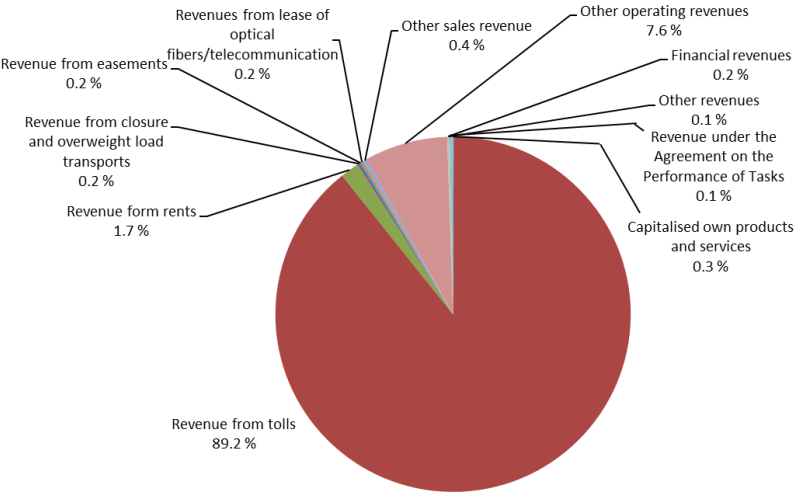


Figure 6: DARS d.d. revenues excluding tolls in 2019

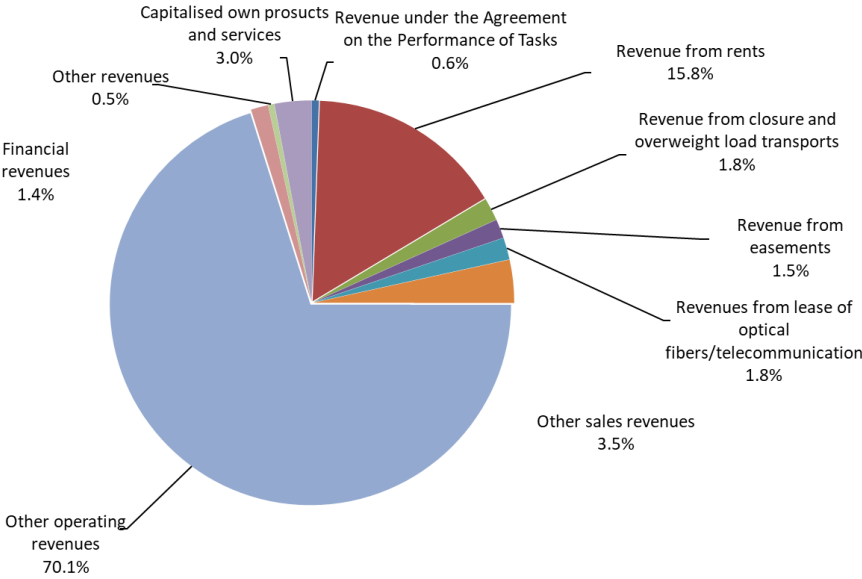


Figure 7: DARS d.d. expenses in 2018

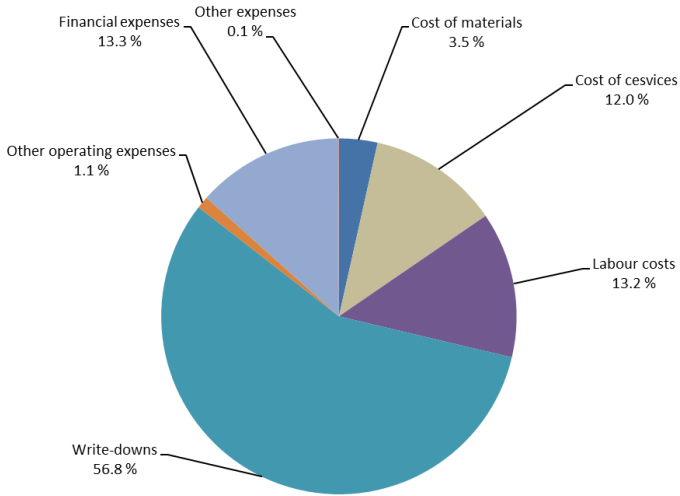
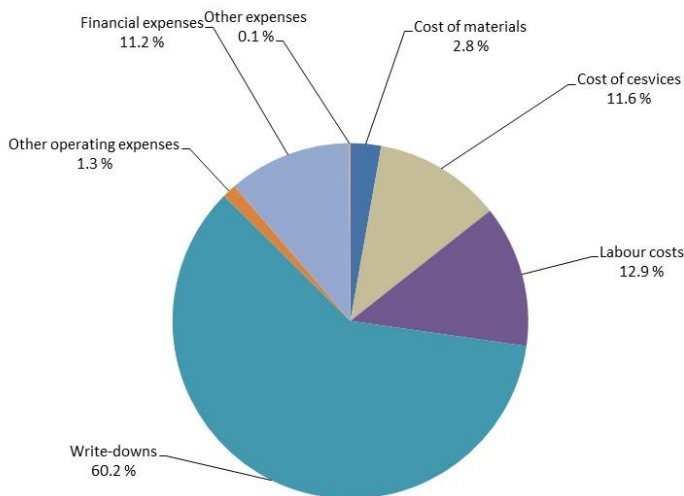


Figure 8: DARS d.d. expenses in 2019



I.2 Letter from the Management



To whom it may concern,

The financial year of 2019 was successful as expected. According to all indicators, it is planned that 2020 will be as well.

In 2019, the Company operated a network of motorways and expressways with a total length of 623 kilometres, along with 220 kilometres of access, service and other roads. Our concern is focused on traffic safety and fluidity on 843 kilometres of roads.

After successfully deploying a modern electronic tolling system in free traffic flow in 2018, which applies to vehicles with a maximum permissible laden weight exceeding 3.5 tonnes, we demolished practically all the remaining toll stations in 2019 and rearranged the areas. The successful introduction of the new DarsGo tolling system was the last prerequisite for the removal of the toll stations, where heavy vehicles had been tolled.

By realising both projects – the deployment of the DarsGo tolling system and the removal of toll stations – the fluidity and safety of motorway traffic increased. The new tolling system not only increased the toll revenue in 2019, but also reduced the impact of traffic on the environment, since heavy vehicles no longer have to stop at toll stations. That reduced fuel consumption and greenhouse gas emissions. It was one of the important environmental measures in the Republic of Slovenia. As of 2020, when the Slovenian motorways and expressways will be free of toll stations, fuel consumption by heavy vehicles will

reduce by 168GWh, which equals the annual electricity generation in a hydropower plant.

Traffic loads in 2019 increased on average by 1.8% compared to 2018. The ageing of the motorway network on the one hand and the traffic increase on the other require more and more investments in motorway and expressway reconstruction.

In the investment maintenance of Slovenian motorways and expressways in 2019, we even slightly surpassed the goals set in the business plan. A total of 65 kilometres of carriageways were reconstructed along with individual structures on the motorways and expressways. Hence, motorway and expressway users were provided with reconstructed and newly furnished carriageways, making the ride safer and more comfortable.

The Company's medium-term plan also includes the goal of optimising traffic fluidity, while providing the maximum possible level of traffic safety.

In 2019, the Company carried out some very important reconstruction works in addition to removing and rearranging the areas of former toll stations; among other things, we completed the reconstruction of the Ravbarkomanda viaduct on the Primorska motorway leg, reconstructed the carriageway on the Štajerska motorway leg between Vransko and Šentrupert and on the Dolenjska motorway leg between Višnja Gora and

Ivančna Gorica in the direction of Novo mesto, as well as on the Vipava expressway between Vogrsko and Šempeter pri Gorici, while the pavement was resurfaced on the Gorenjska motorway leg between Kranj and Podtabor in the direction of Jesenice. All these works or sites may pose a hazard for any traffic event. Most works were carried out upon the closure of one carriageway with the aim of disturbing traffic fluidity on the site as little as possible.

In 2019, the Company also executed several works from the set of road infrastructure measures intended for improving traffic safety. Those included the integration of LED indicators signalling the danger of fog in the traffic control and management system (TCMS) on the Primorska motorway leg between Divača and Postojna, and the integration of new variable traffic signs in the TCMS at the Torovo, Log and Dob control points. Otherwise, the Company added over 50 new gantries (graphic traffic sign displays) to the 100 gantries already erected on the Slovenian motorways and expressways, particularly between Lukovica pri Domžalah on the Štajerska motorway leg and Divača on the Primorska motorway leg, including the Ljubljana ring road and the entry lane coming from the Dolenjska motorway leg. Traffic counters identifying incorrect driving direction were installed (37 new locations) along with new IP cameras for video surveillance (39 new locations). The occupancy of rest areas (Lopata, Tepanje, Lukovica) began to be recorded, but this is still in the testing stage.

In 2019, there were 2184 traffic accidents on Slovenian motorways and expressways compared to 2186 in the previous year, meaning that the number remained practically the same. The results

of the traffic accidents, however, have shown improved indicators. The number of fatalities increased from 15 (2018) to 16 (2019), severe bodily injuries fell from 69 (2018) to 52 (2019), and the number of light bodily injuries also reduced (from 658 in 2018 to 599 in 2019). The analysis has revealed a slight improvement, but we are aware that further efforts are needed to improve traffic safety on the Slovenian motorway network.

The Company is starting the execution of new infrastructural projects, the largest being the second tube of the Karavanke tunnel and the 3rd development axis.

The Company continued to realise its vision focused on motorway and expressway users, the sustainable development of the Company and its environment, and on the needs of Company employees to the maximum possible extent in 2019.

Financially, the Company improved all key performance indicators in 2019. In the 2019 financial year, the revenues of DARS d.d. amounted to €523.12 million, which is 6% more than in 2018. In 2019, the Company generated net sales revenues amounting to €480.75 million, EBITDA amounting to €422 million and a net profit of €140.62 million.

We will continue our efforts to ensure the long-term financial stability of DARS d.d., thus providing the coverage of liabilities arising for the existing debt, which reduced by 9% to €2.06 billion as at 31 December 2019.

Thank you for your trust.

Tomaž Vidic, PhD
Chairman of the Board



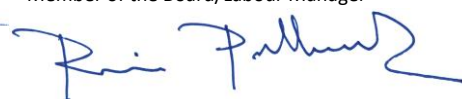
Gašper Marc, MSc
Member of the Board



Vili Žavrlan
Member of the Board



Rožle Podboršek
Member of the Board/Labour Manager



I.3 Mission, vision, values, strategic policies and integrated management system policy

Mission

We optimise traffic fluidity and ensure safety and comfort on the Slovenian motorway network by employing modern approaches and adopting a responsible attitude to the environment.

Vision

Connected to the future

Our current and future activities are guided towards connectivity in all possible forms. This means that our vision focuses on:

- users with whom we share a concern for their safety, as well as reliability and comfort during travel;
- the sustainable development of the Company and its entire environment, with which we have the common goal of further increasing the efficiency and effectiveness of activities and acting responsibly towards all our stakeholders: the owner, the business partners, the local community, the wider European area, the natural environment, etc., and establishing connections with related institutions
- the needs of employees with whom we are connected with the aim of ensuring a safe, creative and stimulating working environment.

Core values

Safety

We ensure a safe environment in which we operate: a safe working environment for our employees, a feeling of safety for our business partners and users on the Slovenian motorway network (as their reliable partner on the road) and the preservation of the natural environment.

Responsibility

With a responsible attitude towards ourselves and society, we fulfil all work commitments undertaken and provide for the quality implementation of assigned tasks, bearing in mind our users, the environment (the harmonisation of our activities with the capabilities and needs of the natural environment) and other stakeholders we do business with (suppliers, contractors, other business partners, the owner, the local community – we are a reliable partner).

Development

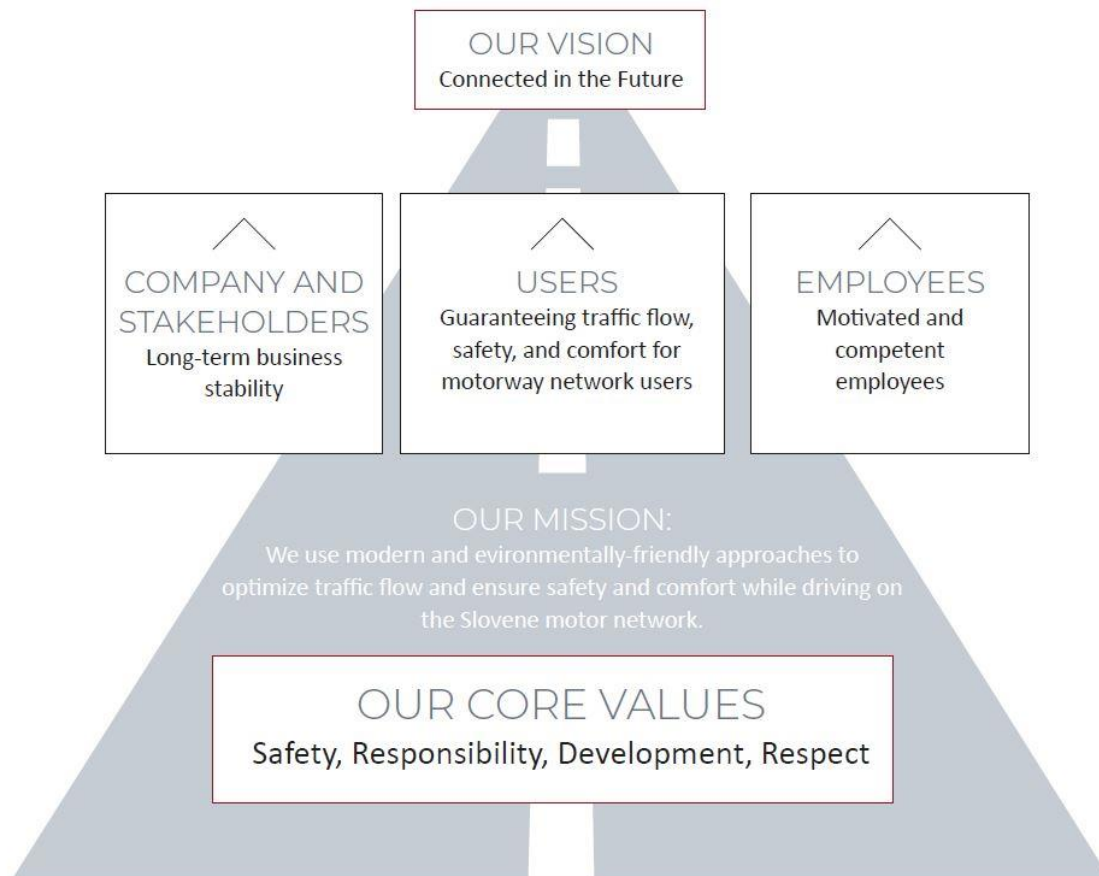
We constantly promote new innovative and modern approaches, as well as develop new and improve the existing services of the Company, including with a view to increasing energy efficiency. A creative and innovative mind-set is our guide because we know that this is the only way to develop innovative services with high added value for our customers, employees, the Company and the owner.

Respect

In the course of everyday activities, we strive for a high level of respect and trust towards all Company's stakeholders, which is reflected in the actions and interactions among employees, towards users, the owner and the business partners.

Strategic policies of DARS d.d.

Figure 9: Strategic policies of DARS d.d.



Ensuring traffic safety, fluidity and comfort for users on the motorway network

- Ensuring traffic safety
- Ensuring traffic fluidity
- Ensuring user-friendly services

Long-term business stability

- Ensuring long-term stable operations
- Introducing lean operations
- Implementing business excellence

Engaged and competent employees

- Constantly strengthening competencies
- Leadership development
- Providing a creative, safe and stimulating working environment

Integrated management system policy

Through the professional and responsible performance of tasks, the management and all Company employees will devote their best efforts to fulfilling the requirements and expectations of our stakeholders: users, the owner, employees, the environment and other interested public. Our business success is carefully planned, managed and supervised. We are committed to the continuous improvement of all business processes, with an emphasis on preventative action.

Our goal is to act in a quality, environmentally-friendly and energy-efficient manner and to provide employees, outsourcers and users with a safe and comprehensive service.

The management system policy is pursued in the following manner:

- by making responsible decisions based on specific information and facts,
- by providing good conditions and relations between all stakeholders within and beyond the Company,
- by promoting proactive activities with an emphasis on employee innovations,
- by managing the identified risks and implementing detected opportunities,
- by providing the desired level of trust, integrity and availability of information and means of information,
- by increasing the efficient use of all materials and energy throughout the service life cycle,
- through consistent compliance with the legislation, other mandatory requirements and development policies,
- through mutually beneficial cooperation with partners and other outsourcers,
- by supporting the development of the profession and acquiring new knowledge and skills,
- through active communication within the Company and with external audiences,
- through the commitment to prevent health risks and injuries of employees,
- by establishing and achieving measurable targets of improvement in all areas of operation,
- by taking systematic account of all business aspects (the environment, quality, information security, safety, economics) in the purchase of products and services and the design of new solutions.

The Management Board undertakes to lead by example and pursue the set objectives to the best of their abilities.

I.4 Corporate Governance Statement of DARS d.d.



In accordance with paragraph 5 of Article 70 of the Companies Act (Official Gazette of the RS, No. 42/2006 and sub.), the Articles of Association of DARS d.d. adopted in January 2020 and the provisions of the Corporate Governance Code for Joint Stock Companies and the Corporate Governance Code for Companies with Capital Assets of the State, the Company hereby presents, as part of its Annual Report, the following

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement is an integral part of the Annual Report for 2019 and is accessible for the period from 1 January 2019 to the date of publication in 2020 in electronic form on the website of the Ljubljana Stock Exchange (SEOnet) and on the official website of DARS d.d. (www.dars.si).

1. Reference to the Corporate Governance Code and the Recommendations

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

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

- Recommendations and Expectations of the SSH, March 2018, accessible on the website of the Slovenian Sovereign Holding (SSH) <http://www.sdh.si>.

After the Slovenian Sovereign Holding Act came into force, the Republic of Slovenia, as the sole shareholder, exercises 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 discrepancies in the implementation of the above codes and recommendations in 2019, while deviations from specific 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 practices.

2. In terms of management, 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) Corporate Governance Code for Joint Stock Companies

Corporate governance framework

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

Corporate Governance Statement and Statement on Compliance with the Code

Point 5.5: In the Statement, the Company does not disclose all the data indicated in the annex to the Code. In the Statement, it names the composition of the Management Board, also indicating the function. The composition of the Supervisory

Board is disclosed in the Report of the Supervisory Board as part of the Annual Report.

Point 5.6: The remuneration received by the Management and Supervisory Boards is disclosed in the financial section of the Annual Report. The Company discloses the gross remuneration of each Member of the Management Board and of the Supervisory Board in accordance with legal requirements, but not net remuneration.

Point 5.7: In 2020, the Company will provide an external assessment of the relevance of the Corporate Governance Statement.

Composition and appointment of the Supervisory Board

Point 9: In companies in which the SSH exercises at least $\frac{3}{4}$ of all voting rights, supervisory boards do not form special committees competent for the execution of procedures to search for and assess candidates for supervisory board members. The Company's Supervisory Board adopted a Diversity Policy in 2018, which lays down that its realisation is pursued by the shareholders, Supervisory Board and Workers' Council.

Procedure to select candidates for Supervisory Board Members

Point 10: In companies in which the SSH exercises at least $\frac{3}{4}$ of all voting rights, supervisory boards do not form special committees competent for the execution of procedures to search for and assess candidates for supervisory board members.

Training of Supervisory Board Members

Point 13.1: The annual training plan for Members of the Supervisory Board or Committees is not defined once a year; instead, Members of the Supervisory Board decide for themselves which training they need. Supervisory Board Members train and ensure that the knowledge, experiences and skills of the Members comply with the needs of the Company. Indicative training costs are provided in the Company's annual business plan.

Evaluation of the Supervisory Board

Point 14.1: The Supervisory Board did not perform a self-assessment in 2019. Based on the adopted action plan for self-assessment from 2017, the Supervisory Board carried out measures deriving from it.

Payment of the Management Boards

Point 21: In defining the remuneration to be received by Members of the Management Board,

the Supervisory Board abides by 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 has also adopted the Rules on Determining the Content of Employment Contracts for the Management Board Chairman and Members regarding Remuneration and Severance Pay, which lay down criteria for evaluating the performance-related variable share of remuneration received by managers, and informed the General Meeting thereof.

Company communication strategy

Point 27.2: This is partly taken into account. The Company has drawn up and enforced a general Communication Strategy of DARS d.d., Rules on business secret classification and protection, Rules on the provision of information to the media, and Instructions for replying to motorway users.

Publication of important information

Point 29.1: The Company makes regular reports on its financial and legal position through press releases, but does not report on business performance assessments, since that makes no sense in the event of compliance with the applicable strategy and annual plan of work. In case of deviations, the Company would immediately inform the public about other business events, impacts and deviations with press releases.

Point 29.5: The Company does not disclose in the Annual Report membership positions in the management or supervisory bodies of non-related companies that are taken up by Members of its Management and Supervisory Boards, since Management Board Members inform the Supervisory Board about any violations of competition and any dependencies.

Point 29.7: The Company discloses the gross remuneration of each Member of the Management Board and of the Supervisory Board in accordance with legal requirements, but not net remuneration.

Point 29.8: The financial statements of the Company, 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 the ZGD-1 and ZDARS-1.

Point 29.9: The Company does not publish on its website the applicable texts of the rules of procedure for its bodies. These are documents that are continuously revised and are intended solely for the work of those bodies. Any external assessment of the adequacy of the documents by third parties would be out of place due to a lack of knowledge of the bodies' needs.

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 these companies' management boards and cooperate with them in their management activities. The Supervisory Board has a Remuneration Committee that operates as a Nomination Committee. The Remuneration Committee consists of two members of the Supervisory Board representing shareholders and one member of the Supervisory Board representing workers. External experts are included as required.

Pursuant to the Code, which entered into force on 1 January 2020, the Company will prepare the Succession Policy document this year.

Point 6.8: In companies in which the SSH exercises at least $\frac{3}{4}$ of all voting rights, supervisory boards do not form special committees competent for the execution of procedures to search for and assess candidates for supervisory board members.

Transparency of operations and reporting

Point 8.4: The Annual Report does not disclose the costs of the Supervisory Board operations as indicated. The disclosure includes the remuneration received by Supervisory Board Members, including travel costs and accounted benefits.

Auditing and internal control system

Point 9.2.7: This is partially taken into account considering that the set time periods for the recommendations given by internal auditors may exceptionally be extended for objective reasons.

Adoption of the Code of Ethics and corporate integrity

Point 10.2: The Company has implemented elements of the corporate integrity system within the scope of the following documents: Dars Code of Conduct, Management Policy of DARS d.d. and

Instructions laying down protection for whistleblowers reporting corruptive, illegal or unethical actions. By way of the reorganisation that will enter into force on 1 April 2020, the Company will also establish the Compliance and Quality Operations organisational unit.

Point 10.2.1: This is applied partially. Within the scope of the Sustainability Report, the Company reports on the activities of the "Integrity Committee at DARS d.d." and the "Workplace Harassment Committee".

c) Recommendations and Expectations of the SSH

Labour cost optimisation

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

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 site.

General Meetings of Companies

Convening the General Meeting – Point 6.1: The sole shareholder of DARS d.d. is the Republic of Slovenia, which is represented by the Slovenian Sovereign Holding (SSH) pursuant to 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 the ZGD-1 regarding the deadline for convening and publishing the agenda for the General Meeting need not be observed.

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

3. The main characteristics of the internal control and risk management systems at the Company in relation to the financial reporting procedure

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

The internal control system is a set of policies and guidelines that are put in place and adopted by the Management Board in order to manage the risks related to financial reporting as effectively as possible. The purpose of the internal control system is to ensure the efficiency and effectiveness of operations, the reliability of financial reporting and compliance with the applicable laws and other external and internal regulations.

The Company has put in place a risk management system that is related to financial reporting.

The accuracy, completeness and truthfulness of the financial reporting is ensured with the implementation of the following types of internal control:

- control of the accuracy of accounting data, which is provided in different ways, e.g. by harmonising items with customers and suppliers,
- control of the completeness of data capture (e.g. sequence of documents, numbering of documents),
- control of the delineation of duties and responsibilities (e.g. separate record-keeping and payment),
- control of access restriction (the right to access accounting records is granted on a selective basis),
- control of supervision.

The accounting process is computerised, which is why all the types of internal control indicated above are also related to the control systems integrated into the IT framework and cover the control of the network, data and application access restrictions and the control of the accuracy and completeness of data capture and processing.

The Risk Management chapter in the Business Report presents in detail the risk management and control mechanisms in relation to the assessment of each type of risk. We believe that the current control system at DARS d.d. ensured the efficient and successful attainment of business goals in 2019, actions compliant with the legal provisions, and fair and transparent reporting in every significant aspect.

4. The functioning of the General Meeting and its key competencies, description of shareholder rights and the manner of exercising such rights

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

The functioning of the General Meeting and its key competencies, as well as 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 shareholder rights, as defined in the ZGD-1 and the Company's 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 legally defined cases, but no less than once a year.

5. Composition and operations of managing and supervisory bodies and their committees

Management Board

The composition and activities of the Management Board are defined in detail in the Articles of Association of DARS d.d., under which it may have no more than five members. The Chairperson or Member of the Board may be a person who fulfils the conditions referred to in Article 255 of the ZGD-1 and point 7.2.2 of the Articles of Association of DARS d.d. The Chairperson and all the Members of the Board are appointed by the Supervisory Board 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: Tomaž Vidic, PhD, Chairman, Gašper Marc, MSc, Member, Vili Žavrlan, Member, and Rožle Podboršek, Labour Manager/Board Member.

The Management Board runs the Company to the benefit of the Company, independently and under its own responsibility, whereby acting with due care and diligence, thus protecting the Company's business secrets. While realising its tasks, the Management Board adopts measures and carries out procedures laid down by the law and the Company's Articles of Association.

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

The Management Board makes decisions that fall within its competence with a majority vote cast by all the Members of the Board. Each member of the Management Board is entitled to one vote. In the event of a tied vote, the vote of the Chairman of the Board is decisive. The Labour Manager participates in decision-making whenever the Management Board decides on HR and social issues.

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

Supervisory Board

Pursuant to point 7.3.1 of the Articles of Association of DARS d.d., the Supervisory Board comprises nine Members, three of whom are employee representatives.

The Supervisory Board adopts the Rules of Procedure on its work in accordance with the Articles of Association of DARS d.d. The Supervisory Board appoints the Chairperson and Vice-Chair.

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

In accordance with 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 general meetings; reviews and examines the ledgers and documentation of the Company, its cash in hand, securities and inventory of goods and other items; grants the Management Board prior consent for the transactions referred to in point 7.1.12 of the Company's Articles of Association; familiarises with the Management Board's decision on the establishment and/or termination of subsidiaries; submits proposals to the General Meeting for the appointment of the auditor; appoints the Audit Committee of the Supervisory Board as well as the other committees under the Companies Act; familiarises with the decisions of the Management Board on the purchase and disposal of stakes or shares in other companies; grants consent to the Company's annual Business Plan and 3-year Business and Financial Plans, as well as to other planning documents; aligns the text of the Articles of Association with the valid resolutions of the General Meeting; notifies the Company bodies and shareholder about its positions and proposals; and

discusses and makes decisions 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 proposed distribution of available profit submitted by the Management Board. It must compile a written report on the results of its verification for the General Meeting.

The detailed composition and activities of the Supervisory Board and its committees in 2019 are presented in the Report of the Supervisory Board.

Decisions related to the General Meeting, Management Board and Supervisory Board and Company securities are taken from the Articles of Association as adopted by the General Meeting held on 28 January 2020.

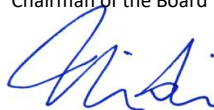
Ljubljana, 9 April 2020

Supervisory Board of DARS d.d.

Jože Oberstar
Chairman of the Supervisory Board



Tomaz Vidic, PhD
Chairman of the Board



Gasper Marc, MSc
Member of the Board



Vili Zavrlan

Member of the Board



Rožle Podboršek

Member of the Board /
Labour Manager



Management Board of DARS d.d.

I.5 Non-financial reporting at DARS d.d.

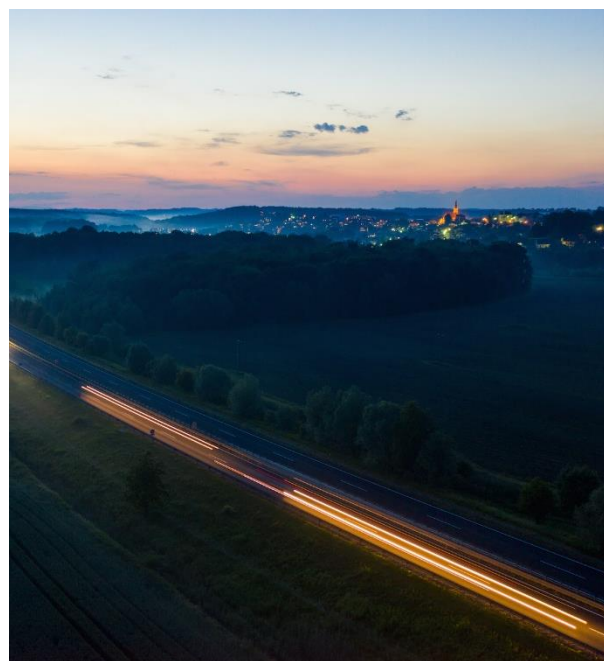
An independent Sustainability Report of DARS d.d. for 2019 will contain all the required information as laid down in the Non-Financial Statement. Therewith, DARS d.d. will meet the requirements of the Companies Act (Official Gazette of the Republic of Slovenia, No. 15/2017 of 31 March 2017 – i.e. Articles 57, 60(a) and 70(c) of the ZGD-1J).

In Sustainability Reports, the Company follows the Global Reporting Initiative Global Standards (GRI GS), core option.

The Business Report, which is an integral part of the Company's Annual Report, also includes key non-financial information about business, environmental, human resource and social affairs that are necessary to understand the position, performance and development of DARS d.d.

We are aware of the strong responsibility we have to people, the environment and society, and realise social responsibility in all projects and long-term plans and at all levels of our activities in a sustainable way. Ambitious and clearly defined goals ensure that the public will continue to identify DARS d.d. as a responsible and forward-looking company.

The Sustainability Report of the Company for 2019 will be published by 30 June 2020 on the website of DARS d.d. pursuant to the ZGD-1J.



I.6 Analysis of business performance

DARS d.d. revenue

Table 2: Overview of DARS d.d. revenues

Type of revenue	2018 (in EUR)	2019 (in EUR)	2019/2018 index	Structural shares for 2019
Revenue under the performance contract	300,000	326,820	109	0.1%
Toll revenue	451,497,703	466,611,271	103	89.2%
– vignettes	188,408,769	195,280,372	104	37.3%
– freight traffic	248,177,768	255,653,400	103	48.9%
– Karavanke tunnel	14,911,166	15,677,498	105	3.0%
Revenue from leases	8,038,859	8,951,984	111	1.7%
Revenue from closures and overweight load transport	1,142,321	1,040,540	91	0.2%
Revenue from easement	686,602	864,655	126	0.2%
Revenues from the lease of fibre optics	1,026,446	996,843	97	0.2%
Other sales revenues	2,913,930	1,958,763	67	0.4%
Other operating revenue	22,875,241	39,633,020	173	7.6%
Financial revenue	817,138	789,050	97	0.2%
Other revenue	5,231,151	276,588	5	0.1%
Capitalised own products and services	898,978	1,671,338	186	0.3%
TOTAL REVENUES	495,428,367	523,120,872	106	100.0%

In the 2019 financial year, the revenues of DARS d.d. amounted to €523.1 million, which is 6 percentage points more than in 2018. Toll revenue, which accounts for 89.2% of the total revenues, was 3% higher than in 2018. The growth of toll revenue is related to increased revenue from the tolling of heavy vehicles due to the introduction of the DarsGo electronic tolling system (as of 1 April 2018), which made the entire motorway and expressway network subject to tolls in 2019, growing traffic and changed toll prices as of 1 April 2018. In terms of quantity, vignette sales increased by 3.7%, with 7,510,454 vignettes sold in 2019. The increase in other operating revenue is largely due to the reversal of provisions deriving from potential legal actions. Other revenues account for minor shares of total revenues.

DARS d.d. expenses

Table 3: Overview of DARS d.d. expenses

Type of expense	2018 (in EUR)	2019 (in EUR)	2019/2018 index	Structural shares for 2019
Cost of material	10,784,758	9,750,970	90	2.8%
Cost of services	36,862,228	40,632,033	110	11.6%
Labour costs	40,847,516	45,244,673	111	12.9%
Write-downs	175,081,720	211,019,620	121	60.2%
Other operating expenses	3,408,916	4,417,931	130	1.3%
Financial expenses	41,091,153	39,191,294	95	11.2%
Other expenses	210,665	495,076	235	0.1%
TOTAL EXPENSES	308,286,955	350,751,597	114	100.0%

The expenses of DARS d.d. in 2019 amounted to €350.75 million and increased by 14% compared to 2018. Write-downs of operating expenses for revaluation increased the most due to the abolition of toll stations, which were

demolished, and the elimination of motorway elements following the completion of reconstruction. Write-downs account for the largest, 60% share of expenses.

Profit or loss of DARS d.d.

The net profit or loss of DARS d.d. for the period from 1 January to 31 December 2019 amounts to €139.6 million and decreased by 9% compared to the net profit or loss for 2018.

Table 4: Performance indicators

		31/12/2017	31/12/2018	31/12/2019
Financing ratios				
Equity financing ratio in %	$\frac{\text{Equity}}{\text{Liabilities}}$	48.87	52.39	53.95
Long-term financing ratio in %	$\frac{\text{Equity} + \text{provisions} + \text{long-term liabilities}}{\text{Liabilities}}$	93.88	94.39	93.16
Short-term financing ratio in %	$\frac{\text{Short-term liabilities (including short-term accrued costs and deferred revenue)}}{\text{Liabilities}}$	6.12	5.61	6.84
Investment ratios				
Fixed asset investment ratio in %	$\frac{\text{Fixed assets (at carrying amount)}}{\text{Assets}}$	89.86	90.98	91.03
Long-term investment ratio in %	$\frac{\text{Fixed assets} + \text{investment property} + \text{long-term inv.} + \text{long-term op. rec.}}{\text{Assets}}$	94.73	92.06	92.71
Horizontal financial structure ratios				
Quick ratio in % (taking into account accrued costs and deferred revenue)	$\frac{\text{Liquid assets} + \text{short-term receivables}}{\text{Short-term liabilities}}$	23.07	33.51	29.63
Current ratio in %	$\frac{\text{Short-term assets} + \text{short-term deferred costs and accrued revenue}}{\text{Short-term liabilities} + \text{short-term accrued costs and deferred revenue}}$	84.68	139.59	105.19
Operating efficiency ratios				
Operating efficiency ratio in %	$\frac{\text{Operating revenue}}{\text{Operating expenses}}$	186.71	183.30	167.83
Operating profit margin ratio in %	$\frac{\text{Operating profit}}{\text{Operating revenue}}$	46.44	45.44	40.42
Net profit margin in %	$\frac{\text{Net profit}}{\text{Revenues}}$	30.76	31.17	26.69
Profitability ratio				
Net return on equity	$\frac{\text{Net profit for the period}}{\text{Average equity (excluding net profit for the period)}}$	0.05	0.05	0.05

I.7 Significant business events in the 2019 financial year



March

According to the ZDARS-1, DARS d.d. has real estate by other operators recorded in its books of account. On 4 March 2019, the Company signed an Agreement with the Republic of Slovenia executing the transfer of the assets managed by Government bodies from the assets of the Motorway Company in the Republic of Slovenia to the assets of the Republic of Slovenia at the existing book value amounting to €235,724,995.56.

On 25 March 2019, the General Meeting of the Company was held at which a resolution was adopted to reduce the Company's share capital by €235,724,995.56. Due to reduced share capital, the sole shareholder, the Republic of Slovenia, receives items or, rather, assets, the book value of which as at 31 December 2018 amounted to €235,724,995.56, instead of remuneration in cash. Payment to the Republic of Slovenia is made with the handover of assets pursuant to Article 375 of the Companies Act.

April

On 15 April 2019, the Supervisory Board discussed and approved the audited Annual Report for 2018.

Based on the provisions of the Ljubljana Stock Exchange Rules and applicable legislation, DARS d.d. published the audited Annual Report of DARS d.d. for 2018, which also comprises the Corporate Governance Statement and an annual document.

The Company concluded a credit contract with KfW IPEX-Bank on 25 April 2019 for credit in the amount of €51 million intended for investments. Liabilities deriving from the loan are not secured by a Government guarantee.

June

The successful execution of the first verification of the Sustainability Report by an independent institution pursuant to the requirements of the GRI standards.

At its 43rd regular session, the Supervisory Board of DARS d.d. gave consent to the preparation of design documents for the construction of the first section of a new traffic link on the alignment of the northern part of the 3rd development axis, i.e. from the Šentrupert junction to the Velenje South junction.

Based on the provisions of the Ljubljana Stock Exchange Rules and applicable legislation, the Company published the Sustainability Report for 2018.

August

The Supervisory Board of DARS d.d. was informed about the non-audited report on Company operations between January and June 2018 at its 44th regular session. Pursuant to Articles 112 and 113 of the Market in Financial Instruments Act, the Company published an unaudited report on operations in the first six months of 2018.

The 16th General Meeting of DARS d.d. was held on 28 August 2019, at which the owner was familiarised with the audited Annual Report of DARS d.d. for 2018, the Auditor's Report and the Report of the Supervisory Board on the review of the Annual Report of DARS d.d. for 2018 containing the Auditor's Report, including the remuneration received by Members of the Management and Supervisory Boards in 2018. A resolution was adopted on the distribution of the available profit for 2018 and the granting of a discharge to the Management Board and Supervisory Board for the 2018 financial year.

Furthermore, a clean copy of the Articles of Association was adopted, which was amended with respect to the resolutions adopted at the General Meeting.

September

The 17th extraordinary General Meeting of DARS d.d. was held on 6 September 2019, at which a clean copy of the Articles of Association was adopted pursuant to the resolution on amendments to the Articles of Association regarding the number of Supervisory Board Members from the current six to nine members, whereby three Supervisory Board Members are employee representatives. The following members were appointed for a 4-year term of office: Jože Oberstar, Boris Božičnik, Matej Čufer, Andrej Hudoklin, MSc, Jožef Zimšek.

The Supervisory Board of DARS d.d. appointed Mr Jože Oberstar as the Chairman of the Supervisory Board, Mr Boris Božičnik as the Vice-Chair, and members of both Supervisory Board Committees at its constituent sitting held on 25 September 2019.

November

A certificate was obtained for the information security management system under the ISO/IEC 27001 standard.

At the 2019 Environmental Gathering, which was organised by the Finance newspaper, the Company received the 2019 award for an environmentally friendly service. Members of the panel presented the award to DARS for the successful deployment of the DarsGo electronic tolling system.

December

Based on the third strategic conference held in November, the "DARS D.D. STRATEGY FOR 2017-2020 (second amendment)" was confirmed.

I.8 Risk management



I.8.1 Business risks

DARS d.d. is aware of the severity of the consequences that could arise if various types of risk were to be realised. In the increasingly uncertain business environment, risk management represents a significant factor of business performance, which is why the Company pays a great deal of attention to the timely detection of risks and their management. The risk management process has become a strategic part of our business, so the Company is especially proud of its successful management of risks in 2019. The Company manages risks with three lines of defence. The first line of defence is the management, which is responsible for the establishment and successful functioning of internal controls and for the daily implementation of risk management procedures. The task of the management is to identify and assess risks, as well as to define an appropriate response to risks pursuant to the organisation's goals. The second line of defence includes the functions carrying out supervision over business processes and risks (quality, accounting controls, physical protection and similar controls, etc.). Employees in the mentioned posts are in charge of the proper introduction of the risk management system. Efforts are made to promote the identification of exposure to individual risks, the monitoring of the introduction of risk management procedures and the development of a risk reporting system. The third line of defence is internal auditing. In November 2019, the DARS d.d. Strategy for 2017–2020 was amended for the second time somewhat revising or amending the operating goals that support strategic goals, based on which strategic risks were re-identified. The

system is reviewed and supplemented on an ongoing basis, so that the key risks the Company is exposed to are identified, evaluated and managed in due time.

Risks have been identified based on the goals set at the highest level in the DARS d.d. Strategy for 2017-2020 (second amendment) and at lower levels compared to the goals set within the scope of each process. In 2019, the composition of the Risk Management Committee changed. The methodology for risk assessment was amended in 2019. The probability of occurrence was assessed using a 5-level scale: highly unlikely (10-20 years), very unlikely (5-10 years), fairly likely (1-5 years), very likely (1 month to 1 year), highly likely (1 day to 1 month), with the consequences of the risk expressed either in terms of value using a five-level scale (less than €10,000, €10,000 to €100,000, €100,000 to €1 million, €1 million to €10 million, and more than €10 million) or semi-qualitatively with grades of 1 to 5 (low, moderate, medium-high, high and very high).

Based on all the identified and evaluated risks, members of the Risk Management Council prepared a selection of key risks that require active handling. An acceptable level of risk that the Company is still prepared to assume was determined for the selected risks. The risk ceiling is compliant with the Company's business strategy and risk appetite. In cases where the level of acceptable risk is lower than the level of the calculated risk, the resulting discrepancy between the actual and acceptable risk must be overcome during the management of the identified risks. The management of a process that bears the risk has designed control mechanisms for each identified risk – activities to reduce and manage risks – and we now routinely monitor the adopted control mechanisms. Risk management is integrated into all areas of Company operations.

The identified risks on which special attention was placed were:

- limited funds available for investments in development,
- traffic accidents or the level of traffic safety,
- dependence on outsourcers,
- loss of income from the functioning of the DarsGo system,
- failure of key information systems,
- the efficiency of DarsGo system operation,
- the economic viability of investments,
- revenue risk,
- loss of competent or key staff (undesired fluctuation),
- increased share of actively non-engaged employees,
- insufficient sources to enhance employee competencies and thus the development of the target organisational culture,
- concern for health and safety at work and
- environmental protection.

Limited funds available for investments in development

To provide and properly allocate funds for the renewal of motorway infrastructure, the Road Infrastructure Department in cooperation with the Department for Reconstructions again prepared an Action Plan for a 3-year period (2020-2022), which 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 the proper design of investment reconstruction works. The document lists all the measures foreseen in the following three years adding indicative values of works, primarily to inform the relevant services in advance about the foreseen needs for the provision of funds for investments in existing infrastructure. The competent services must adjust the planning of the funds required for investments in existing infrastructure to the needs expressed in the relevant document.

Investments in development are also needed in maintenance machinery, where we face more and more extreme weather conditions and increased requirements for traffic fluidity on the motorways (minimum disruptions to traffic due to maintenance).

Traffic accidents or the level of traffic safety

To prevent an increase in the number of traffic accidents or, rather, a decline in the level of traffic safety, the Company, as the entity operating and maintaining the motorway network, is required to act with due expertise and take appropriate and effective actions with indirect or direct effects. When implementing measures relating

to traffic safety, the Company primarily observes the requirements of domestic legislation and the obligations imposed by the European Directives, while carrying out various projects relating to traffic safety, the use of advanced IT and the introduction of smart infrastructure based on good practice examples and studies conducted. Projects within the scope of which efforts are devoted mostly to:

- design solutions improving road throughput and reducing the number of conflict points,
- the use of road furniture mitigating the consequences in case of a driver's mistake, thus reducing the number of fatalities or seriously injured persons, and
- the preparation of proposals for amendments and supplements to legal and implementing regulations providing the introduction of modern solutions in traffic technology and the use of more efficient road furniture.

Keeping track of novelties from abroad and upon the efficient use of home knowledge, everything indicated provides conditions for improved traffic safety. Within the overall concept of designing and building new sections, reconstruction works, maintenance, new ITS technologies and traffic management, safety has improved in relation to increased traffic. Positive results were shown from information provision to users, coordination (carried out from control centres, primarily in case of actions by operative teams on-site and upon emergency events) and measures tailored to traffic and weather conditions. Furthermore, efforts have been made to implement safety campaigns on an ongoing basis and to cooperate actively with stakeholders to promote traffic safety. Crisis communication upon emergency events is very important. It is necessary to harmonise communication channels from the site to users. We need to provide a single communication system, common protocols and different scenarios in respect of the priority of an event.

Dependence on outsourcers

The risk of dependence on outsourcers is managed by the Company through the diligent monitoring of all information related to the operations of its business partners, the preparation of measures to prevent the impact of events that detrimental to Company operations (amendments to contractual provisions, consensual terminations of contracts) and the maintenance of healthy business relationships. 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, quality negotiations are ensured and relevant references are requested from successful tenderers. To control the performance of contracts, the Company has appointed contract custodians who oversee the performance of a contract throughout its life cycle, i.e. from the preparation of tender documents to the conclusion of a contract, during the execution of the transaction and up to the expiry of the warranty period, if foreseen. 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. The Company also recruits new competent human resources, who are further trained and directed to manage a certain area. Investment costs, both regular and those incurred due to subsequent project changes, are monitored on an ongoing basis. All projects in all stages are carried out in a manner involving an Engineer who comprehensively manages a particular project. It is vital that we procure strategic materials (salt, oil, etc.) and always have a back-up supplier at our disposal.

The efficiency of DarsGo system operation

After the successful deployment of the system in 2018, activities commenced in 2019 to provide stable system operation and eliminate deficiencies, and to introduce changes and upgrades to the system, principally in terms of making the system even more user friendly for both customers and administrators, thus making improvements based on findings from the first year of system operation. Regular meetings are held with the contractor for inspections and system monitoring, as well as for incident and change management. Control methods independent of the contractor are used to monitor the efficiency of system operation on an ongoing basis, deviations are analysed and, if necessary, appropriate actions are taken immediately.

Failure of key information systems

A failure of key information systems is managed with the ongoing monitoring of IT systems and an immediate response to emergency events. A system of uninterrupted operation of the information system has been established (duplication of the most vital parts of the IT equipment) and safety measures have been introduced to protect and safeguard the information systems from unauthorised interference and loss of data. One of the methods to identify threats is to use independent security checks of information technology. The identified threats that could affect the confidentiality, integrity or availability of the information systems and information infrastructure are managed through regular maintenance, regular backup process, firewalls and anti-virus

software, upgrades to software and hardware, updates of security policies, increased information security and by implementing a clear vision of the development of the Company information system. In some key segments, the Company began setting up a 24/7 maintenance system last year. In certain key ITS systems, the Company began setting up applications allowing automatic malfunction signalling in 2017. Errors are processed at the control centres, where employees are present at all times, thus allowing an immediate response to emergency events. Furthermore, on-call time by in-house personnel has been organised in TC. Services for which the Company staff is inadequately qualified or insufficient are rendered with the help of outsourcers.

Loss of income from the functioning of the DarsGo system

The deployment of the new DarsGo system was vital for DARS d.d., as it is necessary to provide the payment of tolls for vehicles with a maximum permissible laden weight exceeding 3.5 tonnes, which is the largest and most important source of Company income. An important risk identified in the functioning of the new DarsGo system 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. During the implementation stage of the DarsGo system, the Company carried out trials and tests of the functionality of the delivered solution together with contractual engineers. In cooperation with the outsourcer with experts in information system auditing, the Company conducted an audit of system operations. Furthermore, a quality control system was set up for system operation, with a new organisational unit for the technical supervision and analysis of DarsGo system operation established in 2017, which is responsible for monitoring the operation of the DarsGo system, performing continuous assessments of the scope and quality of services (and also the development and maintenance of the monitoring model) as defined in Service Level Agreements, which constitute integral parts of the contract with the contractor for the deployment of the DarsGo system. Based on a public contract, the Company also selected an independent contractual partner for the establishment of a quality control system.

Based on all the measures and procedures carried out in the stage of the DarsGo system introduction, the system was deployed successfully and caused no loss of income arising from the tolling of vehicles with a maximum permissible laden weight exceeding 3.5 tonnes. In the first nine months of operations (1 April - 31 December 2018), 10% km more were rolled out compared to the same period in 2017, which is the result of the tolling of the entire network, while a part of the network had not been subject to tolls in the old system. In 2019, 6.3% more kilometres were subject to tolls and 3.2% more revenue was generated compared to 2018.

The growth of revenue, however, fails to fully reflect the number of tolled kilometres. The discrepancy between the growth in toll kilometres and the growth in toll revenue is attributed to the increasing number of kilometres travelled by cleaner heavy goods vehicles, particularly in the EURO 6 emission class, and the decreasing number of vehicles in the lower EURO classes. That is the result of an improved structure of vehicles in EURO classes and mandatory registration in the DarsGo system in order to enforce EURO classes, whereas users who used to pay tolls at toll stations paid the full toll irrespective of the EURO class.

Hence, at the end of 2017, the full toll was paid by 28.7% of vehicles, only 8.2% at the end of 2018 and only 6.4% at the end of 2019. On the other hand, the minimum toll was paid by 40% of vehicles at the end of 2017, 60.5% at the end of 2018, and 68.6% at the end of 2019. The share of cleaner vehicles will continue to grow, which will also need to be taken into account in the pricing policy, eventually reducing the discounts for cleaner vehicles.

The economic viability of investments

The risk of the 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 expert PMS DARS system for several years and in addition conducted expert economic assessments for minor investments with the help of external experts. In stage 1, the Company primarily examines the functionality of individual infrastructural elements and safety for motorway users, and then goes on to examine the durability and level of damage. For bridging structures, the Company continued a project to introduce the BMS DARS expert management system for such structures, which was initiated in 2017 and is planned to be put in full operation at the end of 2020.

For projects related to the energy efficiency of the Company, cost and benefit analyses are being prepared that will provide the basis for decision-making on the implementation of a particular measure; for ITS systems, the Company primarily checks eligibility in terms of safety for motorway users, while in restorations and investments

in electrical and mechanical equipment, the Company takes into consideration several different aspects (a project is pending to introduce a long-term plan for the refurbishment of electrical and mechanical equipment, which started in 2017). For the purposes of managing the risk of the eligibility of investments in mechanical equipment, a comprehensive analysis of all machinery and equipment was performed in 2017 and a medium-term plan of investments in their refurbishment was prepared for the 2018-2022 period. Investments in new EW and MW sections are planned in all design stages based on the pre-investment design (PIZ) or investment design (IZ), and with a produced investment programme during the production of the design for obtaining opinions and the building permit (DGD) and the executive design (PZI), whereby the investment programme is considered by a panel within DARS, confirmed by the Management Board, and then sent to the Commission for the review and approval of investment documentation that works within the scope of the Ministry of Infrastructure.

Revenue risk

Revenue risk is managed by preparing future revenue forecasts as realistically as possible, identifying any deviations from the business plan and by planning measures that would overcome any gap. All amendments to implementing regulations referring to toll collection and toll prices must first be coordinated with the Transport Associations of the Slovenian Chamber of Commerce and Industry and the Chamber of Craft and Small Business, after which the harmonised initiative must be approved by the Ministry of Infrastructure, which prepares a proposal for a government resolution providing the basis for the implementation of amendments. In 2019, DARS d.d. put forth various initiatives to the Ministry of Infrastructure to manage the risk of reduced revenue from the tolling of vehicles with a maximum permissible weight exceeding 3.5 tonnes, which is in that respect the most dynamic, since the price varies with respect to the vehicle emission class, while such vehicles contribute the most to the coverage of toll road costs with respect to their traffic load. The initiative for the indexation of the tolls charged for the use of the Karavanke tunnel to vehicles with a maximum permissible laden weight not exceeding 3,500kg was adopted, unlike all other initiatives (abolition of rebates, toll indexation for the toll road network, vignette price indexation, the introduction of a toll class for vehicles with two axles and a maximum permissible laden weight exceeding 3,500kg). DARS actively cooperates with the Ministry of Infrastructure and the ASECAP in the development and evaluation of proposals for amending the Eurovignette Directive, which may bring about revenue risk.

Loss of competent or key staff (undesired fluctuation), increased share of actively non-engaged employees and insufficient sources to enhance employee competencies and thus the development of the target organisational culture

The risk of the loss of competent or key staff at DARS d.d. is mitigated with the provision of a creative, safe and interesting working environment, which is also a strategic goal of the Company. In order to obtain feedback on the working environment from employees, surveys are carried out on the organisational climate and employee satisfaction, the results of which provide the basis for preparing an annual programme of activities. To manage the risk of undesired fluctuation in 2019, major emphasis was placed on increasing basic gross salaries, which had been largely set at minimum. Employees were given the opportunity to educate and train in-house in order to achieve personal and professional development. Reduced fluctuation or increased employee commitment is also the result of the measures carried out within the scope of the full Family Friendly Company certificate, which make it easier for employees to coordinate their job and family duties while enabling them to stay healthy by providing sports and recreational activities.

Employee engagement is built with specific activities that are laid down in the 2020 HR Management Strategy. Such activities are ongoing and support increased employee engagement, employee competencies and an improved organisational climate and culture. Since immediate superiors have the largest impact on employee engagement, more attention and energy was devoted to managers in 2019. Managers' competencies were measured, which was followed by development workshops for managers. Furthermore, the Company started implementing measures to strengthen the competencies of older employees and intergenerational cooperation and communication. Employees were given the chance to acquire specific topical expertise and skills beyond the scope of Company activities at various expert meetings in Slovenia and abroad, allowing them to achieve professional and personal growth.

Concern for health and safety at work

Risks related to the safety and health of employees at work are continuously mitigated. Employees are trained to work properly and safely, any irregularities are pointed out and communicated in-house. By managing activities in health promotion, efforts are made to get employees interested in a healthy lifestyle.

Safety at work was also included in the 2015-2020 Strategy as one of the most important elements for the successful planning of Company development. One major operative strategic goal is also a 15% reduction in the number of persons injured at work by 2020, which is why the Company has dedicated considerable funds to the purchase of new safer work equipment and the creation of a working environment that provides a maximum level of safety and health at work to employees. In 2019, an audit of the health and safety at work risk assessment was conducted. The realisation of the measures laid down was reviewed and based on the findings (internal control over the implementation of security measures), analyses of accidents at work, sick leave and occupational medicine reports on the health condition of Company employees, a decision was made to adopt additional technical and organisational measures. The measures refer not only to the provision of increased safety for field workers, but also to office employees who seem to be having more and more health problems as time passes.

Environmental protection

In accordance with its role as a motorway and expressway management and maintenance company, DARS d.d. implemented an environmental management system in previous years and an energy management system in 2017 that are used to consistently implement its environmental protection and energy management policy at all levels of its operations.

Based on the conducted strategic conference, the "DARS D.D. STRATEGY FOR 2017-2020 (second amendment)" was amended so as to include supplemented new and optimised existing operative goals referring to environmental and energy aspects and, consequently, measures to mitigate environmental risks. In 2019, the management system was further improved through the realisation of measures to mitigate environmental impacts and, consequently, environmental aspects as supplemented new and optimised existing environmental and energy objectives and programmes, while their realisation was monitored within the scope of the Company management review. The central theme of the environmental management system includes the assessment and analysis of environmental impacts and aspects, taking into account the stages of the service life cycle that are defined in the register of environmental aspects. To reduce environmental impacts, the Company laid down indicative and operational environmental and energy targets and programmes that will be used to achieve such 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 the legislative amendment refers. Environmental risk, which includes the risk of inappropriate waste management with a special emphasis on hazardous waste, the risk of environmental pollution and the risk associated with the protection of areas of influence, has become more and more important. The Company continued the activities already initiated for environmental protection. The systematic management of environmental risks reflects the environmental awareness of employees. Accidents on motorways can have a negative impact on the environment; this is why it is important to reduce risks that emerge through accidents and react quickly and effectively when they do occur to minimise negative consequences for the environment. All employees in such workplaces are informed and trained to act quickly and efficiently in terms of environmental protection should such a situation arise. The likelihood of emergencies is also reduced through preventive measures. Training aimed at learning to react quickly, properly and efficiently ensure that the impacts of any emergency events on the environment are kept to a minimum. By implementing appropriate activities within the scope of motorway maintenance, such as the cleaning and regular maintenance of retention basins to ensure their flawless functioning, implementing the Annual Programme of Operational Monitoring of rainwater (APOM), etc., the collecting, sorting and controlled disposal of waste, implementing measures to reduce light pollution and by constantly controlling carbon monoxide concentrations and visibility in tunnels, we significantly contributed to reducing the negative impacts on the environment and controlling the risks emerging in the environment. DARS d.d. plans to carry out noise protection measures based on the results of the conducted operational noise monitoring. The measures are designed to capture areas with a large number of overly affected buildings or inhabitants and areas of individual overly affected facilities along the motorway and expressway alignment.

Furthermore, the Company implemented the measures imposed by the governmental Noise Action Programmes for 2012-2017 and for 2018. The measures were implemented in five motorway sections from 2013 to 2015, and

the protection of the most affected individual residential buildings along the motorway network was made in 2019, i.e. active noise protection measures at 11 locations on the Slovenian motorway network.

In line with the regulations, DARS d.d. carried out operational noise monitoring for the motorway and expressway network in 2018/2019. Based on the results, noise protection measures were planned that are included in expert bases for the Noise Action Programme in affected areas. The expert bases for the Noise Action Programme also lay down guidelines for protection against the noise produced by road traffic along with criteria for the assessment of economic viability and proportionality of noise protection measures, guidelines for passive protection design and guidelines for noise barrier design in order to make the measures as efficient as possible with respect to the funds invested and maximally acceptable.

For the purposes of preparing a set of measures that will be included in the revised Noise Action Programme to reduce noise pollution, the Company prepared expert bases in cooperation with an outsourcer for the restoration of noise protection barriers and expert bases. An amendment of the Noise Action Programme is expected in 2020 for the 2018-2023 period.

I.9 Business activities of the Company



I.9.1 Business performance and the achievement of plans

The key principle we pursue today and will pursue in the future is business effectiveness in all possible forms and in relation to all possible stakeholders. This was the purpose of formulating the Strategy of DARS d.d. for 2017-2020, the key document for the strategic planning of the long-term successful development of DARS d.d.

In addition to ensuring the mobility of people and goods, our business environment is increasingly guided by sustainable development, which focuses our future activities on:

- planning and realising investments and other activities while taking into account the economic and social aspect;
- environmental compatibility and a significant decrease in adverse effects on the environment resulting from various forms of traffic;
- adaptation to digital transformation and the development of new advanced technologies (alternative sources of energy, such as smart roads and smart mobility, etc.);
- prolonging the useful life of infrastructure through optimum maintenance and renovation and by upgrading the existing system in accordance with raised standards;
- long-term stable operations with a responsible attitude to the environment and society.

On the basis of the adopted management system policy and the related strategic objectives and KPIs that are identified in the company's Business Plan, we determine measurable operative objectives. The system is developed in a manner ensuring continuous improvements and innovations of all employees at all organisational levels.

The main goals of DARS d.d. in 2020 are:

- After the successful establishment of the new tolling system in 2018 and successful operations in 2019, the system will be upgraded in 2020 to ensure better user servicing, increased revenue and compliance with the requirements imposed by EU regulations (the integration of EETS providers).
- Construction of the Karavanke tunnel: commencement of works (successful completion of the selection procedure and the contractor's familiarisation with the works).
- Continuation of activities on the 3rd development axis – north and south – within the scope of the Company's financial capacities.
- Start of national spatial planning for the expansion of the Ljubljana ring road and radial roads or, rather, the establishment of lanes for rush hour traffic.
- Continued implementation of measures to ensure safety and comfort and optimise traffic fluidity.
- Investments in the modernisation of the existing network, improved quality of carriageways and structures and of traffic management and control systems.
- Financially sustainable construction of MW and EW.
- Further pursuit of the measures to optimise operating costs and ensure systemically effective asset management.

Through modern and environmentally-responsible approaches, we will optimise traffic fluidity and ensure safety and comfort on the Slovenian motorway network, as defined in the medium-term strategic plan.

1.9.2 Tolling

Toll revenue accounts for 89% of the total Company revenue and amounted to €466.6 million in 2019, which is good 3% more than in 2018. Toll revenue from vehicles with a maximum permissible weight exceeding 3.5 tonnes (heavy vehicles) amounted to €255.7 million, revenue from vignette sales amounted to €195.3 million and toll revenue from the Karavanke tunnel amounted to €15.7 million.

The growth of toll revenue in 2019 is related to increased revenue from the tolling of heavy vehicles due to the introduction of the DarsGo electronic tolling system (as of 1 April 2018), with the entire motorway and expressway network subject to tolls in 2019, growing traffic and changed toll prices as of 1 April 2018. Almost 63% of revenue was generated by users who pay tolls using a petrol card, followed by users who have concluded toll post-payment contracts with DARS d.d. at 22%, while others settle tolls in prepayment mode.

In 2019, 6.3% more kilometres were subject to tolls and 3.2% more revenue was generated compared to 2018. The discrepancy between the growth in toll kilometres and the growth in toll revenue is attributed to the growing number of kilometres travelled by cleaner heavy vehicles, particularly in the EURO 6 emission class, and the decreasing number of vehicles in lower EURO classes. That is the result of the improved structure of vehicles in EURO classes and mandatory registration in the DarsGo system in order to enforce EURO classes, whereas users who used to pay tolls at toll stations would pay the full toll irrespective of the EURO class. As a result, the average quarterly infrastructure charge for the second (R4) toll class decreased by 1.8% last year. Likewise, the average quarterly infrastructure charge for the first (R3) toll class decreased by 3.2%. The average infrastructure charge is thus nearing the lowest toll set for EURO 6. In order for the revenue to follow the growth rate in tolled kilometres, it will be necessary to adjust the pricing policy accordingly – to increase the infrastructure charge and/or change the coefficients used to differentiate the infrastructure charge for heavy vehicles.

In 2019, vignette sales increased by 3.7% in terms of value or by 2.9% in terms of quantity, with 7,510,454 vignettes sold. Revenue growth deriving from the tolling of the Karavanke tunnel for all types of vehicles stood at 5.3% compared to 2018.

In January 2019, a mark-up on the infrastructure charge was introduced in Slovenia for the purposes of constructing the second track of the Divača-Koper railway line, which is paid by heavy vehicles at the toll sections between Srmin and Šentrupert.

The DarsGo system was stable and efficient throughout 2019 after its successful deployment in 2018, which is primarily demonstrated in the amount of tolls collected. The system was optimised on an ongoing basis to be user-friendly based on the experiences gained in the first year of operation. The measurement of satisfaction among the users of the Slovenian motorways showed that satisfaction with the DarsGo system achieved the highest average score of all services. At the end of 2019, 81,500 customers from over 70 countries and 327,800 vehicles were registered in the DarsGo system, while the Company has issued 301,500 DarsGo units since the deployment of the system. Most of the registered vehicles are from Slovenia, followed by Romania, Poland, Hungary and Germany.

In 2019, toll supervisors issued 68,019 payment orders (58,067 of which were due to a failure to pay tolls for vignette vehicles and 8,363 due to a failure to pay tolls for heavy vehicles). The number of issued payment orders increased by 80.3% compared to 2018. Such growth is partly the result of the smaller number of supervision hours effectively worked in 2018 due to the introduction of the new tolling system (participation in tests, the familiarisation of newly recruited workers with the work of a toll supervisor, all toll supervisors had to be trained for work in the new system, training for the use of all new equipment; upon the launch of the system, the control section of the system was not optimal, which made supervision difficult, while the Company knowingly focused on informing heavy vehicle drivers of the start of mandatory use of the DarsGo system before the launch of the system, which is why less supervision was carried out). Another important reason was that the supervision over toll payment targeted heavy vehicles, where procedures take longer. In 2019, most of those reasons were eliminated, which is why the results are much higher than in 2018 and even the best since the introduction of toll supervision in 2008.

1.9.3 Motorway maintenance

Motorway maintenance

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

- The annual plan for motorway and expressway maintenance applies every year from 15 March to 15 November in a particular year. It includes annual maintenance activities and the hours foreseen for individual tasks, as well as operational plans for the execution of major works (the restoration of road markings, tunnel washing, etc.).
- The implementation programme for winter services applies every year from 15 November to 15 March the following year. It lays down and defines traffic management, operational plans for the winter services by MMC, places for the exclusion of heavy vehicles from traffic in demanding winter conditions and heavy snowfall, etc.

The mentioned umbrella documents provide the basis for the implementation of motorway and expressway maintenance, whereby all those maintenance works that may cause prolonged congestion are planned carefully in cooperation with other sectors and services of DARS d.d., while routine maintenance works are tailored to traffic flows and rush hours, making the effects of our works on traffic fluidity on motorways and expressways minimal, whereas such works are also suspended, if necessary, in the event of unexpected excessive traffic congestion.

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, has allowed the Company to reduce congestion, primarily on motorway sections with the heaviest traffic. Special attention was placed on the execution of night works in areas with the heaviest traffic that are maintained by MMC Ljubljana, MMC Postojna and MMC Vranksko.

The Company continued the project to optimise the preventive wet salting of roads and set up automatic mixing devices for saline preparation in 2019 at MMC Vranksko, MMC Hrušica and MMC Kozina.

In terms of scope, the maintenance works done in 2019 can be broken down as follows:

- patchwork and rehabilitation of 43,933 square metres of road pavement under 2 contracts in the amount of €1,120,946,
- investment maintenance works covering 314,487 square metres under 2 contracts over 207 working days and in the total amount of €10,147,201,
- routine maintenance works on drainage structures: rehabilitation of shafts, ditches, ducts and other drainage structures in the total amount of €405,283,
- pavement roughening covering 6,667 square metres of road pavement in the amount of €17,334.

Mowing, replacement of damaged crash barriers, cleaning and repair of protective mesh, tunnel cleaning twice a year, road markings, drainage system cleaning and so on are conducted in-house pursuant to the Annual and Winter Maintenance Plans. To execute routine maintenance, activities are carried out promptly to procure new vehicles and equipment, while providing the timely servicing and repairs of all equipment.

Electrical and mechanical maintenance

Electrical and mechanical maintenance in 2019 comprised:

- repair of damaged tunnel fan ODP AVT600 F300 F420N in the Šentvid tunnel;
- rehabilitation of damaged electrical installations in the left tube of the Karteljevo cut-and-cover;
- upgrade to the traffic light system at the Tomačevo roundabout;
- preparation of Executive Design documents to replace electrical equipment in the EN niches of the Debeli hrib and Mali vrh tunnels;
- rehabilitation of lighting cable manifolds, louvers, video surveillance and the FibroLaser fire protection system after a loss event in the Karavanke tunnel;
- supply and installation of doors at TC Trojane and TC Podmilj;
- replacement of the main LV distribution board for power supply to MMC Hrušica;
- preventive maintenance of electrical and mechanical systems and devices in tunnels and along the alignment pursuant to annual plans;
- all maintenance works under maintenance contracts;
- refurbishment of the back-up power supply on the Arja vas - Dramlje section;
- participation in electrical works to demolish toll stations and establish control points;
- participation in document reviews and device inspections at newly accepted sections;
- replacement of UPS devices at MMC Maribor and TS Tepanje;
- preparation of designs to install DEA in the Vodole tunnel and Malečnik cut-and-cover;
- participation with management in the preparation/review of documents and refurbishment works;
- participation with outsourcers in refurbishment works, maintenance and new construction.

I.9.4 Traffic safety management and provision

Established with the new organisation in 2013, the area of management combines the management of all types of DARS d.d. assets (road infrastructure, devices, rest areas and other real estate owned by DARS) to enhance the management of Company assets and the management of traffic and traffic safety.

Road infrastructure

Using the PMS – DARS (Pavement Management System), the Company prepared an Action Plan as the basis for identifying necessary infrastructure restoration works in the coming 3-year period. Input data in the expert system was updated and moved to the baseline year of 2019.

In 2019, the Company continued regular coordination for the 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 the amendment of the Action Plan for motorway infrastructure in the 2020-2022 period. That draft plan was later actively harmonised with the Department for Reconstructions until it was aligned and approved.

Based on the concluded contract, DRI also renders other expert services pertaining to the management of DARS assets. It also manages a project to establish an expert management system for bridging structures on the motorway and expressway, which is planned to be completed in 2020.

Based on a contract for 8-year-long geotechnical monitoring throughout the motorway network (except for the Rebrnice area, where monitoring is already conducted), which was concluded in 2015, all the necessary measurements on geotechnical structures and monitoring the conditions on demanding structures (VA6007, Vogršček embankment, Jožefov hrib) were carried out in 2019. There were also a few intervention inspections and proposals to regulate the condition (Osapska dolina, Dedni dol).

A system was arranged with the Maintenance sector to carry out annual inspections of road infrastructure by routine maintenance officers for road infrastructure and to prepare comprehensive reports on such inspections.

Several agreements have been made with municipalities for cooperation in the reconstruction of certain bridging structures. An overall analysis of the condition was performed for the Maribor cut-and-cover along with necessary measures.

Expert bases for the refurbishment of existing noise barriers were confirmed. The amended Action Plan includes the first priority of necessary noise barrier refurbishments taking into account the requirement to keep the barriers within the current clearances and execute no extensions and upgrades.

Measures to reduce electricity consumption

In 2019, the design engineer prepared an implementation plan to replace stage V lighting, within the scope of which it is planned to replace 2000 lamps. Due to increased reactive energy, the electrical maintenance sector disconnected the medium-voltage connecting cable between the central power stations of Podmilj and Ločica within the scope of the Trojane tunnel system, thus eliminated a major share of reactive energy, while the difference will be eliminated with the newly adjusted compensation device.

Compared to 2018, electricity consumption reduced by 4.8%, mostly due to the replacement of lighting with energy-saving LED lamps and the change of the tolling system. The replacement of LED lamps is also underway in the Vipavski križ cut-and-cover – acquisition of a design engineer. A relevance study is being conducted for the erection of a wind farm, along with the distribution/arrangement of take-off points along the old expressway through Maribor, i.e. by the City Municipality of Maribor and DARS d.d. Activities also started to prepare a draft proposal for the installation of solar power plants according to the PX3 scheme.

Rest areas

Within the scope of the management of minor rest areas, a contract was signed in 2019 with the contractor for design engineering works to rearrange, update and standardise all sanitary facilities and construct municipal facilities within the scope of the applicable environmental Decree on wastewater discharge and treatment. The rearrangement covers 12 minor rest area locations. An open invitation to tender for the lease of minor rest areas and an open invitation to tender for the provider of construction works will follow.

Real estate management

In 2019, we continued to process the received applications or enquiries for the sale of excess real estate managed or owned by DARS d.d., to notify interested parties, to identify excess land and other real estate, and to define possible ways to dispose of real estate located outside the motorway alignment.

Three public notices for the sale of excess real estate owned by DARS d.d. were published in 2019. In collaboration with the Maintenance sector, activities were carried out to conclude agreements with interested parties on the use and maintenance of land outside the motorway alignment, the status of which does not yet permit it to be put on sale.

Procedures to sell three items of real estate owned by DARS d.d. were completed, i.e. two holiday facilities in Barbariga, Croatia, and one residential unit in Hrušica na Gorenjskem were sold and leased pursuant to instructions.

In line with the resolution adopted by the Management Board and consent provided by Workers' Council, the Company purchased a real estate for in-house holiday activities in Bohinjska Bistrica.

Based on the planned management assets, major refurbishment works were carried out on the facilities of MMC Hrušica, stage 1, and apartments intended for in-house holiday activities in Mareda, Croatia.

Easements

In 2019, the Company received 82 applications to grant an easement. The Company concluded 76 easement contracts, which is 21 more than in 2018. The number still reflects a high number of investments.

Easement for consideration was granted in 2019 mostly for minor works, i.e. the arrangement of road, municipal, energy and TC connections. Two easement contracts were concluded in 2019 for major works, i.e. in the value of some €215,000. The total value of considerations for the awarded easement for consideration in 2019 amounted to €327,744.

In some cases, easement was awarded free of charge, either for all or only some of the land plots in the contract, pursuant to Article 70 of the Physical Assets of the State and Local Government Act (Official Gazette of the Republic of Slovenia, No. 11/18 and 79/18) or Article 474 of the Energy Act (Official Gazette of the Republic of Slovenia, No. 60/19). The estimated loss of easement compensation for such works amounts to €531,424.

Based on easement contracts concluded in previous years, under which easement compensations fall due periodically (i.e. once a year), another €40,045 was charged.

The costs charged for procedures to award easement and prepare easement contracts according to the applicable Company price list and for the reimbursement of the cost of the notarisation of signatures in such contracts amounted to €27,509.

Telecommunication marketing

In 2019, the Company signed 5 new contracts with Peter's Teleurh, Softnet, Elektro Celje, CATV Selnica and the Ministry of Infrastructure within the scope of telecommunication marketing, while some 20 offers were prepared. The Company provides the services of fibre optics lease, Internet access, equipment collocation options and Wi-Fi access at rest areas.

- Broadband Wi-Fi access is available at 28 rest areas, whereas the refurbishment of minor rest to provide DARS Wi-Fi access is under preparation. Wi-Fi coupons are available at Petrol and OMV petrol stations and at the DarsGo service in Maribor. An option to purchase virtual Wi-Fi coupons is in preparation.
- Internet marketing for corporate users along the motorway remained at the same level as in 2018, while a constant price decrease has been noted on the market, which will call for some adjustments in the Company offer.
- As regards the long-term lease of non-illuminated fibre optics, a new umbrella contract was concluded with T-2 company and 4 new routes were added (4 new contracts were concluded along with an annex to a contract).
- Revenue from easements remained at the same level as in 2018. In the following years, it is expected that 5G will be introduced gradually, which will probably substantially increase the number of base stations and, consequently, revenue from easements.

Traffic safety

The basis for monitoring traffic safety includes activities that have been identified by DARS d.d. as indicators for the efficient and economically favourable selection of measures to improve traffic safety. The activities include the EuroRAP programme and those laid down in Directive 2008/96/EC on road infrastructure safety management.

In the area of traffic safety, the Company executed several major investments in 2019, while a share of those was transferred to the coming years:

- the erection of new crash barriers and end terminals in the area of MMC Postojna and Kozina was completed and works commenced in the areas of MMC Postojna and Kozina,
- the replacement of signposts on the A1 between Fram and Arja vas was completed,
- provisional traffic lights were erected at the Žalec junction crossroads (Arja vas).

Activities related to the production of design documents in 2019, which will provide the basis for the execution of works in 2020 and 2021, included the production of documents for:

- execution of run-off areas,

- erection of safety barriers on structures to prevent vehicles from skidding off the structures,
- replacement of signposts at motorway exit points,
- replacement of end terminals and erection of additional safety barriers and crash cushions.

To address the most demanding problems and solutions in traffic safety and road furniture, consulting services were rendered by the Faculty of Civil and Geodetic Engineering and the Faculty of Mechanical Engineering, both from Ljubljana.

In 2019, the dynamics of the execution of works and activities fell behind expectations. Activities (the signing of a cooperation agreement between DARS d.d. and the Police) for setting up section speed control were at a standstill at the request of the Ministry of Internal Affairs due to long-lasting procedures to amend the legislation. Furthermore, long-lasting procedures to conclude annexes shifted a substantial share of the realisation to 2020.

At the state level, 2019 was worse than 2018 in terms of the number of fatalities and injured persons in traffic accidents. In total, 16 road users died last year on motorways and expressways, which is one user more than in the previous year. The number of persons with serious bodily injuries decreased substantially compared to the previous year. In 2018, 70 road users suffered serious bodily injuries, whereas that number fell to 52 in 2019. Light bodily injuries were suffered by 658 road users in 2018, whereas the number fell to 599 in 2019.

We believe that the reduced number of persons with serious and light bodily injuries is the result of more efficient road furniture (crash cushions, safety barriers, reconstruction works and media campaigns). Based on a review of severe traffic accidents and their causes, it has been found that actions will primarily be necessary in the area of reducing the actual speed of vehicles. Analyses of the causes of traffic accidents (particularly speeding and alcohol) and of the data taken from traffic counters, which also provide data on vehicle speed (the data is not fit to penalise offenders) have shown that a substantial share of motorway and expressway users substantially exceed the speed limit. Data taken from each traffic counter shows that some 100 vehicles a day travel at a speed of 160 to 180kmph, while speeding at over 200kmph is a regular phenomenon. Traffic accidents with users travelling at such speed, as a rule, result in fatalities (driver or passengers). Everything indicated can be effectively prevented only with section speed control systems.

1.9.5 Investments

In accordance with its business plan, DARS d.d. organised and managed projects involving the construction and reconstruction of motorway sections in 2019.

Siting activities were carried out in 13 projects in 2019 in the field of **spatial planning and siting of motorways and expressways**. Key projects in 2019 were:

Expansion of the Ljubljana motorway ring and radial roads

- In March 2019, the Ministry of Infrastructure sent an initiative/Investment Project Identification Document (DIIP) as provided by DARS to the Ministry of the Environment and Spatial Planning and held a press conference to present the initiative.

Slovenj Gradec - Dravograd

- Public procurement procedures were executed for the acquisition of the necessary documents to continue siting procedures (land surveying, geology, hydrology and hydraulics study, revision).
- Materials were produced to obtain guidelines from spatial developers for the alignment and the motorway maintenance centre. After the guidelines were obtained from the spatial developers, an analysis of the guidelines was conducted and alignments were made with spatial developers.
- Hydrology bases were prepared for the production of a hydrology and hydraulics study, which were sent for confirmation to the Slovenian Water Agency.
- A Conceptual Design (IDZ) was created for MMC Podgorje and the alignment was optimised due to guidelines provided by spatial developers.

Otiški vrh - Holmec

- Public procurement procedures were conducted to obtain the producers of a variant study/pre-investment design and an environmental report.

- Materials were produced to obtain guidelines from spatial developers for the alignment and deposit site for excess material. After the guidelines were obtained from the spatial developers, an analysis of the guidelines was conducted and alignments were made with spatial developers.
- Expert bases were produced for a variant study (technical engineering study, urban development study, traffic study and environmental report).

Ptuj - Markovci

- Two public procurement procedures were conducted to obtain all the necessary documents to continue siting procedures (variant study/pre-investment study and environmental report).
- Habitat types were mapped and listed.
- Alignments were made with the Ministry of the Environment and Spatial Planning and the Ministry of Infrastructure in respect of goals and bases for the planned GC.
- A variant study/pre-investment study and environmental report started to be made (with a study of possible variant solutions completed for consideration by the inter-ministerial working group).

Postojna/Divača - Jelšane

- The old variant study/pre-investment study was supplemented for the purposes of consideration by the DARS committee.
- Variants were checked in the Postojna corridor with a connection to the A1 at Hruševje (following a proposal put forth by mayors).
- An agreement was adopted between the MESP, MI and DARS regarding the approval of a corridor to Postojna and a new round of variant studies.

Koper - Dragonja

- The cover of the EW alignment in the area of the Šalara settlement was checked (alignment with the MESP) within the scope of the preparation of positions in response to remarks and comments from PT.
- The cover of the EW alignment in the area of the Dragonja settlement was checked (alignment with Piran Municipality) within the scope of the preparation of positions in response to remarks and comments from PT.
- Public procurement procedures were conducted to obtain the necessary documents to continue siting procedures (hydrology and hydraulics study, pre-investment assessment and investment design).

Ecoduct

- Expert bases were made for the provision of appropriate migration corridors for large beasts and other large mammal species on the Vrhnika - Postojna MW section.
- Guidelines were obtained for the further design of a new ecoduct by other stakeholders.
- A public procurement procedure was conducted to obtain a contractor for the preliminary design of a bridging structure or, rather, a green bridge (ecoduct) to provide appropriate migration corridors for large beasts and other large mammal species on the Unec - Postojna MW section.

Šentrupert - Velenje

- The application was supplemented and additional expert bases were made at the request of the MESP, Slovenian Environment Agency, to declare all facts and circumstances relevant to the issue of environmental approval.

In addition, many other tasks related to spatial planning and siting were carried out (e.g. the preparation of guidelines and opinions in cases where the Ministry of Infrastructure is the spatial developer, participation in the preparation and adoption of spatial planning and siting regulations and related regulations, where the most extensive harmonisations were made in relation to amendments to the Decree on the Ljubljana barje Landscape Park and draft Act Amending the Nature Conservation Act. Furthermore, other tasks given by the Ministry of Infrastructure were carried out, e.g. various inspections, studies, etc.

In the processes of integrating motorways and expressways into the environment, the Company cooperated with the public and users within the scope of its competencies, thus contributing to the enforcement of socially and environmentally acceptable solutions.

The Spatial Planning Department carried out spatial planning and siting tasks on behalf of and for the account of the Republic of Slovenia, and other tasks that are carried out on behalf of and for the account of DARS, e.g. the preparation of guidelines, opinions, terms of reference and approvals in cases where DARS is the spatial developer or consent authority. Major harmonisations were conducted with the investor of the Woodworking Centre in Gomilsko, i.e. the Municipality of Slovenj Gradec, in relation to the harmonisation of design solutions for the southern bypass road; with the Petrol company in relation to the Municipal Detailed Spatial Plan to arrange PS Barje; with the Municipality of Žalec in relation to arrangements in the Arnovski gozd Business Centre in Arja vas, and with the City of Ljubljana to harmonise Municipal Detailed Spatial Plans and many others.

In terms of design documents, the following main activities were carried out in 2019 (listed according to individual investments):

- Building Permit Design documents were created and reviewed for the **Jagodje - Lucija** section. An audit was also conducted for the most important lots of the Building Permit Design. The obtained consents to the Building Permit Design have mostly expired and it will be necessary to renew the consents or opinions. Further procedures to obtain a building permit are related to the acquisition of missing consents to the Building Permit Design, with the consent of the Piran Municipality being particularly important. Executive Design documents have mostly been made and are being reviewed. A 3D visualisation of the alignment has been made.
- The design documents and investment programme for the **Markovci - Gorišnica** section had to be amended due to legislative amendments. Expert bases for the execution of a preliminary procedure for an environmental permit were produced. On 4 December 2018, the Slovenian Environment Agency issued a decision requiring the Company to obtain an environmental permit. An invitation to tender was prepared and a contractor for the production of an EIA was obtained that completed the job at the end of 2019. The production of an amended Executive Design and Tender Documents as a result of legislative amendments has been completed and reviewed. The building permit under an integral procedure is pending.
- Building Permit Design/Executive Design documents for the **Gorišnica - Ormož** section were produced for a bridge crossing a canal of HPP Formin along with the Building Permit Design/Executive Design for the Ormož overpass and Executive Design for the Formin and Gorišnica overpasses. The Bill of quantities and Tender Documents are in preparation. The building permit for the bridge crossing the canal has been obtained.
- Building Permit Design documents were created and reviewed for the **Koseze - Kozarje** section (expansion into a 6-lane road), and opinions for it have mostly been obtained. Harmonisations were conducted with operators that have not yet issued their consent/opinion (VOKA, City of Ljubljana, Slovenian Water Agency). A procedure for the issue of an environmental permit is pending. A public consultation was conducted along with a hearing of parties that have been granted the status of a notice party. The second clarification based on a request made by the Slovenian Environment Agency is being prepared.
- Building Permit Design documents were created and audited for the **Dragomer junction** and consents for it have mostly been obtained (except for the Slovenian Water Agency and SŽ Infrastruktura). For the purposes of acquiring a water consent, a hydrology and hydraulics study was produced at the request of the Slovenian Water Agency along with a proposal of measures for protection against flooding, which was harmonised with the Slovenian Water Agency. The procedure to issue an environmental permit is pending and the application is being supplemented. Regular meetings were held with the Municipality of Brezovica, Slovenske železnice and the Slovenian Infrastructure Agency to harmonise solutions in the area of Vnanje Gorice.
- Intense efforts were made to prepare design documents for obtaining opinions and a building permit and Executive design documents for the **3rd development axis – north: Velenje-Slovenj Gradec section**. All terms of reference have been obtained. The design was broken down into eight lots, all of which are at different levels of treatment with respect to their priority, characteristics and complexity. Studies of alternative solutions to the Preliminary Design were prepared and discussed. Within the scope of lot D Gaberke, a request was filed for the issue of a building permit, which was supplemented several times. Geological, geotechnical and hydrogeological research has for the most part been completed; further research is only to be performed in areas where changes were made to design solutions. A permit was obtained from the Minister for deviations of designed elements from the applicable regulations. An investment programme was created and confirmed.
- A contract was signed in June 2019 with the design engineer for the production of the Design for obtaining opinions and building permit and Executive Design documents for the **3rd development axis – north, Šentrupert-Velenje section**, following a decision by the Constitutional Court stating that the NSP was in line with the Constitution and the law. Most terms of reference have been obtained. The study to identify the

boundaries of construction works, which will provide the basis for the execution of land allotment on agricultural and building land, was completed and submitted for revision. A geodetic plan was made and submitted for revision. Geological, geotechnical and hydrogeological research was conducted. An Investment Programme was made and submitted for review to the DARS committee.

- Design documents for obtaining opinions and a building permit and Executive Design documents for the bridges across the Krka river within the scope of **stages 1 and 2 of the 3rd development axis south** (Novo mesto East junction - Osredek junction) were created and revised. Building Permit Design documents for the alignment were reviewed and completed. All opinions on the design solutions were obtained. The acquisition of an environmental permit is pending. The latest supplements to the EIA at the request of the Slovenian Environment Agency were submitted in December 2019. A hearing will follow with parties that have been granted the status of a notice party in the procedure to obtain an environmental permit. In January, the Minister confirmed the pre-investment design for all four stages and, in July, the investment programme for stages 1 and 2. Tender documents for the producer of design documents for obtaining opinions and a building permit and Executive Design documents for **stages 3 and 4 of the 3rd development axis south** (from the Osredek junction to the Maline junction) were prepared and a public contract was published in December. An Investment Programme was created and submitted to the DARS committee.
- An arrangement and agreement were signed in 2017 between the Ministry of Infrastructure, DARS, DRSI and the Municipality of Koper for the execution of investment works in Šmarska cesta in Koper on G1-11/1062 from the access point to the H5 to the relevant link to the existing situation, within the scope of which the **Slavček junction** is being designed, laying down the activities and funding of co-signatories. Pursuant to the agreement, all the necessary activities for the realisation of the project up to the acquisition of the relevant building permits are managed by the Municipality of Koper. In January, the engineer was familiarised with the work and started preparing tender documents for the producer of design documents for all three sections together. The tender documents were confirmed by DARS in October. In November, a decision was adopted by all co-funders to publish a contract notice for sections 2 and 3 separately. DARS is not a co-funder for sections 2 and 3.
- An agreement on the **expansion of the Bertoki radial road into a 4-lane road** was reached between the Ministry of Infrastructure, DARS, DRSI and the Municipality of Koper on 25 July 2016. Pursuant to the agreement, all activities leading to the construction are managed by the Municipality of Koper. The production of Executive Design documents for stage 1 is underway.

The Construction Department carried out the following activities:

- Tenders related to the public contract for expert and consultancy engineering services for the **Koseze-Kozarje MW section and Dragomer junction** were obtained and reviewed, and a provider was selected. Contracts with successful tenderers were signed. The contracts are kept at a "standstill" and will be activated after a final building permit is obtained in both projects.
- **Karavanke project:**

After receiving additional explanations from tenderers and taking into account the decision made by the National Review Commission at the start of December 2018, it was established that none of the tenders were appropriate. Review requests were filed against the mentioned decision, which were rejected in May 2019 by the National Review Commission. The contracting entity decided to continue the public procurement procedure to select a contractor under a competitive negotiated procedure with all the tenderers that qualified for the continuation of the procurement procedure. Two review requests were again filed before the expiry of the tender submission deadline. Both review requests, related to the procurement procedure for the construction of the Karavanke tunnel, were rejected with a decision made by the National Review Commission dated 20 August 2019. The contracting entity continued the tender review and published a list of admissible and non-admissible received tenders in its decision dated 18 September 2019. Two review requests were filed against the contracting entity's decision on the admissibility or non-admissibility of received tenders for the construction of the Karavanke tunnel. The contracting entity adopted two new decisions regarding the two requests, rejecting both requests. The procedure was again handed over to the National Review Commission for resolution. With its Decision O18-182/2019-8 of 20 November 2019, the National Review Commission rejected both review requests. In the continuation, the contracting entity prepared all the necessary documents to conduct negotiations on the final price of construction works for the Karavanke tunnel.

On 3 December 2019, negotiations were held with three tenderers that had admissible tenders according to the contracting entity's decision. After negotiations concluded, the contracting entity adopted a decision on awarding the public contract on 9 December 2019 based on which it selected the tender submitted by Cengiz Insaat Sanayi ve Ticaret A.S. as the most favourable. The procedure is expected to continue after the issued decision becomes final.

After opening the tenders for the geological and geotechnical monitoring of tunnel construction, it was found that none of the received tenders complied with the tender criteria, which is why the contracting entity cancelled the procurement procedure. One of the non-successful tenderers filed a review request against the mentioned decision.

The National Review Commission rejected the review request filed by the unsuccessful tenderer for the geological and geotechnical monitoring of tunnel construction with its Decision dated 19 July 2019. In the continuation, the contracting entity partly modified the tender documents and published a new contract notice on 26 September 2019. The contracting entity received only one tender.

After reviewing the received tender, the tenderer was asked to deliver missing documents.

The procurement procedure for the provider of external quality control was also completed and a contract was signed.

- A contract was signed in July 2019 for the provision of expert consultancy and engineering services for the preparation and execution of construction works and other engineering services after construction for the **3rd development axis – north, Velenje-Slovenj Gradec section**. In July 2019, a contract notice was published for the construction of sub-section D in the area of the Gaberke junction with the prior screening of tenderers' capacities (2-stage public procurement procedure).
- In 2019, the 10-year warranty period expired on sections that were opened for traffic in 2009. Activities to eliminate defects in the warranty period were conducted at the following MW sections: Ptujaska - Zrkovska, Zrkovska - Pesnica, western Maribor bypass, Spodnja Senarska - Cogetinci, Cogetinci - Vučja vas, Vučja vas - Beltinci, Beltinci - Lendava, Lendava - Pince with EW section to Dolga vas, Hajdina - Ptuj, Slivnica - Draženci, IBCP Gruškovje - Croatian border, Ponikve - Hrastje, deviation Mirna Peč, Krška vas - Obrežje, Šmarje Sap - Grosuplje, PS Cikava, Koper - Izola, Razdrto - Vipava, Šentvid - Koseze with the Šentvid tunnel.
- On the Šentjakob - Malence MW section, public procurement activities to obtain a contractor for the elimination of defects in the warranty period and for upgrades to the Golovec tunnel continued due to complaints made by tenderers.
- On the Razdrto - Vipava - Ajdovščina EW section, wind protection was erected at three test fields. After construction works were completed, measuring instruments were installed to measure the bora wind and control the effects of wind protection measures. Wind measurements were carried out in the last quarter of 2019.
- On the Gorišnica - Ormož section, finishing works were carried out on the Sejanca viaduct – the contractor was familiarised with the work on 20 September 2018. All stage 1 works were completed.
- On the Draženci – IBCP Gruškovje MW section, all construction works throughout the MW section from km 0.00 to km 13.03 were completed. In stage 2a, activities were carried out to eliminate defects following a technical inspection. A performance certificate was handed over to the contractor in December 2019, whereupon the warranty period started running. The operating permit in stage 2a has not been obtained yet, since an extension of the provisional operating permit was applied for.
- At the Šmarje-Sap MW junction, the warranty period is running. All works have been completed.
- A 5-year contract with the contractor for the post-excavation treatment of site archives for the executed protective archaeological excavations on the motorway sections and individual excavation sites, where the post-excavation treatment has not yet been carried out, and the treatment of pottery obtained in extensive and intensive archaeological field surveys was concluded and applies since 12 August 2016. The contractor processed the following sites in 2019:

Dolge njive pri Beli cerkvi, Pobrežje, Med cestami south - Šikole junction, Med cestami – Šikole, Gošča, Turnišče EW, Obrežje, Drnovo 1 and 2, Radvanje, Žutreki, Lavše, Dolge njive pri Stražgojnci, Gorica, Hajndl, Ribnica na Dolenjskem, Bela Cerkev, Velika njive, Kamna Gorica, Draženci EW, Turnišče EW, Turnišče II, Podrečje pri Viru, Školarice, Drnovo 1 and 2, Velike njive, Cediljeki, Krtina, Sušec, Draga pri Beli cerkvi, Trojane, OC Maribor, Na Vrhu, Križišče, treatment of earthenware from extensive and intensive archaeological field surveys.

- To construct the dry Malence basin, a construction contract was concluded in December 2019 and construction works will commence in 2020.

The Reconstructions Department carried out the following activities and projects:

- In 2019, 45.25 kilometres of section carriageways and 12.17 kilometres of junctions were reconstructed, i.e. resurfacing at a part of the Dobruška vas-Drnovo-Brežice section, Grosuplje - Višnja gora and Brezje - Podtabor - Kranj West - Kranj East, and the reconstruction of a part of the Vogrsko-Šempeter and Šentrupert-Vransko sections. Within the scope of TS demolitions, 9.04 kilometres of carriageways and 1.65 kilometres of junctions were reconstructed.

The reconstruction of the right Ravbarkomanda viaduct was completed, the Podmežakla 1L and 2L viaducts were refurbished, a total of 23 minor bridging structures were partly renewed within the scope of renovation works, and expansion joints were arranged on 7 structures.

Activities to complete past projects are carried out throughout the year along with activities pertaining to the preparation of design and other necessary documents for reconstruction works in future years.

- All the measures referred to in the latest Noise Action Programme that were built independently were completed. Noise barriers were erected at 9 locations, covering a total area of 14,908m², and activities started for the renovation of existing noise barriers.
- Toll stations were demolished and the toll platforms of 9 frontal TS were rearranged: Pesnica, Prepolje, Tepanje, Vransko, Kompolje, Dob, Drnovo, Videž, Bazara and 11 lateral TS: Sl. Konjice, Blagovica (N and S), Lukovica (N and S), Krtina (N and S), Krško, Kozina, Senožeče, Divača
- In the reconstruction of the Leskovškova and Letališka junctions, Executive Design documents were created based on the approved preliminary designs and a building permit application was filed for the Leskoškova junction. A decision was obtained from the Slovenian Environment Agency for both junctions stating that an environmental impact assessment was unnecessary.

Electrical and mechanical works and ITS

In 2019, investments were made into the construction of traffic control and management systems (TCMS). The execution of the traffic control and management system (TCMS) on the Brezovica - Divača MW section, northern, eastern and southern Ljubljana bypass and Zadobrova - Lukovica MW section (peripheral equipment) is in the closing stage. Variable traffic signs were erected at the MW junctions Zakl and Podlehnik. Seven SPIS gantries were refurbished. An upgrade to the traffic control and management system software was made and the systems were integrated into the traffic control centres. Within the scope of toll station demolition, control points were set up at Log and Torovo.

With respect to the control centres, a pilot system of cooperative ITS (C-ITS) with microwave technology (G5) was set up in the Postojna-Divača section. The existing traffic video surveillance and automatic detection systems were upgraded on the Primorska MW leg and integrated into the new regional control centre Kozina.

On telecommunication systems and transmission routes, activities were carried out to:

- renew the emergency call system on the Golovec - Domžale MW section, EW section Vipava - Šempeter, and the Divača - Kozina MW section
- install a fibre optic cable at MMC Ljubljana - MMC Postojna (lot 1) and a fibre optic cable at MMC Ljubljana - MMC Hrušica (lot 2), and
- upgrade the Tetra radio connection system in tunnels.

There were 37 automatic traffic counters installed with vehicle classification on MW and EW, also detecting incorrect driving direction. The project to set up IPK2 and IPK3 video surveillance was completed, with 38 new cameras installed. Furthermore, former toll cameras were included in the video surveillance system along the alignment upon the demolition of toll stations.

The hydrant water anti-freeze system in the Trojane, Jasovnik and Podmilj tunnels was upgraded and several minor investment maintenance works were conducted in tunnels.

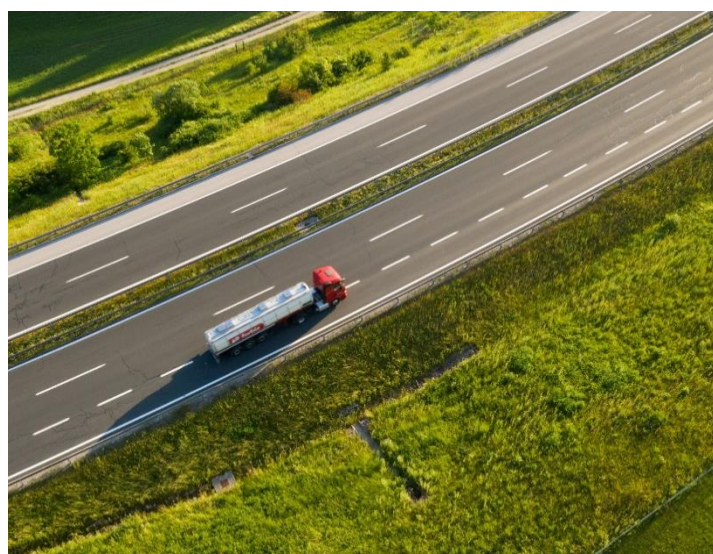
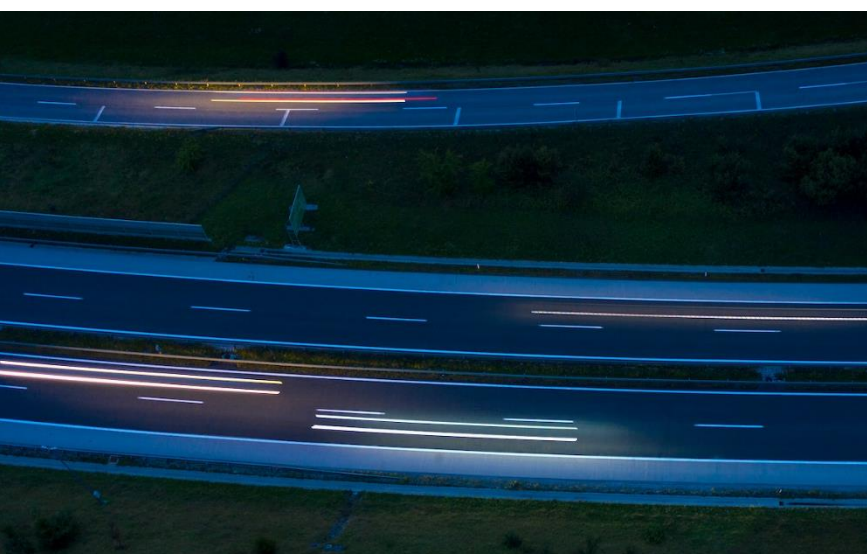
Design documents were prepared for:

- an upgrade to the existing TCMS at MMC Vransko – Blagovica,
- two-directional operation of the Markovec tunnel in emergency cases,
- an upgrade to electrical and mechanical equipment in the Golovec tunnel (stage 2),
- the establishment of forced ventilation, escape routes through existing connecting corridors and updates to the security documents, as well as a project for occasional two-directional traffic management at the Pletovarje and Golo Rebro tunnels,
- replacement of anchoring bolts at existing fans in the Jasovnik, Trojane, Kastelec and Dekani tunnels,
- Executive Design document for traffic management on radial roads to Ljubljana.

1.9.6 Debt repayment

DARS is in a period of high annual liabilities arising from debt repayment. In 2020 to 2025, an additional €1.1 billion of loan principals will fall due. In that period, annual debt repayment liabilities will consume the majority of the Company's cash flow from operating activities, which is why a share of the debt will have to be refinanced upon the implementation of investment plans. Debt management is defined as one of the Company's chief activities to achieve its objective of being able to independently repay or settle all of its financial liabilities. A decision on refinancing based on the umbrella Act Regulating the Guarantee of the Republic of Slovenia for Obligations of DARS d.d. for Loan and Debt Securities Raised or Issued for Refinancing Existing Debts of DARS d.d. (ZPKROD) depends on the generated liquidity reserves (deposits) and future liabilities deriving from the so-called 6-year operational plan for investments. The balance of funds in the form of deposits in 2019 did not reflect a need for refinancing. Hence, the Company repaid principals amounting to €212.8 million and interest amounting to €37.9 million in 2019. The Company took out no new loans, which is why the total Company debt reduced to €2,057 million (balance as at 31 December 2019). In the last 5 years, the total Company debt reduced by €577 million. One of the reasons for this was the positive development of toll revenue. Due to extensive new investment projects, the Company expects a further increase in total debt in the coming years.

I.10 Motorways and expressways in the Republic of Slovenia and traffic loads



In 1994, the Republic of Slovenia transferred to DARS d.d. the operation and maintenance of all constructed motorways, including infrastructural facilities and devices on them, by way of a special agreement. DARS d.d. thus received the 198.8 kilometres of 2-lane and 4-lane motorways and expressways and 67.5 kilometres of junctions constructed so far.

Through the implementation of the NMCP, the motorway network operated and maintained by DARS d.d. gradually expanded. At the end of 2019, DARS d.d. was responsible for the management of 623.3 km of motorways, 141.0 km of motorway junctions, 22.3 km of interchanges and 38.0 km of other roads.

Table 5: Length of the network operated and maintained by DARS d.d. as at 31 December 2019

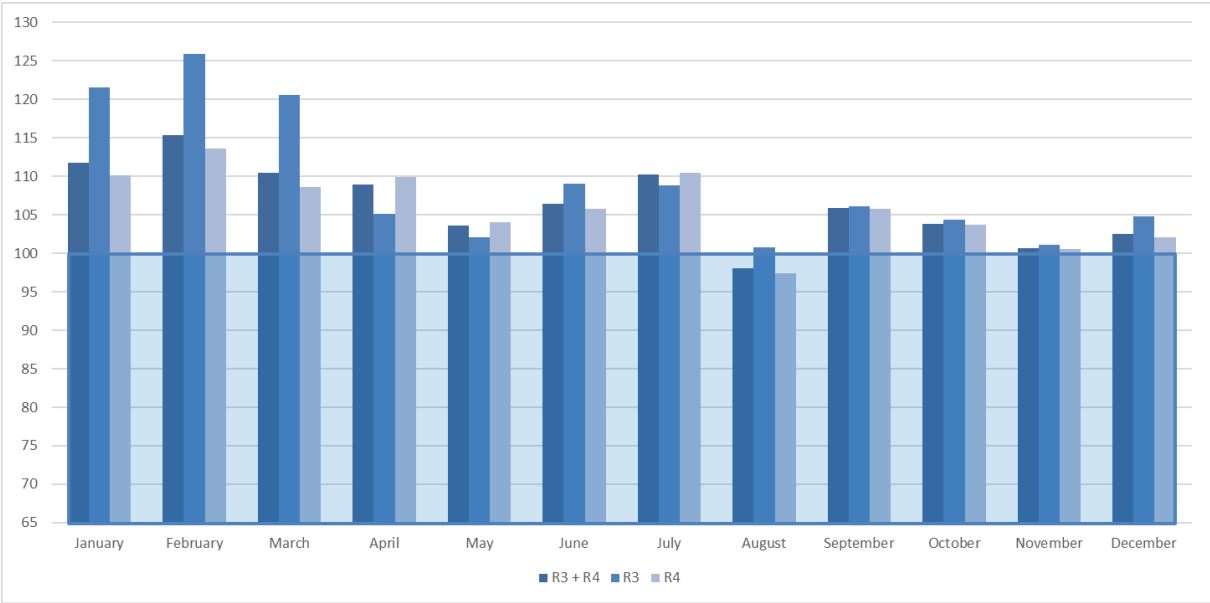
	Balance as of 31 December 2019 (in km)	MW and EW length (A)	Length of turn-offs	Length of link roads	Length of other roads
A1	Šentilj – Dragučova – Maribor – Slivnica – Celje – Trojane – Ljubljana (Zadobrova–Malence–Kozarje) – Postojna – Razdrto – Divača – Črni Kal – Srmin	245.266	11.782	58.265	12.436
A2	Karavanke tunnel – Lesce – Podtabor – Kranj – Ljubljana (Kozarje) – on A1 – Malence – Ivančna Gorica – Bič – Pluska – Trebnje – Hrastje – Novo mesto – Kronovo – Drnovo – Obrežje	175.472	4.929	38.344	12.308
A3	Divača (Gabrk) – Sežana East – Fernetiči	12.246	0.000	3.779	4.076
A4	Slivnica – Draženci – Gruškovje – R Croatia	34.609	4.450	7.482	3.552
A5	Maribor (Dragučova) – Lenart – Senarska – Vučja vas – Murska Sobota – Dolga vas – Lendava – Pince	79.574	1.099	13.005	2.856
H2	Pesnica – Maribor (Tezno)	7.200	0.000	3.590	0.000
H3	Ljubljana (Zadobrova – Tomačevo – Koseze)	10.222	0.000	6.849	0.000
H4	Razdrto (Nanos) – Vipava – Ajdovščina – Selo – Šempeter – Vrtojba	42.127	0.000	3.871	2.761
H5	Škofije – Koper (Škocjan) – [Dragonja*]	7.833	0.000	2.756	0.000
H6	Koper (Škocjan) – Izola – [Lucija*]	5.236	0.000	2.078	0.000
H7	MW A5 – Dolga vas	3.526	0.000	0.955	0.000
Total of MW and EW		623.311	22.260	140.974	37.989

NOTE: The A4 motorway has not been fully categorised yet.

Slovenia has had a vignette (toll sticker) tolling system for light passenger vehicles since the second half of 2008. As of 1 April 2018, vehicles with a maximum permissible laden weight exceeding 3.5 tonnes pay tolls electronically in free traffic flow (hereinafter "ETS") within the scope of the DarsGo system, in which tolls are collected throughout the network and which is managed by DARS.

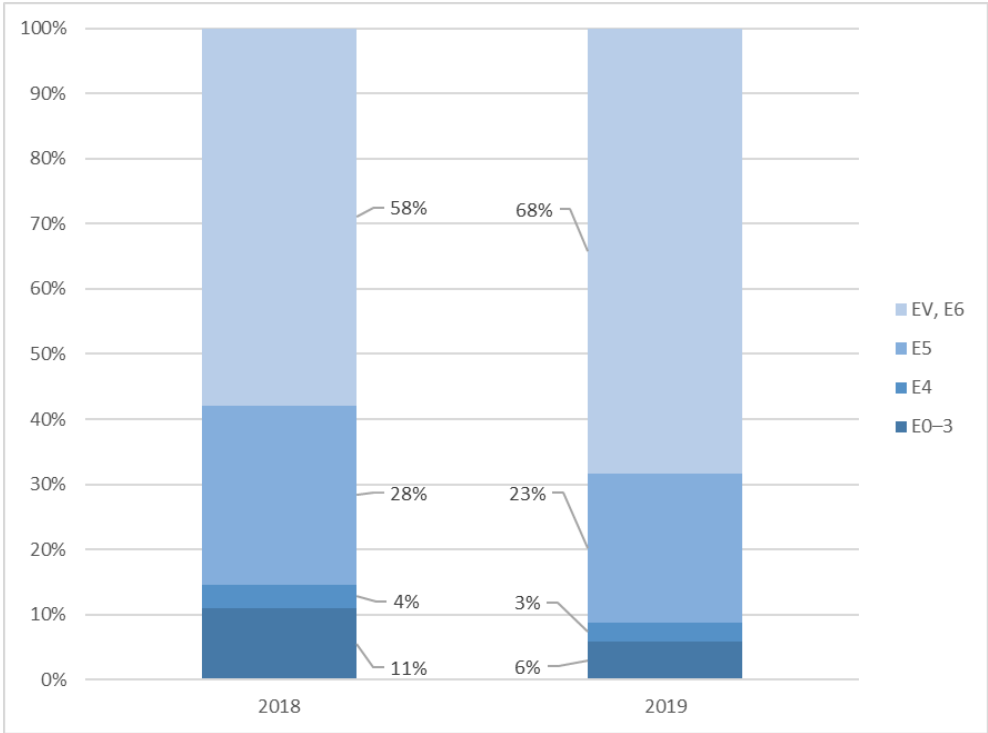
In 2019, the total number of toll kilometres driven by R3 and R4 vehicles increased by 6.3%. The main reasons for this are the introduction of the electronic tolling system throughout the network and growing traffic.

Figure 10: Monthly index of toll km of R3 and R4 vehicles 2018/2019 throughout the MW network



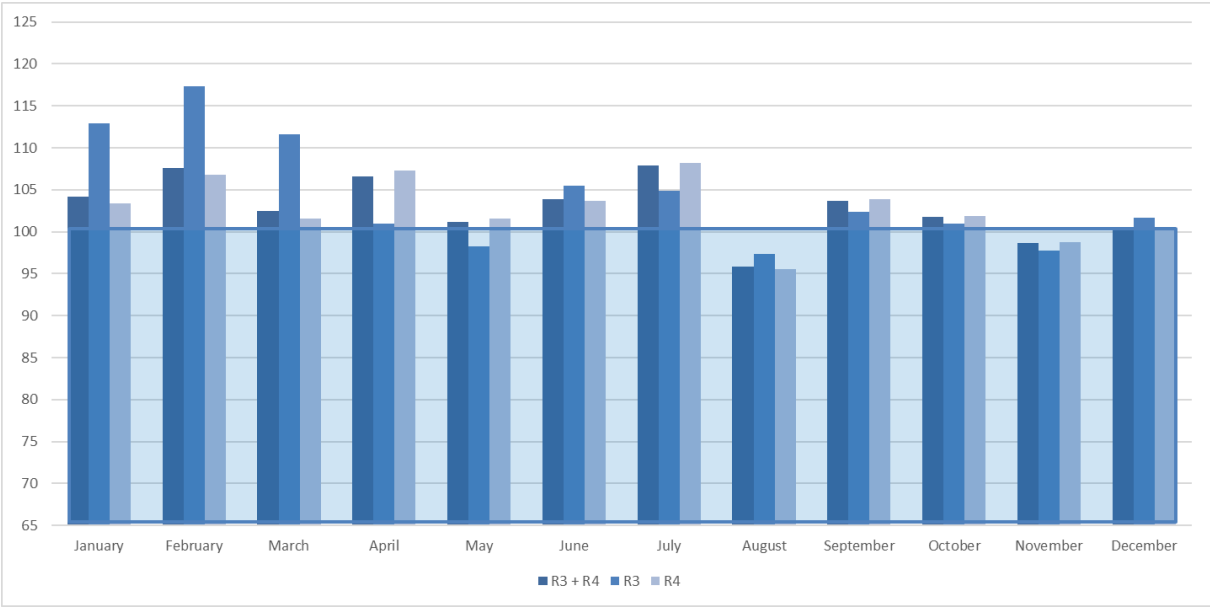
The deployment of the ETS had a crucial impact on changes in the distribution of vehicles within each emission class. The number of heavy goods vehicles in low emission classes (EURO 0-3 classes) has been decreasing on account of the increased number of cleaner goods vehicles and the mandatory registration of vehicles in the DarsGo system, where vehicles are registered with the actual EURO emission classes. In the old tolling system, tolls could be collected for vehicles with no electronic media in the maximum amount at toll stations, which was easier for occasional users than obtaining DARS cards and also had a positive effect on revenue. As a result, the increase in the number of toll kilometres is not proportionate to the increase in the value of passages.

Figure 11: Share of toll km by EURO emission class in 2018 and 2019



In 2019, the value of R3 and R4 vehicle passages increased by 2.9%, which is the result of changed toll prices as of 1 April 2018 and an increased number of toll kilometres.

Figure 12: Monthly index of the value of passages 2019/2018 (for R3 and R4) by month



After the introduction of the ETS in 2018, the structure of payment methods changed substantially. The largest share (63%) is attributed to the post-payment of tolls using payment cards. Prepayments account for some 16% of the value of passages, which is also the result of abolished discounts in the new system, while the prepayment mode is the most unfavourable for users (they need to be aware of their credit balance) and long-lasting due to the need to load credit. The number of users who conclude contracts with DARS d.d. on deferred toll payment has increased on account of the reduced number of prepayments – the value of passages in that respect accounted for some 22% in 2019.

Figure 13: Share of the value of passages by payment method in 2019

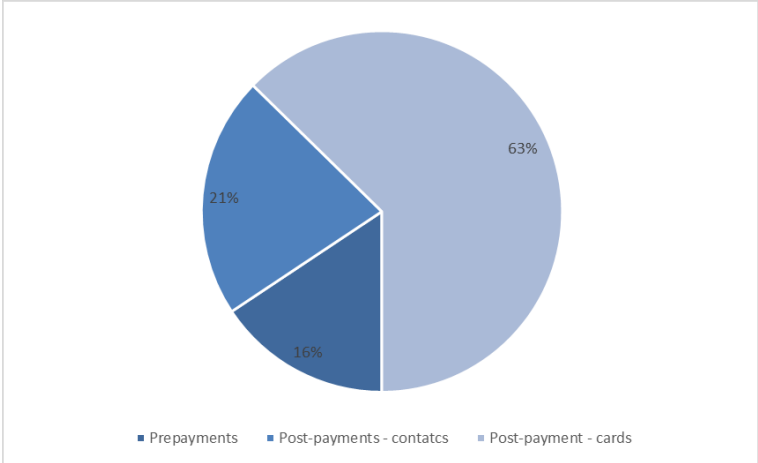
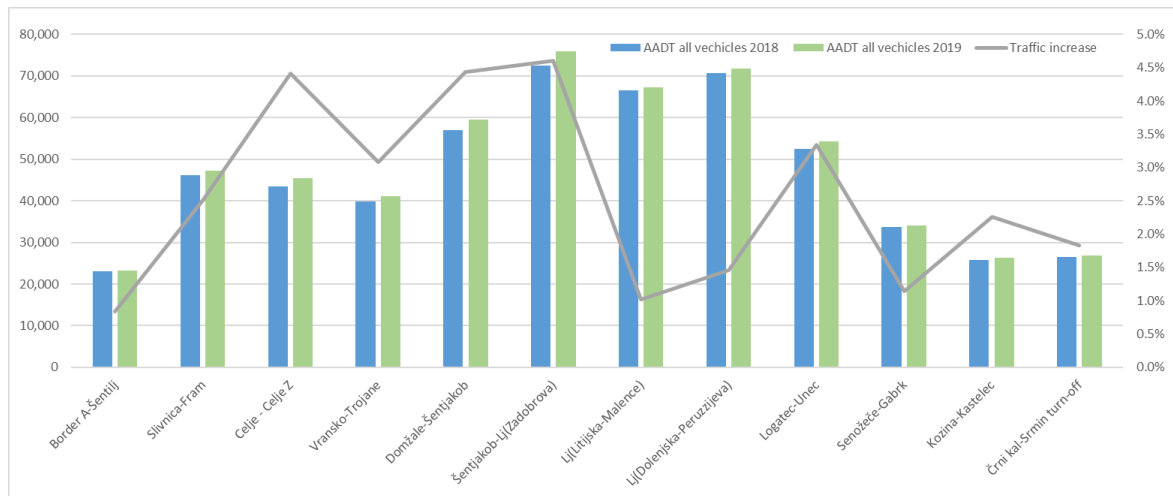
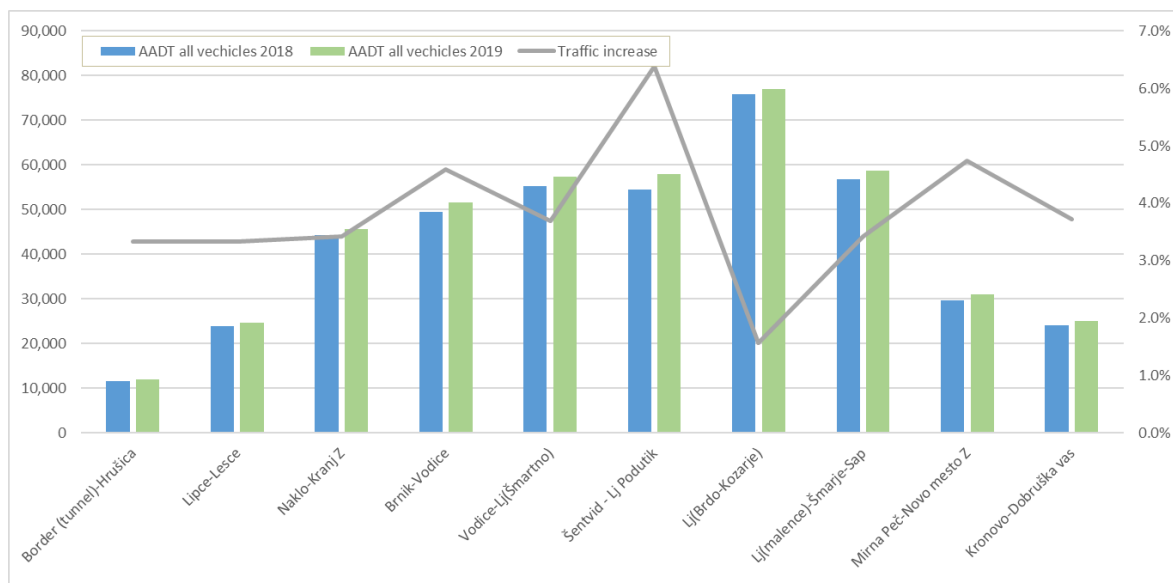


Figure 14: AADT comparison in 2018 and 2019 on selected A1 MW sections



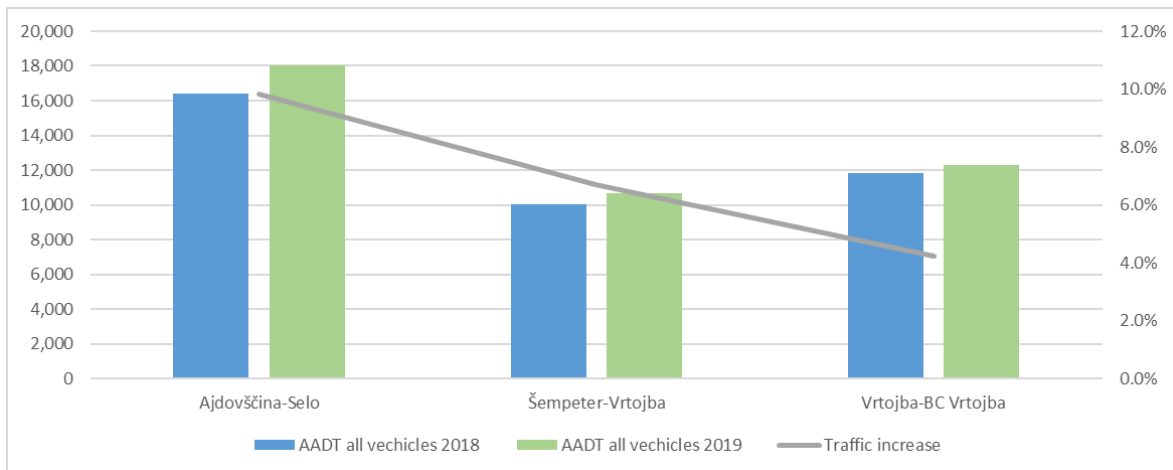
Traffic on the A1 increased in all sections. The largest increase of the AADT was recorded on the Štajerska motorway leg, primarily between Celje and Ljubljana. Traffic growth in the A1 section with the heaviest traffic, i.e. between the Zadobrova intersection and Sneberje, was 3,340 vehicles per day and 2,500 vehicles per day in the section between Domžale and Šentjakob.

Figure 15: AADT comparison in 2018 and 2019 on selected A2 MW sections



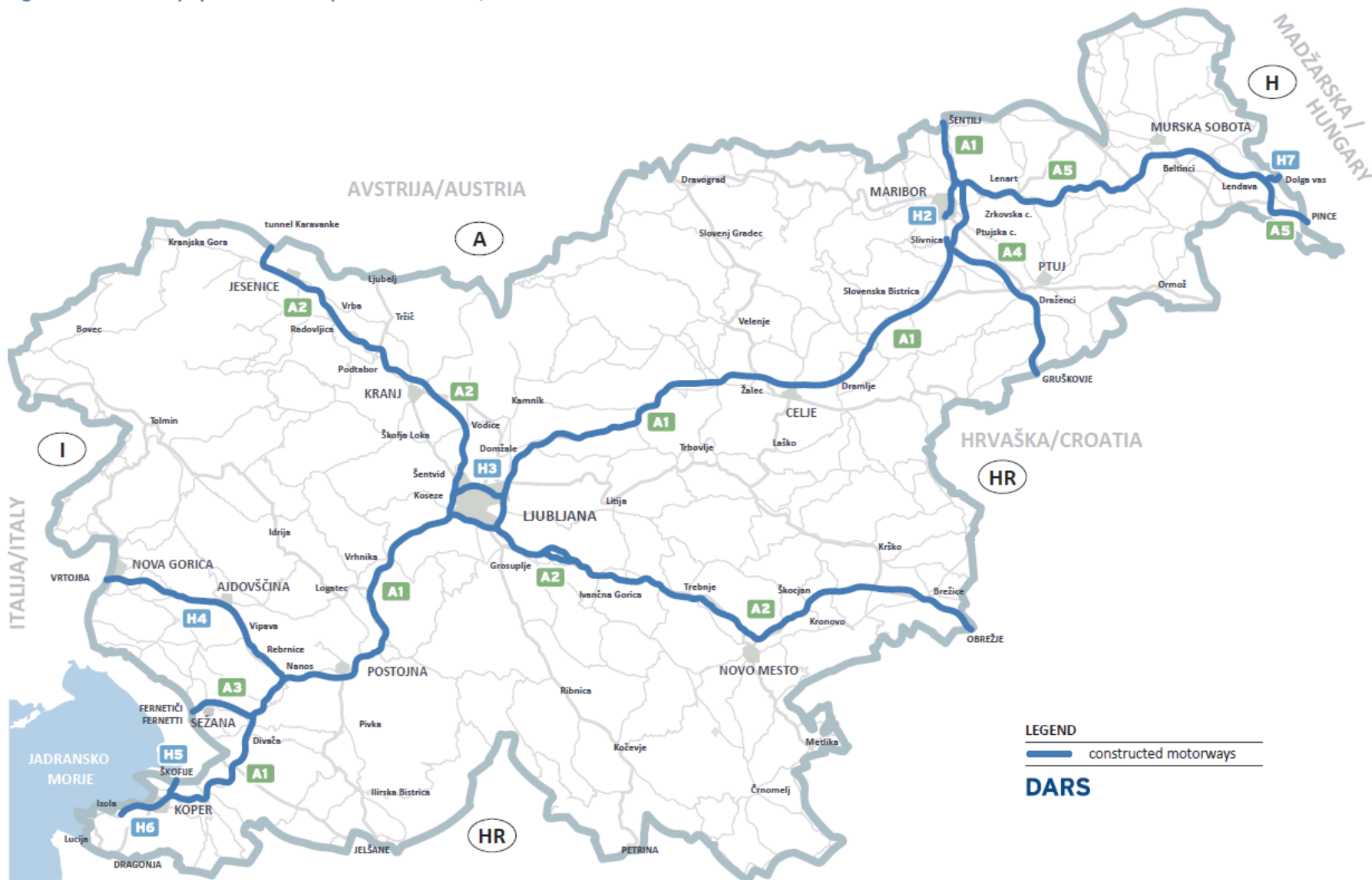
Traffic on the A2 increased on the Gorenjska leg fairly steadily (by slightly more than 3%) and slightly more on the Dolenjska leg, i.e. by around 4%. The section with the heaviest traffic in Slovenia remains the LJ section (Brdo - Kozarje), where the AADT in 2019 amounted to 76,954.

Figure 16: AADT comparison in 2018 and 2019 on selected H4 EW sections



On the H4 expressway, the carriageway in the section between the Ajdovščina and Selo junctions was renewed and the frontal TS Nanos was demolished. Due to these works, traffic increased more at that section. Hence, traffic grew from 2017 to 2019 by 12%, i.e. on average by 6% a year.

Figure 17: Motorway system in the Republic of Slovenia, December 2019



I.11 Investments in motorway development and reconstruction

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

Spatial planning documents and real estate acquisition for motorway construction were implemented by DARS d.d. pursuant to Article 4 of the ZDARS-1 in the name of and on behalf of the Republic of Slovenia. The aforementioned tasks were realised in the amount of €24.8 million.

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

Spatial documents and real estate acquisition	Turnover*
Spatial planning	941,042
Real estate acquisition	23,868,570
Total spatial planning documents and real estate acquisition	24,809,612

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

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

In 2019, investment activities were performed in accordance with the ability to ensure financial sources. The value of motorway section construction and reconstruction in 2019 amounted to €132.2 million.

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

Motorway development	Turnover
DarsGo system	24,506,927
Design documents	6,265,361
Commencement of construction	304,119
Continuation of construction	9,592,550
Finishing works on motorways opened for traffic up to and including 2018	2,338,897
Other items	4,227,324
Motorway reconstruction works	51,602,846
Electrical and mechanical works and ITS	10,301,047
Traffic safety improvement	3,369,575
Rearrangement of small rest areas on the Slovenian MW network	78,862
Investments in management and maintenance	19,603,870
Total development and reconstruction of motorways and connecting roads	132,191,378

I.12 International cooperation and acquisition of European grants

DARS d.d. has been trying to establish and maintain the best possible international connections 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 the ASECAP (L'Association Européenne des Concessionnaires d'Autoroutes et Ouvrages à Péage, European Association of Operators of Toll Road Infrastructures (more at: <http://asecap.com/>)), PIARC (World Road Association (more at: <https://www.piarc.org/en/>)) and IBTTA (International Bridge, Tunnel and Turnpike Association (more at: <https://www.ibtta.org/>)), 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, attend congresses and annual meetings with related business entities, cooperate with representatives of European institutions, in workgroups and on platforms that are used to co-develop new trends in traffic and infrastructure, thus preserving the achieved values. DARS is also fully engaged in bilateral cooperation, be it within the scope of intensive business correspondence between comparable organisations or in the organisation of international visits.

Several years of successful cooperation at ASECAP board meetings resulted in the Company's successful management of the traffic statistics and analyses board (COPER IV) since 2017 and the inclusion of its representative in the ASECAP Executive Committee in 2019. That way, the Company co-develops the Association's plans of work and participates in the establishment and composition of various committees and workgroups needed to achieve the key goals. Current topics where the ASECAP cooperates with the European Commission and the European Parliament mostly include an amendment of the so-called Eurovignette Directive, the introduction of a European tolling system, traffic safety and developments in ITS, smart and connected mobility.

Many Company activities are also related to the acquisition of EU funds, i.e. DARS d.d. received a total of €793,493 in EU grants within the scope of the Connecting Europe Facility in 2019. To produce Basic Design and Executive Design documents for the construction of the second tube of the Karavanke motorway tunnel, the Company received the final €115,000, while activities started for the largest cross-border project of the Company (the application for co-funding was filed together with Austria) – the construction of the Karavanke tunnel, where the Company received €12,928 (10% of eligible costs) for project management and supervision.

In cross-border cooperation and the harmonisation of ITS applications, the Company completed the Crocodile 2 project at the end of 2019 and received €151,731 for it, and continued with the Crocodile 3 project, for which it received €221,785 in 2019 (both projects are co-funded in the amount of 20% of eligible costs).

For the C-Roads Slovenia pilot project, which is co-funded in the amount of 50%, the Company received €292,049, while activities within the scope of the C-Roads Slovenia 2 project, which is the continuation of the original project, have not begun yet.

I.13 Self-assessment using the EFQM Excellence Model



In compliance with the Recommendations and Expectations of the SSH, DARS d.d. carries out self-assessments according to the EFQM 2013 Excellence Model.

In light of SSH guidelines, a self-assessment under EFQM requirements is conducted every two years; DARS conducted the second self-assessment in 2018 and prepared a report containing findings, an action plan with 13 measures as well as short-term and medium-term goals for Company operations in relation to quality and excellence.

The Management Board places great significance on the Recommendations and Expectations of the SSH and has set the 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" as one of nine strategic goals in the "DARS d.d. Strategy for 2017-2020".

The Supervisory Board discusses the report on the realisation of self-assessment measures under the EFQM Excellence Model every 12 months and confirms the adequacy of the introduced measures.

I.14 Integrated management system



The integrated management system includes the quality aspect according to 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 requirements of the BS OHSAS 18001 standard, the energy management aspect according to the ISO 50001 standard, and the information security aspect according to the ISO/IEC 27001 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 Company operations.

In 2019, the Company established a data protection system as per the requirements of the ISO/IEC 27001 standard, which was integrated into the existing management system. The basis for the establishment of proper controls was the information risk assessment, which provides guidance for the introduction of the scope and number of measures in order to mitigate information risks to or below an acceptable level.

To ensure the credibility of the quality control system, environmental management system, occupational health and safety system, energy management system and information security system according to the requirements of the ISO 9001, ISO 14001, ISO/IEC 27001, BS OHSAS 18001 and ISO 50001 standards, these are successfully confirmed every year by an external accredited institution.

I.15 Internal auditing

Internal auditing is conducted independently and autonomously, and the Service reports to the management in terms of organisation and to the SB Audit Committee in terms of function. Internal auditing was conducted pursuant to the hierarchy of internal auditing rules. Internal auditing activities at DARS d.d. are carried out on the basis of the Basic Charter on the Operations of the Internal Auditing Department. The work was performed in compliance with the Strategic Internal Audit Plan and Annual Plan, which is based on the risks and includes all identified and assessed types of risks, key Company documents and the instructions provided by the management and Audit Committee. The internal audit strategic plan and annual plans of work for the Internal Audit Service have been adopted by the Management Board and confirmed by the Supervisory Boards of DARS d.d.

Activities were aimed at providing objective assurances to the Management Board and Audit Committee of DARS d.d. along with consultancy services, thus strengthening and protecting the value of the organisation. Based on a risk assessment, objective assurances were provided along with advice to the management in order to realise the goals set and improve operating efficiency and performance. Internal Auditing assisted the Company in accomplishing its objectives by stimulating them to manage different types of risks prudently. While carrying out the work, Internal Auditing assessed the existence, operation and efficiency of the internal control system, while putting forth recommendations for proper risk management. Internal Auditing reported 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.

At the start of 2019, the internal audit initiated in 2018 was first concluded, which was followed by internal audits and consultancy services pursuant to the confirmed annual plan of work. The work was conducted independently and in cooperation with external associates. Assurances were provided for the areas audited stating that the internal control system was in place, operative and efficient. Individual shortcomings or, rather, possibilities for improvement were found during auditing, which were highlighted and for which recommendations were given to establish or improve controls. The Management Board and Audit Committee were kept informed of the realisation of recommendations on a quarterly basis. We also provided advice on the realisation of recommendations. A great deal of time was also dedicated to consultancy, active cooperation in two audits conducted by the Slovenian Court of Audit and the development of the Internal Audit Service. The development of internal auditing is realised with a quality assurance and improvement programme. Internal auditors upgraded their knowledge and supplemented the methodology, thus ensuring professional and quality operations of internal auditing.



I.16 Sustainable development

The Sustainability Development of DARS d.d. report for 2019, 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, on the one hand, the Company provides quality information on its socially responsible actions to its stakeholders and, on the other, makes decisions on future socially responsible actions based on cooperation and identification of stakeholders' needs and interests. Our key motto is the connectivity of our business 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 responsibility to people, the environment and society. Hence, it exercises social responsibility 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 as a responsible and forward-looking company.

The DARS d.d. Strategy for 2017-2020, which integrates the Company vision and its stakeholders with 3 key strategic guidelines of DARS d.d., is evident from the figure "DARS d.d. Strategy for 2017-2020" in Chapter I.3 Mission, vision, values and strategic policies. The central focus is on stable operations in the long term, which also significantly relates in content and strategic goals to the realisation of the first strategic policy (Provision of fluidity, safety and comfort to motorway users) with users as the target stakeholders and to the third strategic policy (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 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 8 sustainable development goals; the connectivity of the vision and strategic goals of DARS d.d. is evident from the figure below:

Figure 18: The connectivity of the DARS vision and strategic goals with 8 sustainable development goals

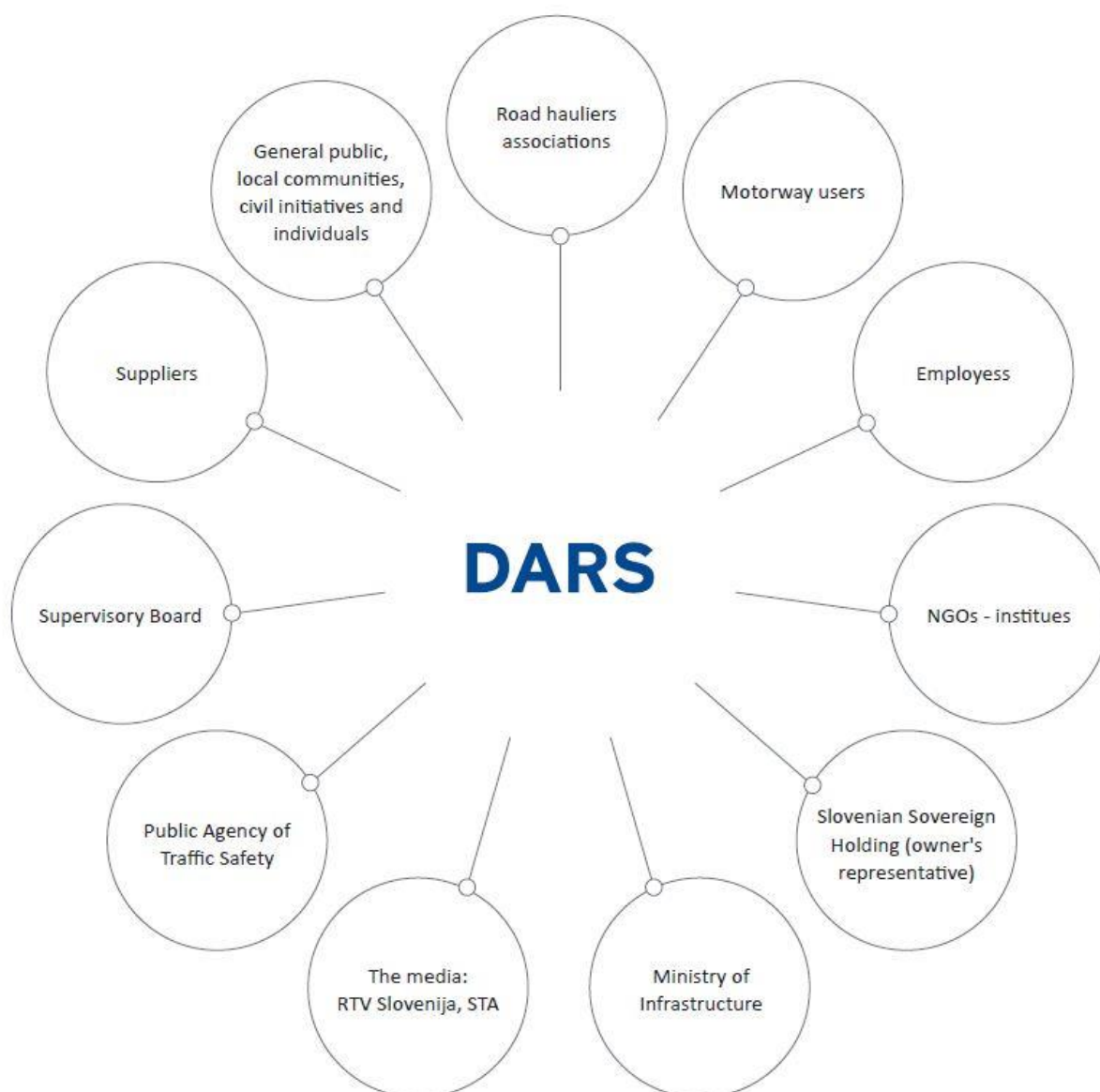


I.16.1.1 DARS d.d. and its stakeholders

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 the strategic and operative levels. This strengthens the 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 are 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: DARS's relationship with stakeholders



I.16.2 Research and development activities

In 2019, DARS d.d. carried out 30 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 based on the performance indicators laid down in the Company's business plan, the Company monitors the performance of project implementation and, in case of deviations, takes actions. The system is developed in a manner ensuring the continuous improvement and innovation of all employees at all organisational levels.

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

In 2019, DARS d.d. continued implementing the road management project for the roads it operates. 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 produced and successfully tested the pilot model of a Bridge Management System (BMS - DARS) with a database of 50 selected structures. In 2019, the BMS model was expanded to cover the entire network of bridging structures.

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. In 2019, the pilot projects of C-ITS cooperative systems were implemented with mobile connections between vehicles and infrastructure with LTE networks and with a microwave connection (C-ITS G5) for information transmission between the infrastructure and vehicles. Internal tests were conducted. In 2020, it is planned to conduct cross-border tests in terms of interoperability.

Within the scope of the European Crocodile project, the Kažipot application was further developed towards the exchange of traffic data with neighbouring countries. That especially includes the introduction of the DATEXII standard and its inclusion in the GEORSS. Furthermore, tools for tasks at DARS control centres were developed with the implementation of additional international standards, and improvements and upgrades to the DarsPromet+ application deriving from the use of such tools. Within the scope of the preparation of plans for international traffic management, 10 plans were drawn up that were harmonised with the neighbouring countries.

I.16.3 A responsible attitude to clients and customer satisfaction

DARS products and pricing

The main product of DARS is the use of toll roads. DARS is not only a concessionary authorised to collect tolls and operate the motorway network, but it has also erected most of the existing MW and EW network, which is a major civil engineering achievement in Slovenia with a major impact on the spatial, economic and social development of the country. Revenue from the sale of vignettes and toll collection from heavy vehicles account for the majority, i.e. 97%, of the Company's sales revenues.

The overall service of the Company also includes safety, fluidity and comfort in the use of motorway infrastructure, which are also the Company's strategic goals and a promise to its customers. The activities of numerous services ensure reduced socioeconomic costs of traffic accidents (human cost, medical costs, administrative costs, loss of production, etc.) and congestion (cost of time lost). An optimum level of toll revenue provides a safe, fluid and quality network of motorways and expressways, which is why DARS considers it a responsibility to pursue a corresponding pricing policy and, hence, the maximum safety and mobility of users.

Charging for the use of infrastructure and sustainable development

The normative regulation of toll collection has become a tool for achieving not only a single market and the non-discriminatory movement of goods, services and people in the EU, but also environmental goals through the amount of tolls and methods of charging tolls (for a fixed term or for a specific distance travelled). The European Community promotes progress in the application of the „polluter pays“ and „user pays“ principles, thus promoting a *“financially and environmentally sustainable and socially just road traffic”*.

The "user pays" principle is implemented by DARS when setting DARS toll prices, since it takes into account a calculation methodology that is based on the principle of consideration for infrastructure costs. By pursuing the optimum amount of tolls, DARS maintains road infrastructure and at the same ensures that users do not pay unreasonably high costs for MW and EW use.

The "polluter pays" principle is enforced by DARS with its toll pricing policy for heavy vehicles that differentiates the infrastructure charge with respect to the impact caused by vehicles on the environment (social costs of air pollution), thus having a positive impact on the environment and air quality, since customers are encouraged to use cleaner vehicles when travelling through Slovenia.

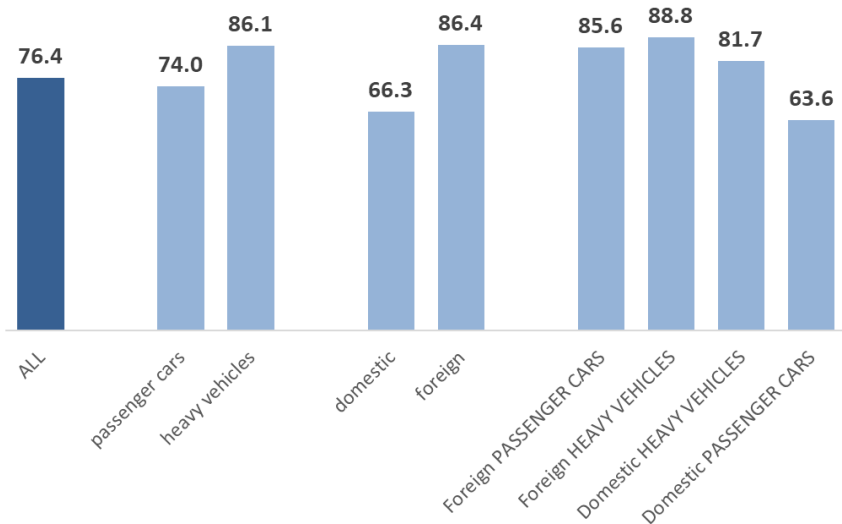
In 2019, Slovenian roads carried over 91% of vehicles of the cleanest emission classes (EURO V, EEV and EURO VI), whereas only about a quarter of such vehicles were found on Slovenian roads in 2013. The upgrade of the vehicle fleet is the result of technical advances, tightened standards and business motives, whereby the toll pricing policy also contributes to the speed of upgrades. Until 2013, the initiative to use cleaner vehicles for travelling on Slovenian MW and EW was smaller, with the difference in the price much smaller (22.5% lower price for the cleanest vehicles, today 40%). The price difference indeed implies a certain risk for the stability of DARS toll revenue and calls for the regulation of revenue in such conditions with occasional price increases.

Customers and their satisfaction with Company services

Our customers are motorway and expressway users in Slovenia. In its Strategy, the Company set the customer satisfaction index as one of the key indicators. Hence, it undertook to understand and measure their expectations and satisfaction.

In 2019, DARS conducted a **research study measuring the satisfaction of the users of Slovenian motorways**. In the research, drivers assessed their satisfaction with different factors affecting satisfaction with the motorway and covering the following categories or, rather, aspects of the user experience: pavement, safety, signalling, information provision, fluidity, rest areas and electronic tolling. The results for a particular segment of users are evident from the figure below.

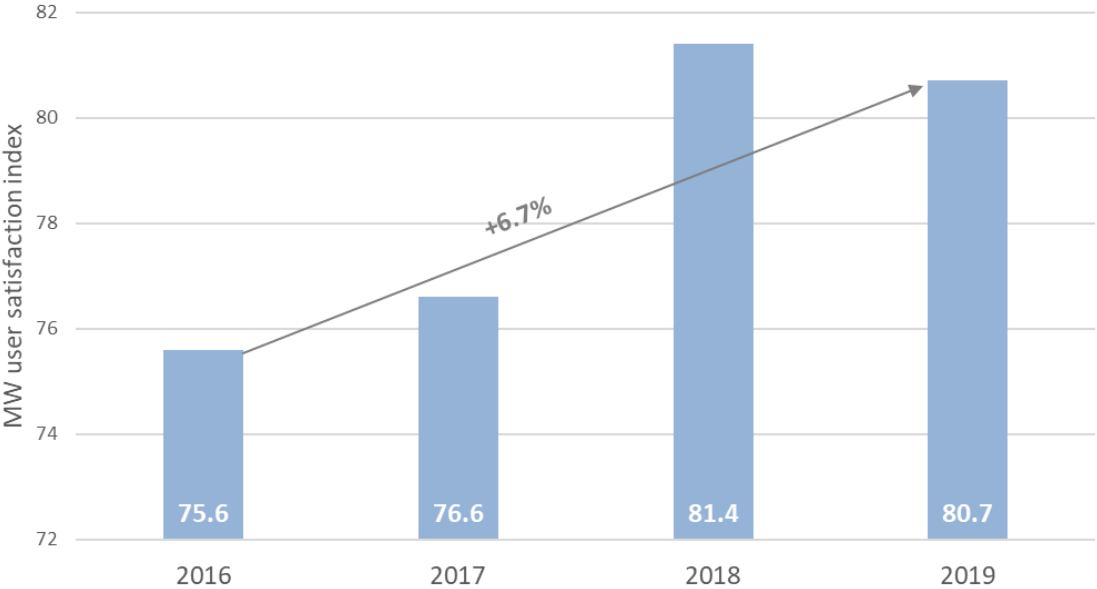
Figure 20: Satisfaction by category



The weakest point in the assessment was traffic fluidity, while poor grades were also given to rest areas. Respondents expressed a high level of satisfaction with signalling and safety, while the DarsGo electronic tolling received the highest score. In 2019, foreign drivers were again more satisfied than domestic drivers.

Due to a change in the structure of the baseline quotas, the aggregate satisfaction index this time cannot be directly compared to the index achieved in previous years. To enable direct comparison with 2018, this year's data was further balanced with respect to relations or, rather, baseline quotas by vehicle group for 2018. The total weighted satisfaction index was calculated from the scores of all factors and amounted to 80.7 in 2019 (81.4 in 2018), as evident for the last 4 years from the chart below.

Figure 21: MW user satisfaction index



Sales channels and market communication as a reflection of the attitude towards customers

The responsible attitude of DARS towards its customers is reflected through its efforts to provide users with simple access to a network of its own and contractual points of sale and a wide range of payment means, thus contributing to reduced transaction costs for customers and improved satisfaction.

Market communication in relation to the use of road infrastructure covers the provision of information on the obligations, terms and methods of toll payment, whereby DARS distinguishes between and addresses two customer segments – drivers of heavy vehicles and drivers of passenger cars. In that case, the goal is to enable ongoing toll payment, without unnecessary complications and to resolve warranty claims as quickly as possible.

To ensure the strategic goals and promises in the Company strategy – fluidity, safety and comfort – it is necessary to achieve the desired behavioural changes in customers (MW users), such as safe driving, observing proper procedures in the event of traffic accidents, the provision of information on road conditions, the use of infrastructure outside rush hours, the use of alternative routes or transport means during major reconstruction works that reduce fluidity, etc., in parallel with the technological, technical and organisational input.

The provision of traffic safety calls for close contact between the operator and motorway users, i.e. not only one-way communication in terms of information provision, but also two-way communication. The provision of enhanced safety not only calls for the operator's investments in infrastructure, but also for the modification of driving habits and culture. It involves a learning process that we wish to promote by using available marketing methods from market research to safety campaigns and advertising, events, sponsorship and reputation management.

I.16.4 Traffic and concern for safety

In the desire to improve traffic safety every year, the Company continued to pursue all actions – existing and new – and made intense efforts to offer users a safe journey along MWs/EWs. Safety campaigns and cooperation with stakeholders in that area have a positive effect on traffic safety, which is why activities in that area are very broad and continued. Particularly efficient tools for campaign distribution are social networks and applications. Below is a comparison of emergency events by year and the implications of traffic accidents on MWs and EWs by year, whereby the growth of emergency events and certain implications of traffic accidents have been recorded due to increasing traffic from year to year.

Figure 22 Comparison of extraordinary events by year

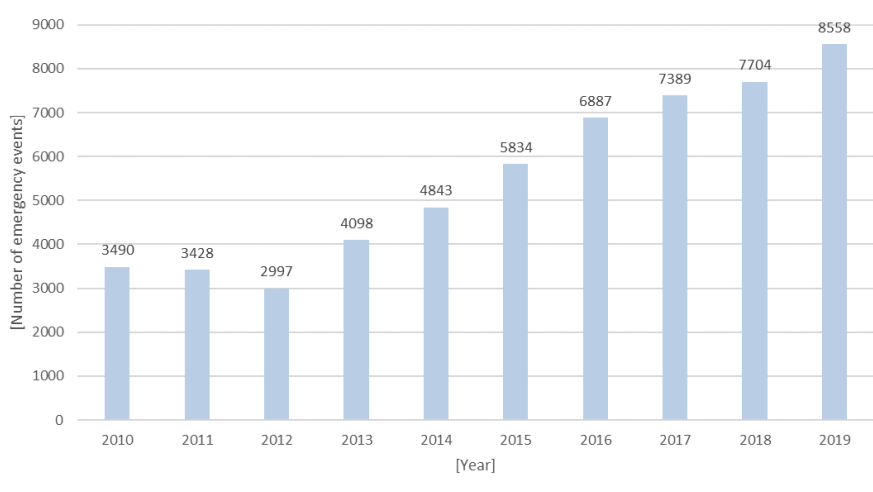
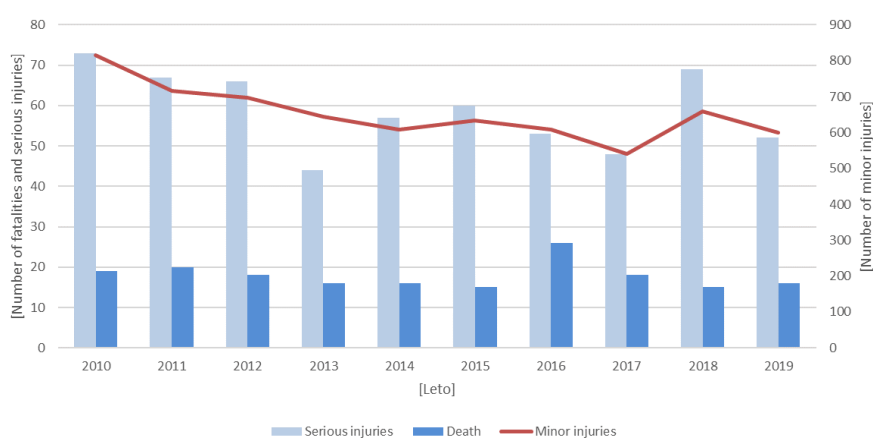


Figure 23: Implications of traffic accidents on MWs and EWs by year



Safety in tunnels

There were a total of 38 accidents and incidents in tunnels longer than 500 metres in 2019, where emergency services were needed along with the temporary closure of the whole tunnel or a part of it. The most common primary causes for the events were vehicle breakdowns (34%), followed by category I or II accidents (29%) and other events (18%), such as cyclists or pedestrians in a tunnel.

The events took place with no consequences for participants.

A passenger vehicle self-ignited in the Šentvid tunnel, but with no consequences for the participants or the tunnel and equipment. The tunnel was put back into normal service after slightly more than an hour.

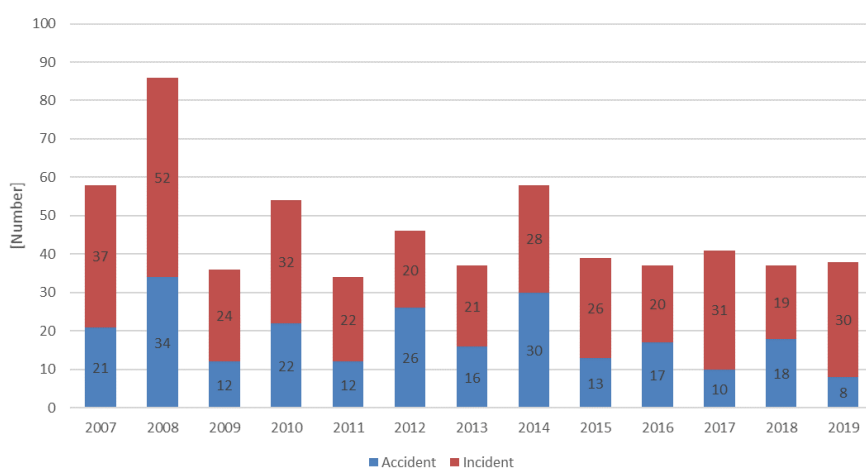
Notably, there were five events where vehicles drove in the opposite direction and one event in the Austrian part of the Karavanke tunnel, where the carriageway was polluted by fuel leaking from a vehicle, which caused the closure of the tunnel for an hour and a half.

There were two power outages in the Karavanke tunnel, one due to a storm and one due to an error made during maintenance works. The tunnel was temporarily put out of service for slightly more than two hours.

We find that:

- the number of events is still relatively small and at a level comparable to recent years;
- the events were mostly caused by the actions of users, which is practically beyond the control of DARS d.d.;
- the direct consequences of events were negligible for participants and tunnels with in-built equipment;
- no hosting of events was found;
- the response of the competent services to emergency events was efficient.

Figure 24: Accidents and incidents in tunnels longer than 500m from 2007 to 2019



I.16.5 Projects in traffic management and concern for user safety

DARS d.d. carries out many different measures every year that are directly related to safety, the comfort of motorway users and traffic fluidity. A prerequisite for good throughput is that the motorway system is furnished with state-of-the-art equipment. Modern equipment for traffic control, 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 Kozina, Ljubljana, Vranksko, Slovenske Konjice and Hrušica Control Centres and their teams of traffic supervisors see to uninterrupted traffic control and provide optimum safety and fluidity on Slovenian motorways and expressways. The main control centre located in Dragomelj covers the entire MW/EW area in the Republic of Slovenia, while linking regional control centres and coordinating actions between them. Among other things, it provides for traffic control and management at national and international level.

The figure below shows the areas covered by a particular traffic control and management centre at DARS d.d. on the Slovenian MWs and EWs working 24/7.

Figure 25: Traffic Control and Management Centres



Accidents involving fires in tunnels and major changing weather conditions, such as sleet, reduced visibility, snow blizzard, heavy winds and mass traffic accidents, call for maximum expertise and proper actions by traffic supervisors.

Lately, a great deal of attention has been placed on traffic safety and fluidity, which is why measures are adjusted to the current conditions on the motorway, while traffic condition detection systems are upgraded. This allows the Company to react faster to events and thus reduce dangerous situations and unnecessary congestion.

Motorway traffic is controlled by qualified certified traffic supervisors

Awareness-raising on the importance of safe driving and the provision of information on traffic fluidity

DARS d.d. strives to provide conditions for safe driving and the maximum possible traffic fluidity. The provision of traffic safety is also at the focus of efforts made by other institutions that have an important effect on awareness-raising among users and DARS d.d. actively cooperates with such institutions or carries out certain activities (primarily those relating to traffic on the MWS/EWS) on its own.

The following campaigns were carried out to provide maximum traffic safety:

- **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_za_vas_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 the motorcycle season** – safe driving training for motorcyclists
- **Video announcement of a weekly traffic forecast**
- **Cooperation with the VOZIM Institute** in the form of innovative interactive workshops at which the personal experiences of those injured in traffic accidents are presented. The Institute upgraded its activities with the campaign called "Heroes drive in pyjamas" due to the major problem of alcohol consumption among young people and, consequently, grave consequences.
- **Participation in the Sožitje project**, which is organised by the Slovenian Traffic Safety Agency and where senior drivers are trained. The purpose of such training is to make elderly drivers feel safe on Slovenian roads, keeping them mobile for as long as possible.

Major importance is also attributed to other activities carried out, namely:

"Save a life" Observe proper positioning in case of congestion on the motorway, thus allowing emergency teams to arrive at the place of the traffic accident as soon as possible. The application of this traffic rule regarding the mandatory establishment of a rescue lane has improved in recent years; however, it still makes sense to publish or repeat the rule upon the occurrence of a traffic accident at a certain location. Media, too, have recognised such preventive content as important and often publish it together with the announcement of a traffic accident (Val 202).

"Observe the safety distance" or observing the traffic rule of a 2-second distance between vehicles driving in



the same direction is important primarily due to the proven fact that there would be fewer traffic accidents on all roads had distances between vehicles been correct (more appropriate). Preventive content is still active at locations where additional traffic signalling, the so-called "caps", has been established, which show drivers on the motorway or expressway what the distance between vehicles should be at the prescribed speed limit (130kmph). Furthermore, banners have been put up on overpasses and rest areas. That content is also often communicated through the media.

"Drive on the right, overtake on the left" is preventive content that the Company started publishing in September 2019. Together with the Slovenian Traffic Safety Agency, the Company found that driving habits were inappropriate, since drivers tend to drive in the overtaking lane, even if the driving lane is free of traffic. It was



agreed to publish the content on MW/EW portals at times when there is no other active events and when traffic in the driving lane does not exceed 1,200 vehicles per hour. In heavy traffic, such content is no longer appropriate, since driving conditions change and no such publications are made. After the press conference organised by the Slovenian Traffic Safety Agency, the Company received many positive opinions on the campaign.

Traffic fluidity or problems during the morning rush hour

The problem was addressed with several activities:

- The campaign "Easy driving gets you there faster", which was held from 4 to 8 November 2019 in cooperation with Val 202 and the Avtomobilnost TV show, was widely publicised. The media addressed users during the morning rush hour to drive calmly and maintain an adequate safety distance. Considering the data taken from traffic counters, the campaign was concluded in the final episode of the Avtomobilnost show and Val 202 with the finding that the addresses made to road users were welcome. In the week observed, weather conditions varied (with rainfall included) and traffic accidents occurred. However:
- safety distances were adequate;
- traffic flows were solid (even very good on the Dolenjska MW leg).
- In terms of traffic, the Štajerska MW leg is practically unmanageable or, in other words, calls for reduced traffic (fewer vehicles) if we wish to improve fluidity here. No other solution could be found after the week observed.
- The Company continues to be active in relation to initiatives regarding amendments to the Road Traffic Rules Act (ZPrCM), which are regularly sent to the competent Ministry of Infrastructure.



Measures in traffic management and concern for user safety

- Arrangement of run-off areas
- Curbing speed and increasing fluidity
- Replacement of crash barriers and traffic signs
- Additional signs for safety distance
- erection of safety barriers on structures to prevent vehicles from skidding off the structures,
- replacement of signposts at motorway exit points,
- replacement of end terminals and the erection of additional safety barriers and crash cushions.

Management of intelligent transport systems (ITS) or smart motorways

- Integration of LED lamps into the TCMS at Goli vrh
- Integration of new variable traffic signs at the control point Torovo in the Traffic Control and Management System (TCMS)
- Integration of new variable traffic signs at the control point Log in the TCMS
- Integration of new variable traffic signs at the control point Dob in the TCMS
- Erection and integration of new variable traffic signs in the TCMS on the Brezovica - Divača MW section and the Gabrk - Sežana MW section (Kozina control point) – partly
- Erection and integration of new variable traffic signs in the TCMS on a part of the northern, eastern and southern Ljubljana ring road and on the Zadobrova - Lukovica MW section (Ljubljana control point) – partly

- Renovation of portals and integration of new variable traffic signs in the TCMS (Senožeče, Kastelec, Dekani, Bertoki 1, Bertoki 2)
- Renovation of the Fram-Slivnica portal and the portal on the bridge crossing the Mura river
- Implementation of new traffic counters identifying incorrect driving direction
- Implementation of new IP cameras for video surveillance
- Implementation of the C-ITS pilot project

Implementation of European projects

Within the scope of the European Crocodile project, projects to exchange traffic data with neighbouring countries continue. The Crocodile II project, which was based on data collection (installation of detectors), concluded in 2019. The Crocodile III project is underway and is based on the renovation of Control Centres in terms of enhanced data exchange.

Within the scope of the European C-Roads project, pilot projects were implemented with both microwave and mobile technology in the area of the Primorska motorway leg. The application or continuation of the C-Roads II project was also confirmed.

In 2019, the application for a new project under the auspices of the ERTICA was prepared. The goal of the project is to test the operation of the fifth-generation mobile network (5G technology). The project seeks to integrate traffic management and control with smart networks and smart cities.

Together with the ASFINAG, the Company started activities in the pilot project to use fibre optics for traffic detection. The project was approved for co-funding by EU in 2019 and it is planned to be executed in 2020.

I.16.5.2 Provision of traffic information

At the European level, traffic information in Slovenia is processed in the most optimal way and sent to users. Traffic events in Slovenia are detected very quickly and information is available to users in a few seconds. The channels through which information flows multiply every year, since different users (with respect to the age and type of transport means) use different communication channels.

DARS follows the development of information channels and the detection of events by regularly introducing new technologies, pilot systems and by participating in international workgroups in that area.

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

Content on the website www.promet.si that is monitored the most by users:

- events and traffic conditions on a map,
- road cameras,
- fuel prices,
- bora wind measurement points,
- the virtual assistant Stane.

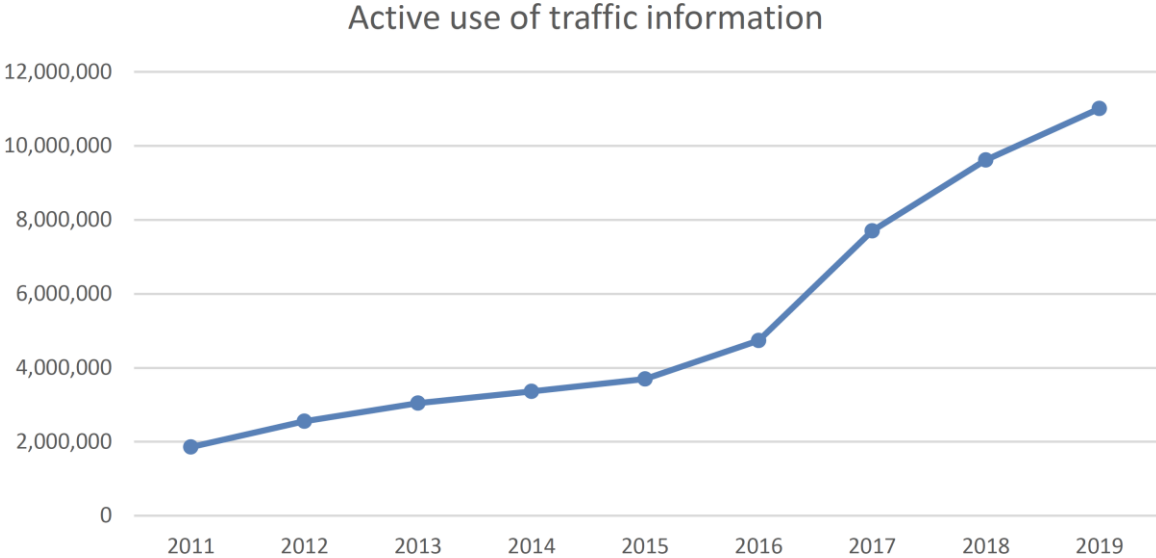
It is now possible to create your own user account (May PIC), through which the user may subscribe to information by email, e.g. weekly traffic forecast, special warnings for trucks, etc.

In the past 13 years, the Traffic Information Centre:

- sent over 460,000 pieces of information on events occurring on the national road network: on average, 32,680 a year, 2723 a month and 91 a day,
- received over 1,000,000 calls in the last 8 years, while the website was visited by over 10,000,000 different users in that period.

The growth of traffic and events is reflected in the difference between events in the first year of TIC operations and those that occurred in 2019. In 2006, the TIC reported about 11,545 events and, in 2019, about 107,346 events.

Figure 26: Active use of traffic information



A demonstration of the active use of traffic information shows the use of several channels through which users access traffic information (Internet, Twitter, mobile phone app, calls made to the TIC).

International traffic management (TMP)

DARS d.d. has cooperated with neighbouring countries in international traffic management for several years. In 2018, the Company started a new project to produce international traffic management plans with all neighbouring countries. In 2019, plans were harmonised and drawn up with the first tests successful, after which the system was put into service by control centres run by motorway operators from five countries (Austria, Croatia, Italy, Hungary and Slovenia). Some centres have already installed the plans directly in their information systems, while others are planning to do that in 2020. This is the first fully digitalised system of international traffic management in Europe. It is a major step forward towards faster and internationally harmonised information provision and traffic management on the main road connections in that part of Europe. Furthermore, it enables a much-improved response to major unforeseen emergencies requiring immediate operative international coordination.

I.16.6 Human resources management

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

- constant strengthening of competencies;
- leadership development;
- provision of a creative, safe and stimulating environment.

Employees at DARS d.d.

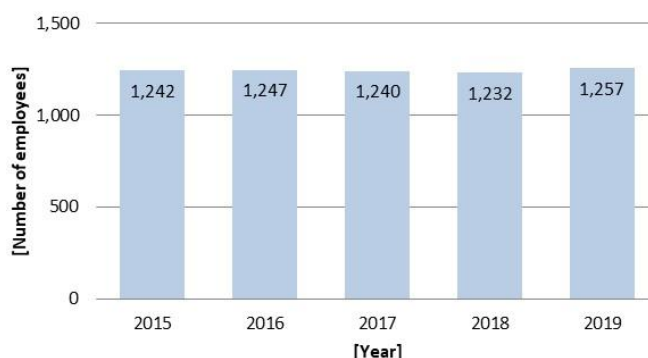
Table 8: Key data on DARS d.d. employees for 2018 and 2019

	2018	2019
Status of employees at DARS d.d.		
Number of employees at DARS d.d. - incl. replacements	1232	1257
Number of employees at DARS d.d. - excl. replacements	1228	1249
Demographic data on employees		
Average age of employees	45.6 years	46 years
Percentage of women employed	25.4%	25.6%
Employee education structure		
Percentage of employees with a level 4 education	37%	35.9%
Percentage of employees with level 5 education	32.6%	32.8%
Percentage of employees with level 6 education	17.8%	18.2%
Percentage of employees with level 7 or higher education	12.6%	13.1%
Social security of DARS d.d. employees		
Number of solidarity benefits granted	54	59
Number of employees with disability status	40	44
Number of procedures introduced for disability recognition	32	27
Number registered in voluntary pension insurance	79	52
Sick leave rate	5.91%	6.58%
Employee development – education and training		
Scope of education in hours per employee	24	21
Value of education per employee	233	209
Number of participants in education	2550	3654

Employment

In order to achieve the set business objectives for 2019 and uninterrupted operations, the Company recruited new people pursuant to the adopted Operative implementation section of the HR plan for 2019. A total of 78 external and 60 in-house vacancy notices were published in 2019, hence a total of 138 vacancies. DARS d.d. employed 65 workers, while 40 workers terminated their employment.

Figure 27: Number of employees at DARS d.d. from 2015 to 2019



Concern for employee social security

In 2019, activities continued pursuant to the applicable labour legislation and the already enforced good practice standards that are aimed at various aspects of providing social security to employees as agreed upon in the DARS d.d. Collective Agreement. Activities were aimed at managing disability procedures, addressing changed work capacities of employees, retirement, and the disbursement of solidarity aid and jubilee benefits to eligible persons. With the option of including employees in collective insurance for supplementary pension, employees are provided with yet another important aspect of exemplary social security.

In 2019, there were 27 disability procedures pending, whereby 8 employees were granted a disability status anew. The employer continued its initiatives for retirement with additional severance pay and possibilities for retired persons to perform temporary or occasional work. In 2019, 17 employees retired, while 25 employees continue to work after fulfilling the conditions for retirement. There were 21 contracts prepared for temporary or occasional work by retired persons for eligible persons who performed work pursuant to the provisions of the Labour Market Regulation Act. In 2019, the share of justified absence from work amounts to 6.58% with respect to regular work and mostly accounts for justified absence from work due to medical reasons.

HR development

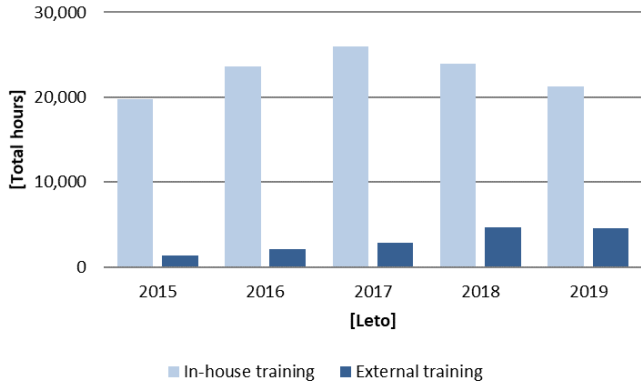
HR development in 2019 was characterised mostly by activities in leadership development, which were carried out on the basis of the results obtained from the measurement of manager competencies and training guidance for elderly employees (45+) within the scope of the ASI DARS project, which was co-funded by the European Social Fund. The activities reflected in an increased number of employees included in various education and training courses. The number of employees included in various training courses thus amounted to 3,654 in 2019 and surpassed the number of employees included in training in 2018 by 43%.

As in 2018, external training grew further in 2019. This shows the employees' need to obtain new skills and specialist knowledge on a continuous basis, which derives from the need to follow and adjust to new approaches to work, amended legislation and technological advancements.

In 2019, 4,598 training hours were held within the scope of external training, which was attended by 379 employees or 24% more than in 2018, when 306 employees attended external training.

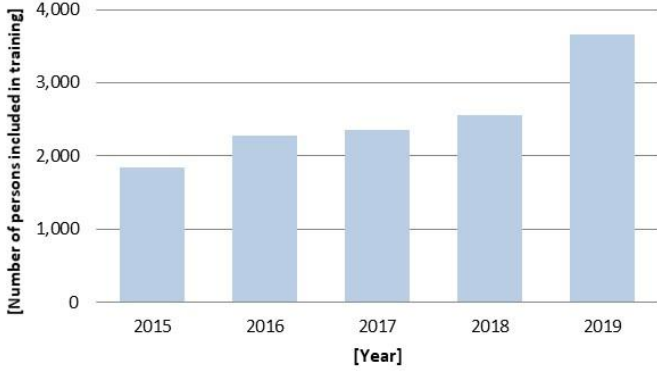
The volume of in-house training in 2019 amounted to 21,286 training hours and decreased by 11% compared to 2018. A total of 3,275 employees were included in the in-house training, which is 46% more than in 2018. Due to the increased involvement of employees in the training process, in-house training was organised in a manner making it possible to carry out a particular training course as quickly as possible (up to 4 training hours). That way, it was ensured that the work process was not interrupted due to a large number of employees included in training.

Figure 28: Overview of training hours for 2015-2019



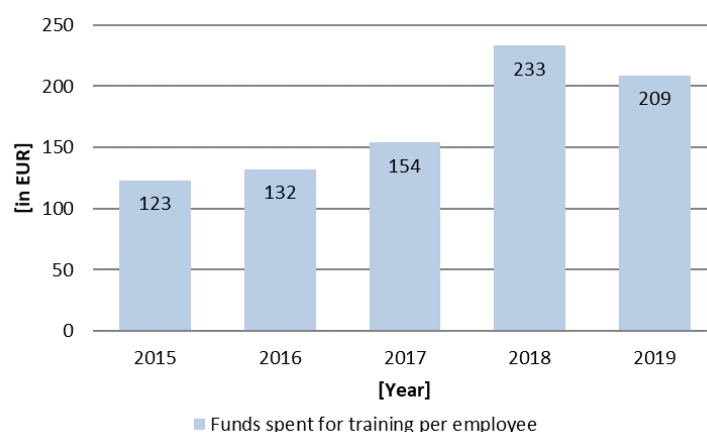
Knowledge represents a vital asset in the 21st century for the development of the Company and for society in general. DARS d.d. is well aware of that, which is why it enables employees to attend education and training courses to the maximum possible extent. That way, employees maintain the ability of continuous learning, while deepening and enriching their knowledge, which provides the basis for the performance of DARS d.d.

Figure 29: Number of persons included in training in the 2015-2019 period



In 2019, the value of external training per employee amounted to €107, which is 26% more than in 2018. With increased inclusion of employees in in-house training, the value of the in-house training in 2019 amounted to €102 and decreased by 31% compared to 2018. Hence, the total value of training per employee in 2019 fell by 10% compared to 2018.

Figure 30: Value of funds spent on training per employee in the 2015-2019 period



HRM projects

In addition to training, some other activities in HR management were conducted in 2019:

ASI DARS project: To preserve the knowledge and availability of elderly employees for work, DARS applied in 2018 to a public call published by the Public Scholarship, Development, Disability and Maintenance Fund of the Republic of Slovenia RS JP ASI 2017 and was successful. It started activities within the scope of the project in 2018, while the majority of activities were carried out in 2019. In 2018, activities were conducted and confirmed in the value of €27,334, while those in 2019 were confirmed in the amount of €33,482. In 2019, there were 323 employees included in project activities and 2,191 training hours were realised.

Development of DARS managers: Managers at DARS play an important role and hold responsibility for the successful work of all employees, which is why they were included in an assessment of competencies in 2018. In 2019, development workshops were held for managers by individual competence profile. In May, the first leadership conference was organised for the entire leadership line at DARS in order to enhance interconnection and harmonised management.

Organisational climate and employee satisfaction: DARS measures the organisational climate and employee satisfaction every year. In 2019, the best-rated categories of organisational climate were attitude to quality, satisfaction, innovations and self-initiative, and professional qualification and learning. The categories of internal communications and information provision, reward scheme and career development continue to pose challenges as in the previous year. Appropriate measures are being carried out to improve the organisational climate, satisfaction and employee engagement.

LOGINS project: DARS again joined the partner project of the KoC LOGIN competence logistics centre in 2019, within the scope of which it obtained a total of €37,000 from the European Social Fund for employee training, which can be drawn in the 2019-2021 period. Project activities started in autumn, which is why no major realisation took place in 2019 (€2,957 was realised). Participation in the project continues.



DARS is a family friendly company: Based on the adopted measures deriving from the acquired full Family Friendly Company certificate, activities continued in 2019 that make it easier for employees to coordinate their job duties and family life. An external audit of all activities was conducted and a positive opinion was given.

I.16.6.1 Development of a safe working environment

When replacing worn-out work equipment and procuring new work equipment, the Company applies the fundamental principles of ensuring safety and health at work. During document preparation for equipment purchasing, it is ensured that the equipment procured will not only be made pursuant to the regulations, but will

in fact provide the maximum level of safety. All equipment is regularly maintained and inspected. Toll supervisors received new vehicles equipped with all state-of-the-art security systems for increased traffic safety, reduced pollution of the environment (which is important in vignette supervision outdoors), and enhanced ergonomics in the office sections of the vehicles where toll supervision is carried out for heavy goods vehicles and where offence proceedings are managed. Employees who mostly work behind computers and wish to spend some time during work standing will receive height-adjustable desks. Over time, more and more office employees experience musculoskeletal problems (pain and spine deformations) and problems with internal organs (due to long-lasting sedentary work and ageing). The Company decided on the measure because it has been medically proven that long periods of sitting has a bad effect on the spine, belly muscles and the functioning of the digestive and respiratory organs, while combining sitting and standing positions during computer work is the best measure to prevent such medical problems.



Accidents at work

Irrespective of the many measures already adopted, there were 39 workplace accidents recorded at the Company in 2019. That is more than in the previous year and more than has been set in the strategy, yet such a number may also reflect increased employee awareness regarding the notification of every event (including incidents) during which they have been or might have been injured. In five cases, employees experienced pain or a light injury for which they did not have to take sick leave. Injuries did not lead to disability; however, 11 employees took prolonged sick leave (over 30 days) like the year before. Sick leave fell slightly in 2019 (12,275 hours) compared to 2018 (12,701 hours). Three toll supervisors were injured (slipped, tripped) along with 36 maintenance officers.

I.16.7 Responsibility to the natural environment

In light of its mission, the Company built and manages a motorway network that is closely linked with the natural environment during the 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 the continuous reduction of adverse environmental impacts.

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

DARS d.d. ranks among the larger energy consumers in Slovenia with an annual energy consumption of 45.03GWh (in 2019). With respect to Company processes, which are characterised by the need for tunnel management and lighting, as well as road management and maintenance, electricity accounts for the largest share of the total energy consumption (50.2%), followed by fuel (40.2%). A minor share of energy is used for heating facilities and that area is an important element of energy management due to the high potential for optimisation.

The Company's 2017-2020 Strategy places great importance on energy efficiency and environmental 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 reduce by 10% by 2020 with respect to the existing electricity users.
- To reduce energy consumption for heating by 10% by 2020 with respect to the 2015 baseline year.
- To reduce CO₂ emissions from energy products for heating by 20% by 2020 with respect to the 2015 baseline year.
- To reduce fuel consumption for work vehicles and machinery by 2% by 2021 with respect to the 2018 baseline year. To reduce average fuel consumption for light cargo vehicles by 5% by 2021 with respect to the 2018 baseline year.

Total energy consumption

The table below shows energy consumption and trends in energy consumption by energy product. A comprehensive approach to managing energy and pertaining measures has allowed the Company to reduce electricity consumption for heating, where a substantial part of the measures was executed on the basis of energy inspections.

Table 9: Energy consumption

		2015	2016	2017	2018	2019
Electricity	MWh	25,735	25,181	24,526	23,598	22,584
Fuel	MWh	16,384	17,538	16,369	18,662	18,081
Natural gas	MWh	1,866	1,524	1,676	1,443	1,386
LPG propane	MWh	2,018	2,253	2,123	1,964	1,857
LPG propane butane	MWh	1,171	1,225	1,105	852	475
Heating oil	MWh	238	344	291	238	97
District heating	MWh	586	810	778	638	550
Total	MWh	47,998	48,875	46,868	47,395	45,030

Other detailed data and demonstrations of responsible actions in respect of the environment will be indicated in the Sustainability Report for 2019, which is an independent document.

I.16.8 Inclusion in the wider society

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

Recognitions and awards

In recent years, DARS has received the following recognitions and awards:

- 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;
- DARS, respected employer in 2013;
- DARS, respected employer in 2015;
- together with the Republic of Slovenia, DARS d.d. received a special Max Fabiani jubilee award in 2015;
- DARS, respected employer in 2016;
- DARS, respected employer in 2018.

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), where it holds some important functions, the International Bridge, Tunnel and Turnpike Association (IBTTA) and is also included in the PIARC (World Road Association) via the National PIARC Slovenia Committee, which is a non-political and non-profit global road association established with the purpose of exchanging knowledge on roads and traffic. A detailed presentation of the Company's international cooperation is given in Chapter I.12 International cooperation and acquisition of European grants).

Corporate social responsibility

The Company is well aware of the responsibility it has to people and the environment in which it operates. Through awareness and preventive campaigns in the areas of traffic, traffic safety and environmental protection, it plays an active part in current social events, positively co-developing them to the best of its abilities.

In corporate social responsibility, special attention is dedicated to content relating to traffic safety, education and preventative actions on the roads operated by the Company. Funds are dedicated to projects in traffic prevention and to expert meetings related to traffic, safety, construction, maintenance and operation of motorways and expressways.

Sponsorships and donations

Donations are typically given to a major humanitarian project, i.e. children in the Botrstvo project, which is carried out by the Friends of Youth Association Ljubljana Moste-Polje. Pursuant to Company by-laws, the remainder is earmarked as a priority for projects relating to traffic safety, raising awareness among young people on proper conduct in traffic, support for humanitarian and social activities for children and to fire brigades and others intervening upon emergencies on the motorway system operated by the Company.

I.16.9 Responsibility to suppliers/contractors

In 2019, 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 awarding a public contract

When procuring goods, services and construction works, DARS d.d. is bound to observe the Public Procurement Act. Criteria for awarding 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. The Decree on green public procurement was published in the Official Gazette of the Republic of Slovenia, No. 51/2017, and entered into force on 1 January 2018. Pursuant to the Decree, green public procurement is mandatory for 20 subjects of public procurement.

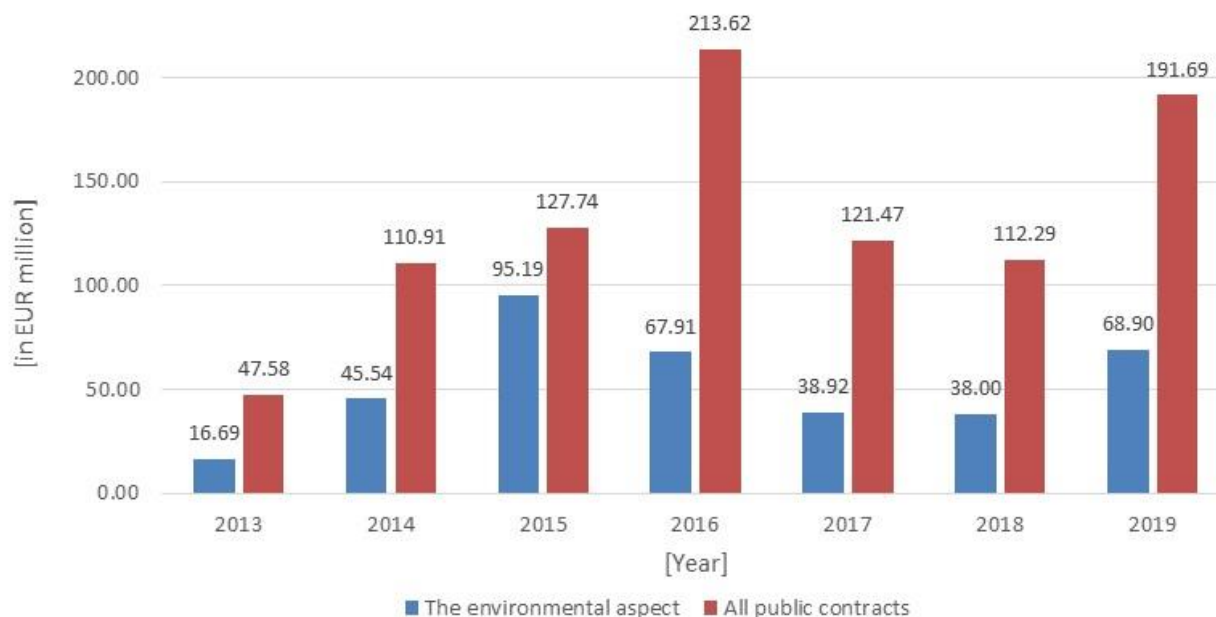
Suppliers of products and services (local, foreign)

The Public Procurement Portal eJN¹, 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 2019 shows that 1,038 contracting entities awarded public contracts in the total amount of €3,756,200,709 (excluding VAT). The number of published invitations to tender was 6,874 and the number of public contracts awarded was 26,527. The environmental aspect was taken into account in 8,506 or 32.06% of the contracts awarded.

Changes in the total public contracts awarded by DARS and the growth of public contract value in which the environmental aspect was observed from 2013 to 2019 (in € million) is shown below.

¹ Source: <https://ejn.gov.si/statist>

Figure 31: All public contracts and environmental public contracts from 2013 to 2019



The data for 2019 shows that DARS d.d. awarded public contracts in the total amount of €191,689,603 (excluding VAT). The total number of published invitations to tender was 162, while 313 public contracts were awarded. The environmental aspect was taken into account in 56 or 17.89% of the contracts awarded, which in terms of value means €68.90 million or 35.94%.

I.16.10 Communication

Communication strategy

DARS d.d. has a communication strategy that follows the Company's business strategy. The overarching communication strategy nurtures relations with all key stakeholders or audiences in the long term, i.e. motorway users, the media, employees, decision-makers, business partners, experts and non-governmental organisations and wider social environment.

While carrying out communication activities, the Company follows guidelines that will ensure the fulfilment of communication goals: proactive, up-to-date, clear and transparent, tangible and creating partnerships.

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, is in the best possible interest of DARS d.d.; based on that, the Company builds an open relationship with the media. In particular, the 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 Market in Financial Instruments 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.



I.17 Report of the Supervisory Board for 2019

In 2019, Supervisory Board Members acting as owner's representatives were Marjan Mačkošek (Chairman), Miha Juhart (Vice-Chair), PhD, Tatjana Colnar, MSc, and Igor Pirnat, MSc, until 11 September 2019, and Jože Oberstar (Chairman), Boris Božičnik (Vice-Chair), Matej Čufer, Andrej Hudoklin, MSc, and Jožef Zimšek as of 12 September 2019. Supervisory Board Members acting as employee representatives were Darko Kodrič and Rožle Podboršek until 15 April, Martin Stožir as of 9 May 2019 and Igor Kolar as of 10 October 2019.

The Supervisory Board consists of a balanced group of various experts who complement one another and focus on the 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. The Supervisory Board also followed the Corporate Governance Code for Joint Stock Companies and the Corporate Governance Code for Companies with Capital Assets of the State, as well as the Code of Ethics of the Slovenian Directors' Association, whereby consistently observing their principles.

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 almost all decisions adopted in 2019 were unanimous. The discussions show that the members of the Supervisory Board thoroughly prepared themselves for the sessions to facilitate active and professional participation in discussions on individual items of 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. The members attended the 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 2019 as successful. The Chairman of the Supervisory Board and of the Management Board worked together, including 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 the interested public.

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

In 2019, the Supervisory Board of DARS d.d. met at 10 regular sessions and 7 correspondence sessions, at which it discussed regular reports on Company operations and other current matters and important issues. At the sessions, it also discussed and decided on other matters for which it is responsible under the law, other regulations and the Articles of Association.

The Supervisory Board did not perform a self-assessment in 2019. Based on the adopted action plan for self-assessment from 2017, the Supervisory Board carried out measures deriving from it.

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

- discussed and confirmed the 2018 Annual Report,
- adopted a report on its activities for the previous year,
- discussed and confirmed proposals for adopting resolutions at the General Meeting,
- made decisions on remuneration for the Management Board,
- together with the Works Council, determined the terms for the appointment of the Employee Director in the Management Board,
- appointed a Board Member/Employee Manager,
- re-appointed a Board Member for a 5-year term of office,
- gave consent to the amended Business Plan for 2019,
- gave consent to the Business Plan for 2020,
- gave consent for the Refinancing Programme (attached) to the Business Plan for 2020,
- gave consent to the Rules of Procedure of the Management Board,
- gave consent to the second amendment of the Company Strategy,
- issued consents for transactions in excess of €2.5 million (excluding VAT),
- regularly kept track of the status of the ETS in FTF (DarsGo) project,
- was informed of the methodology used to calculate the cost of toll roads in the Republic of Slovenia,
- regularly kept track of the status of public procurement procedures,
- was informed of the Report on the implementation of the national programme for 2018,
- confirmed the Company Sustainability Report for 2018,
- gave consent to the Annual Plan of the Internal Audit Service for 2019 and familiarised with the Report on the Work of the Internal Audit Service for 2018,
- proposed that the General Meeting grant discharge to the Management and Supervisory Boards for the 2018 financial year and agreed with the proposal for the distribution of available profit according to the balance as at 31 December 2018,
- was informed of the non-audited semi-annual report,
- was regularly informed of reports made by Supervisory Board committees,
- monitored the realisation of self-assessment measures using the EFQM excellence model,

- discussed the report made by the Workers' Council for 2017 and 2018,
- was kept informed of other information (including the execution of the new tube of the Karavanke tunnel, 3rd development axis, Company reorganisation, etc.).

In making decisions, the Supervisory Board members observed the general rules on corporate governance in relation to conflict of interest.

Committees of the Supervisory Board of DARS d.d.

Two committees provided expert support for the Supervisory Board. They regularly reported and gave advice to the Supervisory Board, which had full decision-making power. The Audit Committee did not conduct a new self-assessment.

In 2019, the Audit Committee met at 9 regular meetings. It prepared bases for the confirmation of the Annual Report by the Supervisory Board. On several occasions, it also discussed it with auditors from KPMG d.o.o. The Committee discussed the non-audited semi-annual report and the audited annual report and put forth a proposal to the Supervisory Board for its confirmation. It also discussed the report on the work performed by the Internal Audit Service in 2018, the semi-annual report of the work performed by the Internal Audit Service for 2019, the plans of work for the Internal Audit Service for 2019, and put forth a proposal to the Supervisory Board to issue consent to the plan of work for the Internal Audit Service. Furthermore, it regularly monitored and discussed reports and recommendations given by the Internal Audit Service. The Committee was also regularly informed of reports on Company operations and the realisation of Committee resolutions, discussed the risk register and adopted its plan of work for 2019. The Committee also discussed other questions and issues falling within the competence of the Audit Committee, among other things assessing the work performed by the auditor KPMG d.o.o. based on "indicators for monitoring external audit by the Audit Committee upon the completion of the annual financial statements audit".

The Supervisory Board Committee for Remuneration and Management Board Assessments met at four regular sessions in 2019. It discussed the reports of the HR Management Service and the Occupational Health and Safety Service and the report on the satisfaction of

employees and motorway users. Together with the Workers' Council, it prepared a proposal of the terms for the appointment of the Employee Manager in the Management Board and put it forth to the Supervisory Board for consideration. Furthermore, it discussed a proposal regarding the disbursement of variable remuneration for the Management Board for 2018 and proposed that the Supervisory Board confirm the proposal. At the end of the year, the Committee carried out a procedure to re-appoint a Board Member and then put forth a proposal to the Supervisory Board for the re-appointment of the Board Member. The Committee also discussed other questions and issues falling within its competence.

Pursuant to paragraph 2 of Article 282 of the Companies Act, the Supervisory Board of DARS prepared a written report on the findings of the review of the Company's Annual Report for 2019 and the 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 2019 Annual Report

Company management submitted the Annual Report for 2019 including the business report and audited financial statements along with the auditor's opinion to the Supervisory Board on 16

April 2020. The Supervisory Board of DARS d.d. discussed the Annual Report of DARS d.d. for 2019 within the legally prescribed period. It took note of the Auditor's Report and the submitted opinion of a certified auditor on the examination of the financial statements for the 2019 financial year and established that the certified auditor had not discovered any misstatements or irregularities that could have an impact on the financial statements of the Company. 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 issued no remarks on the report of the auditing firm KPMG d.o.o.

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. Upon careful examination of the audited Annual Report for the 2019 financial year, to which the Supervisory Board had no remarks, the Annual Report was approved unanimously.

Upon the adoption of the Annual Report, the Supervisory Board took a position on the Corporate Governance Statement included in the business report within the scope of the Company's Annual Report for 2019 and assessed that it reflected the actual state in Company governance in 2019.


Jože Oberstar
Chairman of the Supervisory Board



II Financial report

II Financial Report

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II.1 Financial statements of DARS d. d.

Balance as at 31 December 2019

In € (excl. cents)	Notes	31/12/2019	31/12/2018
ASSETS		5,307,039,906	5,656,311,816
A. LONG-TERM ASSETS		4,925,136,269	5,213,235,131
I. Intangible assets and long-term deferred costs and accrued revenues	II.5.1.1	29,390,318	31,676,063
1. Long-term property rights		29,368,701	31,651,564
5. Other long-term deferred costs and accrued revenue		21,617	24,499
II. Property, plant and equipment	II.5.1.2	4,801,622,371	5,114,565,110
1. Land and buildings		4,679,300,000	5,019,835,517
a) Land		190,391,268	197,078,544
b) Buildings		4,488,908,732	4,822,756,972
3. Other machines and equipment		38,528,178	36,652,695
4. Property, plant and equipment being acquired		83,794,193	58,076,899
a) Property, plant and equipment under construction and manufacture		83,794,193	58,076,899
III. Investment property	II.5.1.3	2,281,928	2,311,621
IV. Long-term investments	II.5.1.5	70,000,964	37,000,964
1. Long-term investments other than loans		964	964
a) Shares and stakes in Group companies		0	0
c) Other shares and interests		964	964
2. Long-term loans		70,000,000	37,000,000
b) Long-term loans to others		70,000,000	37,000,000
V. Long-term operating receivables	II.5.1.6	16,958,648	21,555,604
2. Long-term trade receivables		30,754	30,757
3. Long-term operating receivables from others		16,927,894	21,524,846
VI. Deferred tax assets	II.5.1.7	4,882,040	6,125,768
B. CURRENT ASSETS		380,847,267	442,138,263
I. Assets (of the disposal group) held for sale	II.5.1.8	606,134	169,129
II. Inventories	II.5.1.9	4,673,088	4,334,186
1. Material		3,975,321	3,684,322
3. Products and merchandise		697,766	649,863
III. Short-term investments	II.5.1.10	268,000,000	331,264,113
1. Short-term investments other than loans		0	264,113
c) Other short-term investments		0	264,113
2. Short-term loans		268,000,000	331,000,000
b) Short-term loans to others		268,000,000	331,000,000
IV. Short-term operating receivables	II.5.1.11	72,182,647	57,375,976
2. Short-term trade receivables		31,377,843	23,330,975
3. Short-term operating receivables from others		40,804,805	34,045,001
V. Cash and cash equivalents	II.5.1.12	35,385,398	48,994,859
C. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE	II.5.1.13	1,056,369	938,423

In € (excl. cents)	Notes	31/12/2019	31/12/2018
LIABILITIES		5,307,039,906	5,656,311,816
A. EQUITY	II.5.1.14	2,863,136,410	2,963,264,000
I. Called-up capital		2,086,559,144	2,322,284,140
1. Share capital		2,086,559,144	2,322,284,140
II. Capital surplus		26,940,767	26,576,528
III. Profit reserves		711,671,135	566,797,337
1. Legal reserves		39,717,709	32,737,888
4. Statutory reserves		158,742,423	125,588,272
5. Other profit reserves		513,211,002	408,471,176
V. Fair value reserves		-11,765,862	-7,402,605
VI. Retained net profit or loss		0	0
VII. Net profit or loss for the financial year		49,731,226	55,008,600
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	II.5.1.15	163,649,723	198,670,269
1. Provisions for pensions and similar liabilities		4,413,563	3,426,749
2. Other provisions		1,864,190	31,010,303
3. Long-term accrued costs and deferred revenue		157,371,970	164,233,217
C. LONG-TERM LIABILITIES		1,917,205,404	2,176,955,565
I. Long-term financial liabilities	II.5.1.16	1,823,358,144	2,056,619,825
2. Long-term financial liabilities to banks	II.5.1.17	1,549,586,029	1,739,365,546
3. Long-term financial liabilities for bonds	II.5.1.18	117,800,967	160,364,547
4. Other long-term financial liabilities	II.5.1.19	155,971,148	156,889,732
II. Long-term operating liabilities	II.5.1.20	93,847,261	120,285,559
2. Long-term trade liabilities		0	344,487
5. Other long-term operating liabilities		93,847,261	119,941,072
III. Deferred tax liabilities	II.5.1.21	0	50,181
D. SHORT-TERM LIABILITIES		341,377,546	295,438,931
II. Short-term financial liabilities	II.5.1.22	264,576,081	234,731,087
2. Short-term financial liabilities to banks		195,649,378	216,084,171
3. Short-term financial liabilities for bonds		45,975,233	3,416,071
4. Other short-term financial liabilities		22,951,470	15,230,845
III. Short-term operating liabilities	II.5.1.23	76,801,465	60,707,844
1. Short-term operating liabilities to Group companies		0	0
2. Short-term trade liabilities		37,347,137	30,743,653
4. Short-term operating liabilities for advances		61,819	62,736
5. Other short-term operating liabilities		39,392,509	29,901,455
E. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	II.5.1.24	21,670,823	21,983,051

The accounting policies and the notes are a constituent part of the financial statements and must be read in connection with them.

Income Statement for the period from 1 January to 31 December 2019 (version I)

In € (excl. cents)	Notes	1/1 - 31/12/2019	1/1 - 31/12/2018
1. Net sales revenues	II.5.2.1	480,750,876	465,605,859
Toll revenue		466,611,271	451,497,703
Revenue from rest area leases		8,951,984	8,038,859
Revenue from closures and overweight load transport		1,040,540	1,142,321
Revenue from easement for base stations and other		864,655	686,602
Revenue under the performance contract		326,820	300,000
Revenues from the lease of fibre optics		996,843	1,026,446
Other sales revenues		1,958,763	2,913,930
3. Capitalised own products and services	II.5.2.2	1,671,338	898,978
4. Other operating revenue	II.5.2.3	39,633,020	22,875,241
5. Cost of goods, material and services	II.5.2.4	-50,383,003	-47,646,986
a) Cost of goods and material sold and costs of material used		-9,750,970	-10,784,758
b) Cost of services		-40,632,033	-36,862,228
6. Labour costs	II.5.2.5	-45,244,673	-40,847,516
a) Salaries and wages		-32,897,516	-30,226,388
b) Social security costs		-6,393,841	-5,913,866
c) Other labour costs		-5,953,316	-4,707,262
7. Write-downs	II.5.2.6	-211,019,620	-175,081,720
a) Depreciation/amortisation		-180,055,717	-171,160,088
b) Operating expenses for the revaluation of intangible assets and property, plant and equipment		-30,864,914	-3,749,710
c) Operating expenses for the revaluation of current assets		-98,990	-171,922
8. Other operating expenses	II.5.2.7	-4,417,931	-3,408,916
10. Financial revenue from loans given	II.5.2.8	780,838	806,170
b) Financial revenue from loans to others		780,838	806,170
11. Financial revenue from operating receivables	II.5.2.9	8,212	10,968
b) Financial revenue from operating receivables due from others		8,212	10,968
12. Financial expenses for investment impairment and write-down	II.5.2.10	-1,627,973	-726,770
13. Financial expenses for financial liabilities		-37,497,932	-40,084,327
b) Financial expenses for loans received from banks	II.5.2.11	-22,844,789	-25,239,962
c) Financial expenses for bonds issued	II.5.2.12	-7,335,306	-7,340,872
d) Financial expenses for other financial liabilities	II.5.2.13	-7,317,837	-7,503,493
14. Financial expenses for operating liabilities	II.5.2.14	-65,389	-280,055
b) Financial expenses for trade liabilities and bills payable		-33,195	-270,363
c) Financial expenses for other operating liabilities		-32,193	-9,692
15. Other revenues	II.5.2.15	276,588	5,231,151
16. Other expenses	II.5.2.16	-495,076	-210,665
17. Corporate income tax	II.5.2.17	-30,552,021	-33,075,718
18. Deferred tax		-2,205,799	356,269
19. Net profit or loss for the accounting period		139,611,455	154,421,963

The accounting policies and the notes are a constituent part of the financial statements and must be read in connection with them.

Statement of Other Comprehensive Income for the period from 1 January to 31 December 2019

In € (excl. cents)	2019	2018
19. Net profit or loss for the financial year	139,611,455	154,421,963
Effective part of the changes in the fair value of the hedging instrument against interest rate variability	-5,327,642	-2,925,459
Change in deferred taxes	1,012,252	555,837
Other comprehensive income to be recognised in the income statement in the future	-4,315,390	-2,369,622
Actuarial gains/losses from severance pay upon retirement	-62,898	26,772
Other comprehensive income not to be recognised in the income statement in the future	-62,898	26,772
23. Other elements of comprehensive income	-4,378,288	-2,342,849
24. Total comprehensive income for the accounting period	135,233,167	152,079,114

The accounting policies and the notes are a constituent part of the financial statements and must be read in connection with them.

Cash Flow Statement for the period from 1 January to 31 December 2019

In € (excl. cents)	2019	2018
A. Cash flows from operating activities		
a) Income statement items		
Operating revenues (except for revaluation) and financial revenue from operating receivables	520,061,462	493,446,938
Operating expenses excluding amortisation/depreciation (except for revaluation) and financial expenses for operating liabilities	-99,033,724	-91,667,081
Corporate income tax and other taxes not included in operating expenses	-33,770,071	-33,275,286
	387,257,667	368,504,571
b) Changes in the 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	-10,594,381	-7,319,248
Opening less closing deferred costs and accrued revenues	-117,946	-19,189
Opening less closing deferred tax assets	1,243,728	-762,758
Opening less closing assets (of the disposal group) held for sale	-437,006	0
Opening less closing inventories	-338,902	780,709
Closing less opening operating liabilities	-9,844,986	-43,954,784
Closing less opening accrued costs and deferred revenue and provisions	-35,332,774	-10,986,083
Closing less opening deferred tax liabilities	-50,181	-149,348
	-55,472,448	-62,410,703
c) Positive or negative cash flow from operating activities (a + b)	331,785,219	306,093,868
B. Cash flow from investing activities		
a) Receipts from investing activities		
Inflows from interest received and shares in profit received relating to investing activities	1,165,504	247,306
Receipts from the disposal of intangible assets	0	6,500
Receipts from the disposal of property, plant and equipment	3,105,569	499,913
Receipts from the disposal of investments	266,264,113	407,116,127
	270,535,186	407,869,846
b) Cash disbursements for investing activities		
Disbursements for the acquisition of intangible assets	-1,753,538	-34,021,310
Disbursements for the acquisition of property, plant and equipment	-130,437,841	-118,755,297
Cash disbursements for the acquisition of investments	-234,504,393	-311,264,113
	-366,695,771	-464,040,719
c) Positive or negative cash flow from investing activities (a + b)	-96,160,585	-56,170,873
C. Cash flows from financing activities		
a) Receipts from financing activities		
Receipts from the increase of financial liabilities	4,177,289	25,000,000
	4,177,289	25,000,000
b) Disbursements for financing activities		
Interest paid on financing activities	-39,625,597	-41,299,801
Disbursements for repayment of financial liabilities	-213,785,786	-219,555,539
	-253,411,384	-260,855,340
c) Positive or negative cash flow from financing activities (a + b)	-249,234,095	-235,855,340
D. Closing balance of cash and cash equivalents	35,385,398	48,994,859
x) Net cash flow in the period (sum of net Ac, Bc and Cc)	-13,609,461	14,067,656
y) Opening balance of cash and cash equivalents	48,994,859	34,927,203

The accounting policies and the notes are a constituent part of the financial statements and must be read in connection with them.

Statement of Changes in Equity for the period from 1 January to 31 December 2019

In € (excl. cents)	I.	II.	III.			V. Fair value reserves	VI.	VII.	Total equity
	Called-up capital	Capital surplus	Profit reserves				Retained earnings	Net profit or loss for the financial year	
	1. Share capital		1. Legal reserves	4. Statutory reserves	5. Other revenue reserves		1. Retained earnings/losses	1. Net profit for the year	
A1. Balance as at 31/12/2018	2,322,284,140	26,576,528	32,737,888	125,588,272	408,471,176	-7,402,605	0	55,008,600	2,963,264,000
B.1. Changes in equity – transactions with owners	-235,724,996	0	0	0	0	0	0	0	-235,724,996
a) Subscription of called-up share capital									
f) Repayment of capital	-235,724,996								-235,724,996
B.2. Total comprehensive income for the reporting period	0	0	0	0	0	-4,378,288	0	139,611,455	135,233,167
a) Entry of net profit or loss for the reporting period								139,611,455	139,611,455
c) changes in fair value reserves resulting from fair value measurement						-4,315,390			-4,315,390
d) Other elements of comprehensive income for the reporting period						-62,898			-62,898
B.3. Changes in equity	0	364,238	6,979,821	33,154,151	104,739,826	15,030	0	-144,888,828	364,238
a) Allocation of the remainder of the net profit of the comparable reporting period to other equity components					55,008,600			-55,008,600	0
b) Allocation of a part of the net profit of the reporting period to other equity components under a decision of the management and supervisory bodies			6,979,821	33,154,151	49,731,226		15,030	-89,880,229	0
f) Other changes in capital		364,238				15,030	-15,030		364,238
D. Balance as at 31/12/2019	2,086,559,144	26,940,767	39,717,709	158,742,423	513,211,002	-11,765,862	0	49,731,226	2,863,136,410
AVAILABLE PROFIT as at 31/12/2019							0	49,731,226	49,731,226

The accounting policies and the notes are a constituent part of the financial statements and must be read in connection with them.

Statement of Changes in Equity for the period from 1 January to 31 December 2018

In € (excl. cents)	I.	II. Capital surplus	III.			V. Fair value reserves	VI.	VII.	Total equity
	Called-up capital		Profit reserves				Retained earnings	Net profit or loss for the financial year	
	1. Share capital		1. Legal reserves	4. Statutory reserves	5. Other revenue reserves		1. Retained earnings/losses	1. Net profit for the year	
A1. Balance as at 31/12/2017	2,322,284,140	26,576,528	25,017,383	88,915,873	303,185,778	-5,071,614	0	50,276,799	2,811,184,886
B.1. Changes in equity – transactions with owners									
a) Subscription of called-up share capital									
B.2. Total comprehensive income for the reporting period						-2,342,849		154,421,963	152,079,114
a) Entry of net profit or loss for the reporting period								154,421,963	154,421,963
c) changes in fair value reserves resulting from fair value measurement						-2,369,622			-2,369,622
d) Other elements of comprehensive income for the reporting period						26,772			26,772
B.3. Changes in equity			7,720,505	36,672,400	105,285,398	11,859	0	-149,690,162	0
a) Allocation of the remainder of the net profit of the comparable reporting period to other equity components					50,276,799			-50,276,799	0
b) Allocation of a part of the net profit of the reporting period to other equity components under a decision of the management and supervisory bodies			7,720,505	36,672,400	55,008,600		11,859	-99,413,363	0
f) Other changes in capital						11,859	-11,859		0
D. Balance as at 31/12/2018	2,322,284,140	26,576,528	32,737,888	125,588,272	408,471,176	-7,402,605	0	55,008,600	2,963,264,000
AVAILABLE PROFIT as at 31/12/2018							0	55,008,600	55,008,600

The accounting policies and the notes are a constituent part of the financial statements and must be read in connection with them.

Statement of available profit for 2019

In € (excl. cents)	31/12/2019	31/12/2018
A. Net profit or loss for the 2019 financial year	139,611,455	154,421,963
B. Retained earnings/losses	-15,030	-11,859
C. Increase in profit reserves under the decision of the Management Board		
– Legal reserves	6,979,821	7,720,505
– Statutory reserves	33,154,151	36,672,400
– Other profit reserves	49,731,226	55,008,600
AVAILABLE PROFIT as at 31/12/2019	49,731,226	55,008,600

Net profit or loss for 2019 amounted to €139,611,455. Upon the compilation of the Company's Annual Report, legal reserves amounting to €6,979,821, statutory reserves amounting to €33,154,151 and other profit reserves amounting to €49,731,226 were formed 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 2019 amounted to €49,731,226.29. The General Meeting of DARS d.d. will decide on the distribution of the available profit pursuant to ZGD-1.

In line with Article 69 of the Companies Act, the Management and Supervisory Board of the Company propose that the available profit for 2019 amounting to €49,731,226.29 be distributed to other profit reserves.

II.2 Reporting company

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 construction of motorways and expressways and operates and maintains the existing motorways and expressways in the Republic of Slovenia. DARS d.d. performs tasks relating to spatial planning and integrating motorways into the environment, as well as tasks relating to real property 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 the first paragraph of Article 60 of the CA-1 in accordance with the Slovenian Accounting Standards (SAS). The Management Board of the Company confirmed the financial statements on 30 March 2020.

II.3 Important 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 in accordance with the provisions of the ZGD-1 and ZDARS-1.

The financial statements are compiled as separate financial statements of the Company intended for general requirements. The financial statements were compiled for the reporting period that started on 1 January 2019 and ended on 31 December 2019, i.e. in accordance with the Slovenian Accounting Standards 2019.

When preparing the financial statements, we took into account two essential accounting assumptions: the accrual and going concern.

The financial statements are compiled in the euro currency, excluding cents. Transactions denominated in a foreign currency are translated into euros at the reference exchange rate of the ECB at the date of the transaction. Cash and liabilities denominated in a foreign currency as at the balance sheet date have been converted into the euro currency using the reference exchange rate of the European Central Bank applicable on the last day of the accounting period. Foreign exchange gains and losses are recognised in the Income Statement.

When 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. The actual values may differ from those assessed. Estimates and assumptions are subject to regular review. The effect of a change of the accounting estimate is used prospectively and only affects the period in which the accounting estimate was changed and subsequent periods.

The obligatory financial statements are compiled for the purposes of fulfilling legal requirements. In line with the law, the Company must provide an independent audit of the financial statements. The audit is limited to an audit of the obligatory financial statements for general requirements, where the legal requirement for the audit of the obligatory financial statements is fulfilled. The audit considers obligatory financial statements as a whole and does not provide assurances on individual items, accounts or transactions. The audited financial statements are not intended for use by any party for the purposes of making decisions in relation to the ownership, financing or any other specific transactions referring to the Company. Therefore, the users of the obligatory financial statements may not rely exclusively on the financial statements and are obliged to implement other appropriate procedures prior to making any decisions.

Intangible assets and long-term deferred costs and accrued revenue

Intangible assets are investments in the acquired industrial property rights (licences, software).

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

The Company independently determines 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 any accumulated amortisation allowance.

Intangible fixed assets are valued as per the cost model.

Impairments of assets or cash-generating units are recognised whenever their book values exceed their recoverable value. Impairments are disclosed in the income statement. If the Company operates with an adequate profit and within the scope of the 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 production as well as property, plant and equipment leased as the right of use. Such assets are presented in the balance sheet as a collective item, by type of asset at their carrying amount, which is the amount at which an asset is recognised after deducting any accumulated depreciation from its cost. Property, plant and equipment that can no longer be used because they are defective, obsolete or similar are permanently withdrawn from use.

An item of property, plant and equipment is measured at cost upon initial recognition. The cost comprises its purchase price, import duties and non-refundable purchase taxes, as well as any directly attributable costs of bringing them into a working condition.

Subsequent expenses associated with tangible fixed assets increase their cost, if they increase the future economic benefits generated by such assets in excess of the originally assessed ones or result in an extension of the useful lives of such assets. A motorway section is activated on the day it is opened to traffic and the costs that arise after that date and are connected to the construction of the motorway section increase its purchase value once a year, i.e. with the balance as at 31 December of the current year.

The cost of property, plant and equipment also comprises the borrowing costs related to the acquisition of property, plant and equipment until it is purposed for use. Borrowing costs include:

- interest,
- other Company costs connected to borrowing funds.

Borrowing costs that can be directly ascribed to the purchase, construction or manufacture of a fixed asset can be capitalised as part of the purchase value of that asset. Other borrowing costs are recognised as an expense in the period when they emerge.

Costs directly connected to borrowing and intended for financing motorway construction increase the purchase value of motorways as long as the motorway sections for which the loans were taken are under construction (until they can be used). The Company ceases to capitalise borrowing costs when motorway sections are opened to traffic.

The cost of an item of property, plant and equipment that is built or made by the Company includes direct costs incurred in its construction or production and any indirect costs of its construction or production that can be attributed to it.

Repairs or maintenance of property, plant and equipment are intended for restoring or maintaining the future economic benefits expected from the originally estimated level of asset performance. Expenses are recognised as expenses when incurred.

Property, plant and equipment are valued as per the cost model.

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

Property, plant and equipment are derecognised upon disposal or if future economic benefits are no longer expected from their use or disposal.

The difference between the net proceeds on the disposal and the carrying amount of a company-owned item of property, plant and equipment disposed of shall be recognised as operating revenue from revaluation if the former exceeds the latter, or as operating expenses from revaluation if the latter exceeds the former.

The Company annually verifies the book value of property, plant and equipment in order to ascertain whether there are any signs of impairment. Should such signs exist, the recoverable amount of the asset is assessed. The recoverable value of an asset is considered to be the net sales value or value in use, whichever is higher. The impairment of an asset is recognised when its book value exceeds the recoverable amount. Impairments are disclosed in the income statement. If the Company operates with an adequate profit and within the scope of its business plans, there is no need for impairment. The Company plans positive results and cash flows for the current and future years, which is why it identified no asset impairment.

The Company keeps track of progress in projects and investments on a monthly basis through project and investment administrators. If it is found that a project would not be completed, a write-down is made.

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

Pursuant to the ZGD-1 and SAS 2016, the Company keeps its right of superficies under the item Land.

Pursuant to the 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 the ZDARS-1. The right of superficies is 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; therefore, annual compensation is paid for it in accordance with the annual performance contract pursuant to Article 4 of the ZDARS-1.

The right of superficies as one of the rights to real estate is initially recognised at cost. The right of superficies has a definite useful life and is amortised during that period, i.e. 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 utilise it. The Company applies the straight-line depreciation method.

Depreciation/amortisation

The cost of property, plant and equipment and intangible assets is decreased by depreciation or amortisation, respectively. The basis for the assessment of the depreciation of property, plant and equipment and the amortisation of intangible assets is the total cost of an asset. Following activation, all subsequent investments that increase the future benefits of the fixed asset or enable a longer fixed asset service period (e.g. investment maintenance, reconstruction of roads and facilities) are included in the basis.

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

The useful life depends on:

- expected physical use,
- expected technical obsolescence,
- expected economic obsolescence,
- expected legal or other restrictions of use.

The useful life of an individual asset is deemed to be the shortest useful life with respect to each of the mentioned factors.

The Company checks the adequacy of the defined estimated useful lives of motorway infrastructure every 5 years and the depreciation/amortisation rates are then recalculated for current and future periods if the expectations substantially differ from the estimated.

As at 31 December 2019, the Company assessed the adequacy of the defined estimated useful life of the motorway infrastructure superstructure and assessed that the estimated useful life was appropriate.

An item of property, plant and equipment starts to depreciate on the first day of the month after it is put into service. Property, plant and equipment – motorways – start to be used on the day they are opened for traffic, whereby it is not necessary that the investment is completed and that all deficiencies have been eliminated.

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 available for use.

Depreciation of property, plant and equipment and the amortisation of intangible fixed assets are calculated for each asset separately using the straight-line depreciation method. Land, substructures of motorways and assets under acquisition are not depreciated.

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

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

Groups of fixed assets	Main components	Average amortisation/depreciation rates in 2019
Land	Land used for motorway maintenance centres, business and residential buildings, rest stops and surplus alongside motorways, investment property land	0%
Land – leases		10%
Right of superficies		2%
Motorway substructure	Construction works (preparatory works, earthworks), landscaping costs, archaeological excavation costs, demolition costs, etc.	0%
	a) Superstructure (road surface of motorway alignment, blanket, etc.)	3%
	b) Project costs, costs of motorway construction financing, costs of motorway construction supervision and costs of services necessary for the construction of individual motorway sections, plus other costs	3%
Motorway superstructure	c) Drainage facilities (sewerage, oil separators, retention basins, water protection facilities)	6%
	d) Barriers (safety barriers and crash barriers, noise protection)	6%
	e) Traffic signalisation and traffic equipment (vertical and horizontal signalisation, road lighting, emergency call system, CVP, cable ducts, etc.)	6%
	f) Gantries (DarsGo system, Traffic Control and Management System) – electromechanical equipment	13%
	g) Gantries (DarsGo system, Traffic Control and Management System, MW video surveillance) – construction and structural works	6%
Motorway structures (viaducts, bridges, tunnels, overpasses, underpasses, retaining walls, etc.)	a) Construction elements	3%
	b) Tunnel equipment and electromechanical installations	7%
Buildings	Motorway maintenance centres, toll stations with booths and overhangs, other built facilities alongside motorways (sanitary facilities at rest stops, etc.), office building in Celje, holiday facilities and apartments, investment property	4%

Groups of fixed assets	Main components	Average amortisation/depreciation rates in 2019
Buildings – leases		19%
Computers and computer equipment – other		48%
Computers and computer equipment – DarsGo system		25%
Other equipment		20%
Equipment – leases		32%
Software – other		24%
Software – DarsGo system		10%
Easement right		8%

Amortisation allowance does not appear in relation to:

- a) land,
- b) property, plant and equipment under construction or in production,
- c) property, plant and equipment of cultural, historical or artistic significance,
- d) motorway substructure including construction works (preparatory works, earthworks), landscaping costs, archaeological excavation costs, demolition costs, etc.

The annual depreciation of property, plant and equipment and the amortisation of intangible assets of the Company constitute operating expenses.

Amortisation/depreciation is accounted even if an asset is no longer in use or has been removed from use until it is fully amortised/depreciated.

The costs of the amortisation of assets acquired through government grants or donations are offset to the benefit of operating revenue and an appropriate decrease in long-term deferred revenue.

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

Investment property

The Company owns investment property for lease purposes.

Investment property is initially recognised at cost. The cost of investment property comprises the purchase price and all directly attributable costs. After initial recognition, investment property is valued at cost decreased by the accumulated amortisation allowance and impairment loss.

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.

Leases

Leased assets are classified by the Company as the relevant type with respect to their intended use (intangible assets, property, plant and equipment, investment property).

As at 31 December 2019, the Company discloses leased assets as right-of-use assets only under property, plant and equipment. The Company applies the guidelines referred to in the SAS 1 in relation to leased assets mutatis mutandis for intangible assets and investment property.

Pursuant to the SAS 1.27 (SAS 2019), DARS d.d. recognised a right-of-use item of property, plant and equipment and lease obligations as at the start date of the lease. An item of property, plant and equipment obtained on the

basis of a lease is, therefore, an integral part of the Company's property, plant and equipment, and its cost includes (SAS 1.27):

- a.) the amount of the initial measurement of lease obligations;
- b.) payments of rent made on the start date of the lease or earlier decreased by the received lease incentives;
- c.) initial direct costs;
- d.) an estimate of costs that will be incurred by the lessee in the dismantling or removal of an asset that is the subject of the lease, renovation of the place where it is located or the restoration of an asset that is the subject of the lease to the condition prescribed by the terms of lease, unless such costs were incurred in the production of inventories.

As at the start date of the lease, DARS d.d. measured the lease obligation at the present value of rents that have not been settled by that day. When calculating the present value of the minimum sum of rents, the discount rate is a lease-related discount rate if it can be determined, otherwise the interest rate is the presumed borrowing rate that must be paid by the lessee. DARS selected the presumed borrowing rate as the discount rate.

The rents covered as at the initial date when measuring outstanding lease liabilities include the following payments for the right to use an asset that is the subject of the lease as at the start date of the lease in the period of lease:

- a.) fixed rents reduced by receivables for lease incentives;
- b.) variable rents that depend on the index or rate and are initially measured using the index or rate applicable as at the start date of the lease;
- c.) amounts that are expected to be paid by the lessee based on guarantees for residual value;
- d.) completion price for the option of purchase if it is fairly likely that the lessee would use that option, and
- e.) payments of penalties for the cancellation of the lease if the term of the lease shows that the lessee would use the option of lease cancellation.

Pursuant to the SAS 1.27 (2019), DARS d.d. assesses upon the conclusion of a lease agreement whether it is a lease contract or whether the contract includes a lease. A contract is a lease contract or includes a lease if it is used to transfer the right to manage the use of the identified asset for the specified period in exchange for consideration. In doing so, the Company accounts all lease components as a single lease component. When assessing whether a contract transfers the right to the use of an identified asset for the specified period, the Company assesses whether it has simultaneously throughout the term of use:

- a.) the right to obtain all relevant economic benefits from the use of the identified asset and
- b.) the right to direct the use of the identified asset.

If DARS has the right to manage the use of an identified asset only for a part of the term of the contract, the contract includes a lease for that part of the term of the contract.

An asset is ordinarily deemed to be identified if it is expressly specified in a contract. It may also be identified by way of implicit specification when DARS receives it in use. DARS has no right to use an identified asset if the supplier has the material right to replace the asset throughout the term of use, meaning that it has the actual possibility to replace alternative assets throughout the term of use and would also have economic benefits.

DARS only has the right to direct the use of an identified asset throughout the term if:

- a.) it has the right to direct the method and purpose of the use of the asset throughout the term of use or
- b.) important decisions on the method and intended use of the asset are specified in advance and:
 - the Company has the right to use the asset throughout the term of use, whereby the supplier has no right to change instructions for operation, or
 - the Company designed the asset in a manner specifying in advance the method and intended use of the asset throughout the term of use.

DARS specifies the term of the lease as a period in which the lease cannot be cancelled along with:

- a.) the period in which it is possible to extend the lease if it is fairly likely that the lessee would use that option, and

b.) the period in which it is possible to cancel the lease if it is fairly likely that the lessee would not use that option.

Upon initial recognition, DARS measures the right to use an asset at the present value of future rents. That right is amortised and the amortisation cost is recognised along with the cost of interest due to the time value of money under expenses for financing. Hence, the Company separates the amount constituting the payment of principal from the amount constituting the payment of interest in the cash flow statement. Both are classified under cash flows from financing activities.

A lease obligation is disclosed under liabilities for financing, which is broken down into the long-term share, which falls due in a period longer than a year after the balance sheet date, and the short-term share, which falls due within 12 months following the balance sheet date.

The Company accounts incentive payments in a lease (e.g. free rent, which includes periods of the lease for which it is not required to pay rent) as a part of measuring the right to use an asset and lease obligation, which constitutes a cost reduction. The latter is ordinarily recognised as a linear cost decrease in the period of the lease.

DARS d.d. impairs the right of use pursuant to the requirements of the SAS 17 – Impairment of property, plant and equipment and intangible assets.

For short-term leases (the lease period is less than 12 months) and low-value leases (the value of a leased asset, if it were new, falls under €10,000; e.g. laptops, tablets and phones), DARS applies an exception and does not recognise the right to use the asset. Costs related to the lease of such assets are, therefore, recognised under expenses evenly throughout the term of the lease. They are recognised under the cost of services, specifically the item rents.

An asset leased is disclosed separately from other such assets. The amortisation of leased assets must be aligned with the amortisation of other similar assets. If there is no justified assurance that the lessee will assume ownership by the end of the lease, such assets are fully amortised either during the term of the lease or during its useful life, whichever is earlier. Depreciation costs for property, plant and equipment acquired through lease are accounted separately.

Transition effects due to the changed definition of a lease in the SAS in 2019

The Company started applying amendments to the SAS 1 (2019) for financial years starting on or after 1 January 2019. They refer to the amended accounting treatment of leases by lessees. The lessee no longer classifies leases under operating and financial leases, but recognises the right of use for all assets leased and a lease liability under liabilities. The assets leased are classified by the Company as the relevant type with respect to their intended use (intangible assets, property, plant and equipment, investment property).

The transition to the new accounting method was calculated by DARS d.d. pursuant to the requirements of the SAS 1.68 (2019), i.e. initial balances were recalculated in a simplified manner.

Before 1 January 2019, DARS classified leases under operating and financial leases. If a lease was ranked as an operating lease, the asset leased was recognised as a Company asset, while liabilities disclosed only the amount of unpaid rent rather than the debt throughout the term of the lease. After 1 January 2019, DARS d.d., which leases assets, no longer ranks leases under operating and financial, but recognises the right of use for all assets leased. Upon initial recognition, DARS measures the right to use an asset at the present value of future rents. That right is amortised and the amortisation cost is recognised along with the cost of interest due to the time value of money under expenses for financing. Hence, the Company separates the amount constituting the payment of principal from the amount constituting the payment of interest in the cash flow statement. Both are classified under cash flows from financing activities.

DARS d.d. decided to apply the simplified option of transition to the SAS 1 (2019) pursuant to the SAS 1.68 and has used the option consistently for all leases in which it acts as the lessee. In leases that used to be classified as operating leases, it recognised a lease liability as at the date of the initial application pursuant to the SAS, Article

1.68(a). The mentioned lease liability was measured at the present value of other rents discounted at the borrowing rate as presumed by the lessee as at the date of initial application. In leases that used to be classified as operating leases, it recognised a right-of-use asset as at the date of initial application pursuant to Article 1.68(b)(ii).

A right-of-use asset was measured by DARS d.d. in an amount equalling the lease liability, adjusted by the amount of prepaid or accrued interest referring to the lease and recognised in the balance sheet immediately before the date of initial application.

The right to use an asset and lease liabilities for the assets leased are not recognised by DARS d.d. only when the lease is a short-term or low-value lease as laid down in the SAS 1.63 (2019).

The Company does not recognise short-term leases and leases of low-value underlying assets as assets, but recognises the rent related to such a lease as an expense based on the straight-line method throughout the term of the lease. They are recognised under the cost of services, specifically the item rents, in the income statement. A short-term lease is deemed to be a lease for a period of no more than 1 year. A low-value lease is a lease of up to €10,000, taking into account the value of a new underlying asset.

The Company has elected a simplified option of transition pursuant to the SAS 1.68 (2019), thus using the following practical solutions for all leases:

- a.) it applied a single discount rate for the lease portfolio with reasonably similar characteristics,
- b.) for leases ending in less than 12 months following the date of initial application, the Company applied the option of exception as applicable to short-term leases,
- c.) initial direct costs were excluded from the measurement of a right-of-use asset as at the date of initial application,
- d.) the findings were applied retroactively when determining the term of the lease if the contract included the possibility of lease extension or cancellation.

The average pondered presumed borrowing rate used by DARS to recalculate future rents as at the date of initial application, i.e. 1 January 2019, amounts to 2.19%.

The Company did not apply the simplified option for leases classified as financial leases, since the Company has no recognised financial leases in its statements as at the date of initial application.

As at 1 January 2019, DARS recognised €3,334,619 under the right to use assets and €3,334,619 under lease liabilities.

As at 1 January 2019, the effect of the transition is:

In € (excl. cents)	
Operating lease liability 31/12/2018	3,527,857
Lease liabilities for short-term and low-value leases 31/12/2018	-26,974
Discounting effect	-166,265
Lease liability as at 1 January 2019	3,334,619

Long-term investments

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

Under long-term investments, the Company discloses long-term bank deposits that are recorded upon initial recognition at cost (equalling the paid amount of money), which complies with the fair value of the deposit upon

initial recognition. No major costs were incurred upon the conclusion of a deposit that would derive directly from the purchase or issue of an asset.

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 based on Article 4 of the ZDARS-1, the short-term share of the long-term input VAT asset is transferred to short-term receivables.

Deferred tax assets

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

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

Insignificant amounts of deferred tax assets are not recognised.

Deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to 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 the 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 sales in the next 12 months (after the balance sheet date) rather than through further use. The depreciation of an asset is terminated when it is defined as a non-current asset held for sale. Such a non-current asset held for sale is assessed at book value or at fair value, decreased by the cost of sale, whichever is lower.

A sale is very likely if 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 received.

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

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

If the book value exceeds the historical cost of inventories, inventories are revalued at year-end.

Short-term investments

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

Under short-term investments, the Company discloses short-term bank deposits that are recorded upon initial recognition at cost (equalling the paid amount of money), which complies with the fair value of the deposit upon

initial recognition. No major costs were incurred upon the conclusion of a deposit that would derive directly from the purchase or issue of an asset.

Financial derivatives can be one of the short-term investments held by the Company to hedge against risks.

Foreign currency-denominated short-term investments are converted into the national currency on the date they are incurred 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, short-term operating receivables from operations for third party account, short-term interest receivables on demand deposits and investments, advances receivable, input VAT assets, short-term receivables related to European funds and other receivables.

Short-term operating receivables are initially recognised in the amounts indicated in the relevant documents assuming that they will be paid. Interest is charged pursuant to the contract as at the due date of a short-term receivable and as at the balance sheet date. Foreign currency-denominated receivables are converted into the domestic currency using the reference exchange rate of the European Central Bank.

The adequacy of the disclosed amount of individual receivables is reassessed by the Company at the end of the accounting period within the scope of the annual inventory and based on objective evidence of their recoverability. Allowances are set up for doubtful receivables that are believed not to be settled or not to be settled in full. Allowances for receivables are disclosed to the benefit of special corrective receivable accounts and to the debit of operating expenses for revaluation.

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.

The Company performs a complete write-off of receivables for which all actions were taken with due diligence to achieve the repayment of receivables or for which it has established that further legal procedures are not economically justified or where bankruptcy or compulsory composition proceedings have been completed. In order for the Company to perform a write-off, it needs to obtain adequate documentary evidence: the rejection of the confirmation of the balance of the receivables; the court decision; the decision on compulsory settlement; the decision on bankruptcy proceedings; and others.

Cash and cash equivalents

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

Domestic and foreign currency denominated cash is presented separately. Cash and cash equivalents expressed in the domestic currency are disclosed at their nominal values. Cash denominated in a foreign currency is converted into the national currency using the reference exchange rate of the European Central Bank applicable on the date of receipt. The balance of cash denominated in a foreign currency is converted into the national currency on the last day of the financial year using the reference exchange rate of the European Central Bank. Exchange rate differences arising due to the conversion increase either the financial revenue or financial expenses.

Equity

Equity is the Company's liability to its owners that falls 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 is a form of financing of the Company by its owners and represents – from the Company's point of view – an obligation to the owners. It is determined by both the amounts invested in the Company by owners and by the amounts generated during Company operations.

The Company's capital surplus comprises the value of the real property transferred to the Company in 2004 by the Republic of Slovenia upon its reorganisation for the purposes of motorway operation and maintenance, and a general equity revaluation adjustment that was transferred to capital surplus on 1 January 2006 (upon transfer to the 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 the RS and the value of newly issued shares in 2017, and the amounts of subsequent subscriptions in the Company capital by the Republic of Slovenia based on Government decisions issued on the basis of Article 16 of the ZDARS-1, thus identifying and specifying real estate that was owned by the Republic of Slovenia and that is to be obtained by DARS pursuant to Article 14 of the ZDARS-1 (subsequent pay-ups are identified by the Company Management Board with a resolution).

Legal reserves are set aside pursuant to the Companies Act. The Company must form legal reserves in such an amount that the sum total of the legal reserves and capital surplus from points 1 to 3 of paragraph 1 of Article 64 of the ZGD-1 accounts for at least 10% of the Company's share capital. If the total of the legal reserves and capital surplus referred to in points 1 through 3 of paragraph 1 of Article 64 of the Companies Act fail to achieve a 10% share of the Company's share capital and the Company disclose a net profit for the financial year, 5% of the net profit decreased by the amount used for covering losses from previous periods must be allocated to legal reserves during the compilation of the balance sheet.

The Company sets aside statutory reserves up to 25% of its share capital. Statutory reserves are formed using 25 percent of the net profit remaining after settling any losses brought forward and setting aside legal reserves and reserves for own shares to form statutory reserves until these reach 25 percent of the share capital. These reserves are not distributable.

Pursuant to paragraph 3 of Article 230 of the ZGD-1, managing and supervisory bodies may, at the adoption of the annual report, form other reserves from profit from the amount of the net profit remaining after the utilisation of the net profit for the purposes defined in paragraph 1 of Article 230 of the ZGD-1; however, they may not utilise for this purpose more than one half of the net profit amount that remains after the utilisation of the profit for the purposes defined in the first paragraph of the indicated Article.

Other revenue reserves comprise non-nominal capital and are increased annually through the appropriation of net profit.

Fair value reserves comprise:

- actuarial gains and losses related to 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.

Equity components and changes in equity are disclosed in the Statement of Changes in Equity.

Provisions and long-term accrued costs and deferred revenue

Provisions are created for obligations that arise from binding past events and are expected to be settled in a period that cannot be determined with certainty, but a reliable estimate can be made of the amount of obligations. Long-term provisions are formed as accrued costs or expenses and are decreased due to utilisation for the purposes for which they were formed.

In compliance with the law, the collective agreement and the internal rules, the Company is obligated to pay jubilee benefits and retirement severance to employees for which it forms long-term provisions equalling the amount of the estimated future payments for jubilee benefits and severances, discounted at the date of the balance sheet. 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 the 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 and 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.

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

Long-term accrued costs and deferred revenue comprise deferred revenue expected to cover the estimated expenses in a period of more 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 received EU grants and co-funding for the acquisition of fixed assets. They are earmarked to cover amortisation charges for fixed assets thus acquired and are utilised by transferring to operating revenue.

Deferred revenues deriving from EU grants and co-funding are recognised once they are received or when acceptable assurance exists that the Company will receive the deferred revenue and meet the requirements related to them. Deferred revenue deriving from the EU grants and co-funding received for the acquisition of fixed assets is utilised through transfer to operating revenue pursuant to the amortisation/depreciation accounted. Deferred revenue deriving from the EU grants and co-funding received to cover other costs is utilised through transfer to operating revenue pursuant to the emergence of costs for which the grants were received.

Long-term deferred revenue is formed for assets received from the drawn warranty bonds, performance bonds and tender bonds. 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 also include long-term loans taken out for the acquisition of fixed assets.

Long-term financial liabilities that will mature within a year of the balance sheet date are shown as short-term financial liabilities.

Long-term financial liabilities are initially recognised at the amounts indicated in relevant documents evidencing the receipt of cash. Foreign currency-denominated debts are converted into the national currency on the date they are incurred using the reference exchange rate of the European Central Bank.

On the basis of foreign loans granted, long-term financial liabilities denominated in a foreign currency are restated on the last day of the financial year using the reference exchange rate of the European Central Bank.

The payments of interest on long-term loans taken out for the purchase of fixed assets increase the cost of a fixed asset until the fixed asset for which the loan was taken out is acquired. Following the fixed asset being commissioned, the payment of interest on loans represents a financial expense.

The Company incurs debt on its own behalf and for its own account. All liabilities for loans taken out are secured by government guarantee other than the loan granted by the European Investment Bank for the deployment of

the DarsGo system (ETS) in the amount of €51 million, which is secured with a guarantee by the European Union or the European Fund for Strategic Investments.

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 acquired. Following the fixed asset being commissioned, the payment of coupons from issued bonds represents a financial expense.

The Company incurs debt on its own behalf and for its own account. The liabilities arising from the issued bonds are secured by a guarantee of the Republic of Slovenia.

Other long-term financial liabilities

Other long-term financial liabilities include:

- long-term loans received for the acquisition of fixed assets from other foreign organisations (see guidelines for long-term financial liabilities to banks) and
- long-term lease liabilities (see guidelines for leases).

Long-term operating liabilities

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

Current financial liabilities

Current financial liabilities include:

- the short-term share of long-term liabilities that fall due in the following year,
- accrued interest as at 31 December 2019 and charged interest as at 31 December 2019 for loans taken out and bonds issued for motorway construction and reconstruction, and accrued interest for financial derivatives taken to secure bank loans against interest rate risks,
- liabilities for financial derivatives and
- short-term lease liabilities.

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 to 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 to hedge in case of exposure to cash flow variability 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 the financial derivative is recognised in other comprehensive income for the period and disclosed under hedging reserves or the 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 liability is 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 accrued and deferred 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 the deferred costs of commission for vignette sales agents and the deferred costs of vignette printing, which are recognised in the relevant share of each recognised revenue amount from the vignettes sold.

Accrued and deferred liability 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 expected in the next accounting period. Accrued costs also include costs associated with performance bonuses for the Management Board and executive officers.

Short-term deferred revenue arises when services to be rendered in the future have already been invoiced or even paid for. Short-term deferred revenue was formed for:

- revenue from the sale of tolls in the form of a credit balance on DarsGo units. DarsGo units apply to vehicles with a maximum permissible laden weight exceeding 3.5 tonnes as of 1 April 2018, when electronic tolling in free traffic flow entered into force. Revenues will be deferred until the service users make toll crossings.
- for annual vignettes charged in 2019 that will be valid in 2020 and for one-track half-year vignettes that will be partly or entirely valid in 2020 (a half-year vignette is valid for six months from the date of purchase and the annual vignette for 2020 is valid from 1 December 2019 to 31 January 2021).

Revenues

The new SAS 15 (2019), REVENUE, was published in the Official Gazette of the Republic of Slovenia, No. 57/2018, on 24 August 2018. The Company started applying it as of 1 January 2019 and assessed that the time of recognition and measurement of revenue based on the new standard did not change with respect to the nature of Company operations and type of Company revenue. The adoption of the new SAS 15 (2019) had no effect on the Company's financial statements.

Pursuant to the SAS 15, the Company applies a 5-step model to determine when to recognise revenue and in what amount.

The procedure to recognise revenue is carried out in the sequence of five steps:

- step 1: definition of a contract,
- step 2: definition of performance obligations,
- step 3: determination of the transaction price,
- step 4: distribution of the transaction price to performance obligations and
- step 5: fulfilment of performance obligations or recognition of revenue when the performance obligation has been met.

In a contract concluded in writing, verbally or pursuant to customary practice, the Company agrees with the buyer on the main components of the sales transactions and the parties undertake an agreement to fulfil the obligations agreed upon.

A contractual obligation is a performance obligation of the Company to supply or make the contractually agreed (promised) goods or services to the buyer.

Revenue is recognised when it is reasonably expected that the Company will receive compensation for them. The transaction price is the amount of compensation expected by the Company to be received in return for the transfer of goods or services to the buyer, except for amounts collected on behalf of third parties.

The model defines that revenue is recognised when the Company transfers a service or goods to the customer in an amount that the Company believes it is entitled to. With respect to the criteria met, revenue is recognised:

- at a moment or
- over a period.

Revenue is recognised at the moment the performance obligation is met, e.g. when the buyer is given control over the service or goods. Control means that the buyer may direct the use of an asset and receive all essential benefits from the asset and may also prevent others from using or receiving benefits from the asset.

In contracts where the Company renders a service over a prolonged period of time, revenue is recognised in a distributed manner throughout the period of service rendering.

The Company consistently follows the policy of the simultaneous recognition of revenue and expenses in the period of a service rendered or sale of goods irrespective of when payment is effected.

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

Operating revenue includes in particular:

- toll revenue,
- rentals paid by various service providers to use motorway service areas,
- revenue from motorway closures and extraordinary freight transports,
- revenue from easements for the installation of facilities and devices of public importance alongside motorways,
- revenue from telecommunications,
- revenue under the performance contract,
- other operating revenue,
- capitalised own products and services.

Toll revenue accounts for the majority of operating revenue, i.e. 97% of total sales revenues in the 2019 financial year. A toll is paid for each use of a toll road or toll section and toll road structure, except by vehicles exempted from toll payment under the Road Tolling Act.

Tolls for the use of toll roads are charged for vehicles with over 3,500kg of MPLW based on the distance travelled along the toll road (distance-based toll – DarsGo system) and for vehicles with up to 3,500kg of MPLW based on the duration of the use of the toll road (time-based toll – vignette system).

The toll rate is prescribed by the Government, taking into account:

a) for distance-based toll:

- type of the vehicle or toll-rate category of the vehicle used for transport on the toll road, EURO emission class.

The payment of tolls based on the distance travelled is conducted with the electronic tolling system in free traffic flow. To pay tolls, a customer obtains a DarsGo unit and installs it in the vehicle before entering a toll road.

Before the initial use of the DarsGo system, it is necessary to provide adequate financial coverage for toll payment. Tolls may be paid by way of credit in the vehicle account (prepayment mode) or subsequent payment based on an issued invoice (postpayment mode).

In prepayment mode, it is necessary to top up credit to the vehicle account before the use of the DarsGo unit. During the use of toll roads, the credit in the vehicle account is reduced with respect to the distance travelled and revenue from the spent credit is recognised.

In postpayment mode through the conclusion of a contract on deferred toll payment, a customer is issued a monthly invoice for tolls and revenue is recognised based on the distance travelled in the relevant monthly period.

On 13 December 2018, the Government adopted a decision introducing a toll mark-up on certain sections of the motorway network, which will be paid by persons liable to pay tolls within the scope of the DarsGo electronic tolling for heavy vehicles with a maximum permissible laden weight exceeding 3,500kg. DARS d.d., as the operator of toll roads, is obliged to charge the mark-up on certain toll road sections as of 1 January 2019. The funds collected are intended to provide funds for financing the construction of the second track of the Divača-Koper railway section. The charged toll mark-up is not disclosed as a part of Company revenue, but as a liability to the Republic of Slovenia.

b) for time-based tolls:

- the type of toll class of a vehicle;
- the period of toll road use (weekly, monthly, semi-annual and yearly vignette).

Revenue from the sale of yearly vignettes is recognised in full in the financial year designated in the yearly vignette, i.e. 1/12 of the yearly vignette value (excluding VAT) for each month in a financial year.

Revenue from the sale of semi-annual vignettes is recognised in a manner where 1/6 of the value of the semi-annual vignette (excluding VAT) is transferred to revenue in the month of the sale, while the remaining 5/6 of the value of a semi-annual vignette (excluding VAT) is transferred in the following five months from accrued costs and deferred revenue to revenue on a monthly basis, i.e. 1/6 of the semi-annual vignette value (excluding VAT) is transferred each month.

Revenue from the sale of weekly and monthly vignettes is recognised in full in the month of sale.

Capitalised own products and services apply to capitalised own services rendered on motorways (various investments and investments in increasing motorway traffic safety). The purchase value of an asset produced by the Company includes the costs of materials, the direct labour costs and other costs that can be directly attributed to the goal of preparing the asset for use.

Other operating revenue related to business effects includes 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 the occurrence of the costs they are intended to cover.

Revenue from charged default interest and therewith related receivables is recognised when incurred if it is likely that economic benefits related to the transaction will flow into the Company.

The amounts collected to the benefit of third parties, such as the calculated value added tax and other duties, are not part of sales revenues.

Financial revenue comprises interest revenue and foreign exchange gains. Financial revenue is recognised unless there is justified doubt as to its amount and collectability. Interest is recognised on a time proportion basis, taking into account the outstanding principal amount and the applicable interest rate.

Other revenue comprises unusual items increasing profit or loss for the period (damages received, remuneration for the employment of disabled persons above the quota, etc.).

Expenses

Expenses are recognised if the decrease in economic benefits in the accounting period is connected to a decrease in assets or an increase in debt and if this decrease can be reliably measured. Expenses are broken down into 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 materials and cost of goods sold,
- cost of services,
- labour costs,
- write-downs (disclosures related to accounted amortisation/depreciation are shown within the scope of disclosures of intangible assets and property, plant and equipment),
- other operating expenses.

The cost of material and services is recognised on the basis of documents proving that they are typically related to the generated economic benefits.

A decrease in the value of inventories of material to their net realisable value does not increase the disclosed cost of material, but increases operating expenses for the revaluation of inventories.

The cost of the material kept in inventories before use is disclosed in the amount that formed the value of inventories before the quantity of material was consumed. Inventories are valued using the first-in, first-out (FIFO) method. The cost of the material and services kept in inventories before use is disclosed in the actual amount upon the purchase of such material.

The estimated amount of the accrued costs of material and services is disclosed in items under which such actual costs of material and services would otherwise be disclosed.

If any surplus or shortage of material is found upon annual material inventory listing for which no one is personally responsible, the surplus decreases the costs recognised until that point, while a shortage increases them.

Labour costs include all forms of earnings that are provided to employees by the Company in return for their service. Labour costs included salaries and wages, salary compensations, benefits in kind, gifts and bonuses for employees, severance pay for employees who leave the Company, and other income that belongs to employees under the law, collective bargaining agreement or employment contract along with duties that are charged additionally to the debit of the Company.

Provisions for jubilee benefits and severance pay upon retirement are considered to be labour costs.

Salary compensations that are debited to the Company include compensation for a specific number of days of sick leave, leave of absence, national holidays and outstanding leave of absence as well as other compensations pursuant to the regulations, collective bargaining agreement or employment contract.

Reimbursements to employees that are considered labour costs and are in direct relation with the performance of work include, for instance, amounts for transport to or from work, amounts for the reimbursement of meal costs during work and other. Job-related travel costs, the cost of fieldwork, tuition fees and scholarships directly related to Company operations are considered to be labour costs.

In 2019, wages and salaries were paid in line with the Corporate Collective Agreement of DARS d.d., while the salaries of the Management Board of DARS d.d. were also paid in accordance 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). The Company had no cost of services related to recruitment agencies in 2019.

Legal actions have been filed by employees for their requests for disbursement based on the provisions of the law, collective agreement, general by-laws or employment contract that are contested by the Company. Provisions for lawsuits are formed on the basis of an estimate as to the likely outcome of disputes at the time when the likelihood of a negative outcome for the Company exceeds 50%.

Financial expenses are expenses related to interest on loans received and bonds issued, expenses related to financial derivatives used for hedging, foreign exchange losses, default interest and impairment of investments. Financial expenses are recognised as accounted notwithstanding the payments related to 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 in accordance with the Corporate Income Tax Act. Corporate income tax for 2019 is accounted at the 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 base of an asset and liability and its carrying amount using the balance sheet liability method in accordance with the valid tax rates 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 2018 and 31 December 2019, the Income Statement for 2019 and additional information required for the adjustment of inflows and outflows.

The Cash Flow Statement comprises cash flow from operating, investing and financing activities.

II.4 Financial operations and financial risk management

DARS d.d. actively monitors the uncertainty and variability of the financial environment, as these pose different types of 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. Hence, the Company pays special attention to such risk categories.

The main goal in financial risk management is to achieve stable operations, increase financial revenue, decrease financial expenses, increase Company value and reduce the effect of unforeseen loss events. To hedge against such risks, activities are carried out in business, investments and finance.

The Company sees interest rate, credit and liquidity risks as the crucial types of financial risks. By managing such financial risks, the Company strives to achieve the optimal stability of operations and reduce exposure to individual types of risks 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	$5 = 3 \times 4$	6
1	Foreign exchange risk	1	1	1	Use of natural protection to match cash flows, regular monitoring of foreign exchange markets, hedging with appropriate financial instruments
2	Interest rate risk	2	3	6	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 of cash flows, planning needs for liquid funds, previously agreed loan facilities and overdrafts, regular monitoring and analyses of the sustainability of the Company credit portfolio

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

Foreign exchange risk

Exposure to foreign exchange risks is estimated to be low, which is why the Company uses no hedging instruments. Most transactions at DARS d.d. are made in euro currency. DarsGo services provide payment in a foreign currency, which is immediately converted to the euro currency, but such payments have been scarce since the deployment of the electronic tolling system. Despite this, the Company regularly monitors developments on foreign exchange markets.

Interest rate risk

In recent years, a great deal of attention was placed on interest rate risks, which result in reduced economic benefits for the Company due to changed interest rates on the market. 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 Company obligations.

The key interest rate has for some time stood at 0%, and the interest rate on deposits of excess bank liquidity (-0.5%) and on marginal lending (0.25%) remain unchanged. In 2019, the 6-month EURIBOR rate fluctuated between -0.23 and -0.44%. The total interest rate at which DARS borrows (weighted average interest rate)

amounted to 1.69% as at 31 December 2019 and was slightly higher than as at 31 December 2018, when it amounted to 1.66%.

Interest rate risk is unpredictable and may have a significant 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 decides when to provide additional hedging according to conditions on the financial market. Since interest rates in the euro area are at historically low levels and no interest rate increase is expected soon, there was no need to conclude new interest rate hedging transactions.

The Company also decreases its exposure to interest rate risk in the period of low interest rates through new borrowing at a fixed interest rate. In 2019, the Company strengthened the share of loans with a fixed interest rate or insured them with financial derivatives. At the end of 2019, their share accounted for 71% of the Company's credit portfolio, while the remaining 28% share is exposed to a variable interest rate and 1% constitutes an interest-free debt. Taking into account the interest-free debt, the Company has secured 72% of its credit portfolio against interest rate risks.

The simulation of the effect of interest rate variability on financial expenses, considering the balance of Company debt and the interest rate structure as at 31 December 2019, shows that an increase in the EURIBOR by one percentage point would cause an increase in financial expenses of around €5.8 million annually. Changes to the EURIBOR, therefore, have an impact on the Company's net profit or loss.

Credit risk

Special attention was placed on credit risk, which includes all risks reducing the economic benefits of the Company due to unsettled contractual obligations by business partners. DARS d.d. regularly monitors outstanding receivables due from individual business partners and, if necessary, takes appropriate action. The main risk has been identified in the payment of tolls in the DarsGo system for vehicles over 3500 kg where payment is made for the previous month on the basis of a monthly invoice issued to contractual post-payers or payment card issuers. Furthermore, the Company has identified a risk in the sale of vignettes through sales representatives. Hedging instruments are required for a certain segment of business partners. Precisely defined 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. the discontinuation of service provision (toll) and the supply of goods (vignettes), contract termination) and, in case of late payment, debt recovery procedures are activated.

The deployment of the DarsGo system and the abolition of the option of paying tolls at toll stations resulted in a risk of default in the sense that heavy vehicle drivers use motorways without a DarsGo unit or without proper financial coverage in the driver's account. An assurance to prevent this from happening or, rather, to minimise the scope of it is to organise toll supervision in a proper manner. An additional measure to manage the risk of default is to promote the post-payment of tolls using petrol cards, where most of the risk is assumed by the petrol card issuer. The risk of default in the post-payment of tolls by business partners who conclude post-payment contracts directly with DARS d.d. is managed by monitoring their credit ratings and, if below-average, requesting adequate bank guarantees. In case of late payment, the redemption procedure is activated and DarsGo units for all vehicles of such a client are ranked into the pre-payment of tolls. All new contractual post-payers have to submit a bank guarantee for the first two years of cooperation irrespective of their credit rating.

Liquidity risk

Solvency risk includes risks related to insufficient available financial sources and, consequently, the Company's inability to settle its liabilities in due time. Due to successful operations, effective asset management and ongoing capacity to generate cash flows from operating activities, the risk is estimated to be moderate. 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.

The annual liabilities for debt repayment until 2021 use up a significant part of the cash flow from operating activities, which is why it will be necessary to refinance a share of the debt. To that end, 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) was adopted in 2015. The Act enables DARS d.d. to actively manage the existing debt, restructure its loan portfolio and provide in due time all the 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. The Company had sufficient liquidity reserves, which it holds in the form of deposits, for 2019, which is why there was no need for refinancing. The Company debt reduced by €212.8 million.

To fund the deployment of the electronic tolling system, a contract was concluded with the EIB in November 2017 for a loan amounting to €51 million that has a guarantee by the European Union or European Fund for Strategic Investments (EFSI). In 2020, the last tranche of the loan will be drawn in the amount of €26 million. To close the financial structure of the project to establish the electronic tolling system, the Company started a new borrowing procedure in 2018, i.e. without a government guarantee. Borrowing terms have been adjusted to the terms and conditions laid down in the credit contract concluded with the EIB. A €51 million loan agreement was signed with KfW IPEX-Bank on 25 April 2019 and the loan will be drawn in full in 2020.

The Company already faces new infrastructural projects. One of the major projects is also the construction of the second tube of the Karavanke tunnel, for which the procedure to obtain financing sources within the scope of EFSI guarantee started in 2018. During 2019, all contract documents for a €90 million loan were harmonised with the EIB. The contract was signed on 13 February 2020 with an option to draw the loan gradually in line with the dynamics of works.

Due to the implementation of future investment plans under the Resolution on the National Programme for the Development of Transport in the Republic of Slovenia until 2030 (ReNPRP30), the Slovenian National Assembly adopted a guarantee act on 18 December governing the award of a state guarantee to DARS d.d. to finance the construction of two sections, namely one in the northern part of the 3rd development axis (Velenje - Slovenj Gradec) and the other in the southern part (Novo mesto East - Osredek) in the total value of €360 million, which will ensure the acquisition of funds for the foreseen dynamics of execution. Due to Eurostat rules, the state cannot provide a guarantee for more than 50% of the value. Investment programmes have already been confirmed for both sections that are the subject of the mentioned Act. To close the financial structure of projects, the EFSI guarantee (a European Union guarantee to the EIB for 50% of the value of the eligible project costs) will be utilised to the maximum possible extent, while activities to obtain EU grants are already underway.

A great deal of attention is placed on cash flow management, including the planning of inflows from tolls, which is the fundamental source for the settlement of liabilities deriving from borrowing. Toll revenue increased in 2019 compared to 2018, which consequently increases the amount of working capital. The obtained long-term credit lines have enabled the Company to provide a high level of liquidity, enabling the Company to settle all due liabilities at any moment. 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 on the financial statements

II.5.1 Notes on 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.

Intangible assets in 2019

In € (excl. cents)	Computer software	Intangible fixed assets under construction	Total
Cost			
Balance as at 31/12/2018	43,298,635	521,515	43,820,150
Purchases	0	1,753,538	1,753,538
Activations	1,951,163	-1,951,163	0
Eliminations (disposals, write-offs)	-3,158,767	0	-3,158,767
Balance as at 31/12/2019	42,091,031	323,890	42,414,921
Allowance			
Balance as at 31/12/2018	12,168,586	0	12,168,586
Amortisation	4,020,864	0	4,020,864
Eliminations (disposals, write-offs)	-3,143,231	0	-3,143,231
Balance as at 31/12/2019	13,046,220	0	13,046,220
Present value			
Balance as at 31/12/2018	31,130,049	521,515	31,651,564
Balance as at 31/12/2019	29,044,811	323,890	29,368,701

Intangible assets in 2018

In € (excl. cents)	Computer software	Intangible fixed assets under construction	Total
Cost			
Balance as at 31/12/2017	9,583,397	249,204	9,832,601
Purchases	0	34,021,310	34,021,310
Activation	33,742,498	-33,742,498	0
Eliminations (disposals, write-offs)	-27,261	-6,500	-33,761
Balance as at 31/12/2018	43,298,635	521,515	43,820,150
Allowance			
Balance as at 31/12/2017	8,586,201	0	8,586,201
Amortisation	3,609,646	0	3,609,646
Eliminations (disposals, write-offs)	-27,261	0	-27,261
Balance as at 31/12/2018	12,168,586	0	12,168,586
Present value			
Balance as at 31/12/2017	997,196	249,204	1,246,400
Balance as at 31/12/2018	31,130,049	521,515	31,651,564

The following major intangible fixed assets were activated in 2019:

- mobile communication tool C-ITS software in the amount of €802,890,
- the application for the international traffic management system (pending investment) in the amount of €174,826,
- upgrade to the software for the electronic tolling system in free traffic flow amounting to €714,609,

- upgrade of the information support software for the KAŽIPOT II traffic information and monitoring system in the amount of €77,550, and
- upgrade of the NAVISION software in the amount of €65,888.

As at 31 December 2019, no intangible assets were pledged as security for liabilities and no signs of impairment were observed for intangible assets predominantly comprising newly-acquired intangible assets.

Contractual liabilities for intangible assets amount to €414,689 as at 31 December 2019 and predominantly refer to the purchase of software and licences, software development and system software upgrades.

Long-term deferred costs and accrued revenue amounting to €21,617 refer to the remaining cost of development and registration of the DarsGo brand. For the purposes of identifying the electronic tolling system in free traffic flow and the units that will be installed in heavy vehicle cabins, DARS d.d. developed and registered its own DarsGo brand at the Intellectual Property Office with a validity term until June 2027. Since the organisation of the created brand cannot be recognised as an intangible asset, the total cost of development and registration has been entered under long-term deferred costs and accrued revenue and will be transferred to costs on a proportionate monthly basis.

II.5.1.2 Property, plant and equipment

Property, plant and equipment comprise land, buildings, equipment and property, plant and equipment being constructed or manufactured.

Land applies to the land used for motorway maintenance bases, business and residential buildings, rest stops and surplus alongside motorways, as well as real estate rights.

Pursuant to the 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 the ZDARS-1. The right of superficies is 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, therefore annual compensation is paid for it in accordance with the annual implementation contract for the performance of contracts pursuant to Article 4 of the 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 utilise it.

On 29 February 2016, at the request of the Ministry of infrastructure, a certified real estate appraiser supplemented 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, buildings, road infrastructure – other operators) and other facilities (motorway bases, toll stations, business premises in Celje, vacation accommodation units and apartments).

The Slovenian Accounting Standards do not specifically determine which costs represent the purchase value of the motorway substructure, therefore the Company adopted this determination itself. The categorisation of costs representing the purchase value of the motorway substructure and superstructure is presented in the chapter dealing with accounting policies.

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

Property, plant and equipment include DarsGo units, which are used to collect tolls in the electronic tolling system in free traffic flow for all vehicles with a maximum permissible weight exceeding 3.5 tonnes. Toll collection in free traffic flow is only executed with the prescribed functional DarsGo unit installed in a vehicle liable to pay tolls. Pursuant to Article 25 of the Road Tolling Act, a DarsGo unit is owned by the operator of the toll roads. DARS may request the return and replacement of a DarsGo unit at any time.

As at 31 December 2019, the cost of DarsGo units stood at €4,189,909 and the book value amounted to €3,127,575. A DarsGo unit is transferred from the inventory of goods to fixed assets upon the first handover of a DarsGo unit to a toll payer.

If the cost of an item of property, plant and equipment is significant, the Company breaks it down into 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.

The following major property, plant and equipment were activated in 2019:

- investments in motorways and other buildings in the amount of €91,219,071,
- investments in other equipment for the pursuit of Company activities (computer equipment, office furniture, machinery, devices, tools, goods and combined vehicles, and passenger car rental) in the amount of €11,935,577,
- investments in equipment for the electronic tolling system in free traffic flow in the amount of €261.117, and
- DarsGo units in the amount of €1,099,329.

The following major property, plant and equipment were eliminated in 2019:

- the assets managed by Government bodies were transferred from the assets of DARS d.d. to the assets of the Republic of Slovenia at cost amounting to €235,724,996,
- reconstructions of motorway sections due to the demolition and rearrangement of toll stations at cost amounting to €21,964,054,
- the removal of individual parts of toll stations after the introduction of the electronic tolling system in free traffic flow for all vehicles with a maximum permissible laden weight exceeding 3.5 tonnes at cost amounting to €11,259,661,
- elimination of deficiencies in the erection of noise barriers at the Dramlje-Celje and Celje-Arja vas sections at cost amounting to €3,410,228,
- sale of land plots that were obtained for motorway construction, but were not used in part or in full for motorway construction or its management or maintenance at cost amounting to €3,434,842,
- renovations of components at the Hrušica motorway maintenance centre at cost amounting to €368,085,
- permanent exclusions of fixed assets from use by removal to public waste disposal sites due to dilapidation, damage, obsolescence and the introduction of the electronic tolling system in free traffic flow for all vehicles with a maximum permissible laden weight exceeding 3.5 tonnes at cost amounting to €23,772,128.

No property, plant or equipment of DARS d.d. was pledged as security for liabilities as at 31 December 2019. Loans and issued bonds for financing the Company property, plant and equipment are secured by government guarantees, other than the loan granted by the European Investment Bank for the deployment of the DarsGo system (ETS) in the amount of €51 million, which is secured with a guarantee by the European Union or the European Fund for Strategic Investments (EFSI).

No borrowing costs were attributed to property, plant and equipment activated in 2019. Borrowing costs attributed to property, plant and equipment being acquired amounted to €131,226 in 2019, while the total borrowing costs for property, plant and equipment being acquired amounted to €4,588,128 as at 31 December 2019.

Property, plant and equipment in 2019

In € (excl. cents)	Land			Buildings – LEASES	Motorways (substructure, superstructure, structures, other motorway infrastructure)	Buildings (MMCs, TS, Celje office building, holiday facilities, apartments, etc.)	Property, plant and equipment under construction – buildings	Equipment and small tools	Equipment – LEASES	Property, plant and equipment being acquired – equipment	Total
	Land	Land – LEASES	Right of superficies								
Cost											
Balance as at 31/12/2018	32,171,609	0	190,760,000	0	5,877,606,366	75,377,461	58,067,159	147,589,743	0	9,740	6,381,582,077
Balance as at 1/1/2019	32,171,609	36,250	190,760,000	2,171,423	5,877,606,366	75,377,461	58,067,159	147,589,743	1,126,946	9,740	6,384,916,696
Acquisitions in 2019	0	0	0	59,371	0	0	114,765,660	0	783,299	11,859,130	127,467,460
Reallocation from available-for-sale assets	0	0	0	0	0	0	107,857	0	0	0	107,857
Activations	641,296	0	0	0	86,842,179	2,146,099	-89,629,573	11,385,779	0	-11,385,779	0
Eliminations in 2019 (disposals, write-offs)	-3,434,842	0	0	0	-261,304,721	-11,476,362	0	-23,819,622	0	0	-300,035,546
Balance as at 31/12/2019	29,378,062	36,250	190,760,000	2,230,794	5,703,143,825	66,047,198	83,311,102	135,155,900	1,910,245	483,091	6,212,456,467
Allowance											
Balance as at 1/1/2019	0	0	25,853,064	0	1,112,348,325	17,878,529	0	110,937,048	0	0	1,267,016,967
Balance as at 31/12/2018	0	0	25,853,064	0	1,112,348,325	17,878,529	0	110,937,048	0	0	1,267,016,967
Depreciation in 2019	0	3,625	3,926,356	505,683	157,971,161	2,220,175	0	10,918,741	459,418	0	176,005,159
Impairment in 2019	0	0	0	0	0	0	0	0	0	0	0
Movements between items	0	0	0	0	0	0	0	0	0	0	0
Eliminations in 2019 (disposals, write-offs)	0	0	0	0	-5,530,471	-2,880,318	0	-23,777,240	0	0	-32,188,030
Balance as at 31/12/2019	0	3,625	29,779,420	505,683	1,264,789,015	17,218,386	0	98,078,549	459,418	0	1,410,834,096
Present value											
Balance as at 31/12/2018	32,171,609	0	164,906,936	0	4,765,258,041	57,498,931	58,067,159	36,652,695	0	9,740	5,114,565,110
Balance as at 1/1/2019	32,171,609	36,250	164,906,936	2,171,423	4,765,258,041	57,498,931	58,067,159	36,652,695	1,126,946	9,740	5,117,899,729
Balance as at 31/12/2019	29,378,062	32,625	160,980,580	1,725,111	4,438,354,810	48,828,812	83,311,102	37,077,351	1,450,827	483,091	4,801,622,371

Property, plant and equipment in 2018

In € (excl. cents)	Land		Motorways (substructures, superstructures, structures, other road infrastructure, other operators)	Land (motorway maintenance centres, toll stations, office buildings, holiday units, apartments, etc.)	Equipment and small tools	Property, plant and equipment under construction	Total
	Land	Right of superficies					
Cost							
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
Acquisitions in 2018	0	0	0	0	0	118,755,297	118,755,297
Movements between items	0	0	-270,164	0	270,164	0	0
Activation	483,021	0	133,438,625	1,934,992	27,932,228	-163,788,866	0
Eliminations in 2018 (disposals, write-offs)	-193,566	0	0	-677,995	-5,163,953	-3,191,200	-9,226,714
Balance as at 31/12/2018	32,171,608	190,760,000	5,877,606,366	75,377,461	147,589,744	58,076,899	6,381,582,078
Allowance							
Balance as at 31/12/2017	0	21,926,709	959,815,649	15,785,250	107,221,983	0	1,104,749,591
Depreciation in 2018	0	3,926,356	152,655,828	2,266,328	8,672,237	0	167,520,749
Impairment in 2018	0	0	0	0	5,411	0	5,411
Movements between items	0	0	-123,152	0	123,152	0	0
Eliminations in 2018 (disposals, write-offs)	0	0	0	-173,049	-5,085,734	0	-5,258,783
Balance as at 31/12/2018	0	25,853,065	1,112,348,325	17,878,529	110,937,049	0	1,267,016,968
Present value							
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
Balance as at 31/12/2018	32,171,609	164,906,935	4,765,258,041	57,498,932	36,652,695	58,076,899	5,114,565,110

II.5.1.3 Investment property

In € (excl. cents)	Land	Buildings	Total
Cost			
Balance as at 31/12/2018	1,363,906	989,781	2,353,687
Increases	0	0	0
Balance as at 31/12/2019	1,363,906	989,781	2,353,687
Allowance			
Balance as at 31/12/2018	0	42,066	42,066
Depreciation	0	29,693	29,693
Balance as at 31/12/2019	0	71,759	71,759
Present value			
Balance as at 31/12/2018	1,363,906	947,715	2,311,621
Balance as at 31/12/2019	1,363,906	918,022	2,281,928
In € (excl. cents)	Land	Buildings	Total
Cost			
Balance as at 31/12/2017	1,363,906	989,781	2,353,687
Increases	0	0	0
Balance as at 31/12/2018	1,363,906	989,781	2,353,687
Allowance			
Balance as at 31/12/2017	0	12,372	12,372
Depreciation	0	29,693	29,693
Balance as at 31/12/2018	0	42,066	42,066
Present value			
Balance as at 31/12/2017	1,363,906	977,408	2,341,315
Balance as at 31/12/2018	1,363,906	947,715	2,311,621

The purpose of the acquired investment property is to generate revenue from rent. Revenue from the rent of investment property amounted to €26,162 in 2019. The costs related to investment property are covered by tenants. The fair value of investment property does not differ significantly from its book value. The appraisal of investment property was conducted by an independent real estate appraiser in 2017.

II.5.1.4 Right to use assets

DARS leases land, business premises, fibre optics, vehicles and equipment. The average term of lease is 4 years. DARS d.d. has no option to purchase certain equipment leased at nominal value after the end of the lease term. Lease liabilities are secured by the lessor's title to the property, plant and equipment leased.

Right-of-use asset:

In € (excl. cents)	Land	Buildings	Equipment and small tools	Total
Cost				
Balance as at 1/1/2019	36,250	2,171,423	1,126,946	3,334,618
Acquisitions in 2019	0	59,371	783,299	842,670
Balance as at 31/12/2019	36,250	2,230,794	1,910,245	4,177,288

In € (excl. cents)	Land	Buildings	Equipment and small tools	Total
Allowance				
Balance as at 1/1/2019	0	0	0	0
Depreciation in 2019	3,625	505,683	459,418	968,726
Balance as at 31/12/2019	3,625	505,683	459,418	968,726
Present value				
Balance as at 1/1/2019	36,250	2,171,423	1,126,946	3,334,618
Balance as at 31/12/2019	32,625	1,725,111	1,450,827	3,208,562

The Company measures a right-of-use asset at cost, which equals the present value of future rents. The useful life of a right-of-use asset is considered to be the term of the lease contract.

The amounts recognised with the right to use an asset, classified under property, plant and equipment in the Income Statement

As at 31 December 2019, DARS had liabilities amounting to €11,068.37 for short-term leases and low-value leases. None of the concluded lease contracts includes variable rent that would be tied to the sale generated in such leased real estate.

The amount of paid rent for leases that are kept as the right of use amounted to €1,012,402 in 2019.

Impact of leases on the Income Statement in 2019:

In € (excl. cents)	2019
Depreciation of the right to use an asset	968,726
Expenses for interest on lease liabilities	75,763
Cost of leasing in relation to short-term leases	53,299
Cost of leasing in relation to low-value leases	97,209
Total	1,194,996

DARS has concluded no contracts involving variable rent, which is why all the amounts indicated above reflect fixed contracts for 2019. The Company generated no revenue in 2019 from the sub-lease of a right-of-use asset and no gains or losses from leaseback sales transactions.

II.5.1.5 Long-term investments

As at 31 December 2019, long-term loans to others amounted to €70,000,000 and included:

- long-term bank deposits in the amount of €70,000,000, with maturity between 398 and 547 days and a weighted average interest rate of 0.07%.

In € (excl. cents)	2019	2018
Balance as at 1/1	37,000,000	253,000,000
Acquisition of new deposits	195,000,000	77,000,000
Transfer from short-term investments	50,000,000	0
Transfers to short-term investments	212,000,000	293,000,000
Balance as at 31/12	70,000,000	37,000,000

Long-term investments are not exposed to credit risk or, rather, there is only a 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.5.1.6 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:

- €16,923,277 refers to the long-term share of receivables for input VAT deriving from the charge for the establishment of the right of superficies, and
- €4,617 refers to the accrued interest on long-term bank deposits.

II.5.1.7 Deferred tax assets

Deferred tax assets in 2019

In € (excl. cents)	31/12/2018	Recognised in the Income Statement	Recognised in the Statement of Other Comprehensive Income	31/12/2019
Provisions for severance pay and jubilee benefits	295,095	88,599	0	383,694
Cash flow hedging from interest rate swaps	1,727,141	0	962,070	2,689,211
Allowance for receivables	2,957,866	-2,947,928	0	9,937
Fixed assets	1,145,667	653,531	0	1,799,198
	6,125,768	-2,205,799	962,070	4,882,040

The elimination of deferred tax assets deriving from an allowance for receivables is largely the result of the settlement with a third party. Receivables in that respect were fully eliminated.

Deferred tax assets in 2018

In € (excl. cents)	31/12/2017	Recognised in the Income Statement	Recognised in the Statement of Other Comprehensive Income	31/12/2018
Provisions for severance pay and jubilee benefits	294,718	377	0	295,095
Provisions for redundancies	42,960	-42,960	0	0
Cash flow hedging from interest rate swaps	1,320,652	0	406,489	1,727,141
Allowance for receivables	3,038,968	-81,103	0	2,957,866
Fixed assets	665,712	479,955	0	1,145,667
	5,363,010	356,269	406,489	6,125,768

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.5.1.8 Assets held for sale

Short-term assets include real estate in the value of €606,134 (€169,129 in 2018) that the Company intends to use for business purposes and that the Company's Management Board decided to sell. The sale is expected in the following 12 months.

II.5.1.9 Inventories

Inventories of material include inventories of material, spare parts, small tools and packaging. In comparison with the balance as at 31 December 2018, material inventories increased by 7%. Inventories of materials account for the largest, 66% share of inventories, within the scope of which inventories of gritting materials account for 41%, inventories of barriers account for 14%, inventories of 2020 vignettes account for 15% and inventories of fuel account for 12% of the inventories of materials.

In € (excl. cents)	31/12/2019	Share	31/12/2018	Index
Material	3,072,810	66%	2,864,501	107
Spare parts	427,365	9%	431,303	99
Small tools and packaging	475,147	10%	388,518	122
Merchandise	697,766	15%	649,863	107
Total	4,673,088	100%	4,334,186	108

The sale of vignettes for 2019 for passenger and motor vehicles concluded on 30 November 2019. In accordance with the SAS 4.41, the inventory of 2019 vignettes was written-off to the debit of operating expenses for revaluation in the amount of €72,500, which represents the cost of vignettes.

During the annual materials stocktaking and the stocktaking of small tools, the Company discovered a deficit amounting to €3,830 and a surplus of €40,298.

Inventories of merchandise, among other things, include:

- inventories of DarsGo units in the amount of €691,429 and
- inventories of DarsGo unit racks in the amount of €5,291.

DarsGo units are transferred to property, plant and equipment upon their issue to a customer. Pursuant to Article 25 of the Road Tolling Act, a DarsGo unit is owned by the operator of the toll roads.

No inventories of DARS d.d. were pledged as security for liabilities as at 31 December 2019. The book value of inventories does not exceed their realisable value. Company inventories represent current inventories.

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

II.5.1.10 Short-term investments

As at 31 December 2019, short-term loans to others amount to €268,000,000 and include:

- short-term bank deposits in the amount of €268,000,000 with maturity between 3 and 365 days and a weighted average interest rate of 0.13%.

Short-term investments are not exposed to credit risk or there is only a minimal risk that the counterparty would not fulfil its obligations, since the Company mostly invests its liquidity surplus assets in bank deposits in the Republic of Slovenia. The book value of short-term investments in others corresponds to their fair value.

II.5.1.11 Short-term operating receivables

In € (excl. cents)	31/12/2019	Share in %	31/12/2018	Index
Short-term trade receivables:	31,377,843	43%	23,330,975	134
- toll receivables	30,100,973	42%	22,898,065	131
- receivables from the use of motorway service areas	619,632	1%	107,734	575
- receivables from motorway closures	98,816	0%	177,113	56
- other short-term receivables	610,724	1%	1,281,246	48
- allowance for short-term trade receivables	-52,302	0%	-1,133,183	5
Short-term operating receivables due from others:	40,804,805	57%	34,045,001	120
- for advances given for current assets	10,914	0%	10,588	103

In € (excl. cents)	31/12/2019	Share in %	31/12/2018	Index
- short-term operating receivables from operations for third party account	31,185,567	43%	43,355,523	72
- allowance for short-term receivables for third party account	0	0%	-14,434,530	0
- short-term receivables from financial revenue	286,121	0%	670,788	43
- input VAT receivables	4,667,317	6%	3,219,031	145
- other short-term receivables due from state institutions	2,702,607	4%	79,130	3,415
- other short-term receivables	3,677,059	5%	2,869,253	128
- allowance for other short-term receivables	-1,724,781	-2%	-1,724,781	100
Total	72,182,647	100%	57,375,976	126

The majority share of short-term operating receivables due from others includes:

- receivables due from domestic commissionaires and foreign sales agents in the amount of €23,260,555 and
- receivables due from the Republic of Slovenia totalling €8,048,785, which are related to operations for third party account for the transactions referred to in Article 4 of the ZDARS-1 in the amount of €7,912,545, and to the fee from the performance contract in the amount of €136,240. Based on Article 4 of the 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 third party account. They involve tasks related to the spatial planning and siting of motorways, and to 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 the ZDARS-1.

Breakdown of major items in short-term operating receivables by maturity

In € (excl. cents)	Non-past-due	Up to 60 days	Over 60 days	Total
Short-term operating receivables for third party account	24,240,202	6,945,364	0	31,185,567
Allowances for operating receivables for third party account	0	0	0	0
Short-term trade receivables	27,237,191	4,020,371	172,602	31,430,164
Allowances for trade receivables	-1,730	0	-50,572	-52,302

In 2019, the Company formed an allowance for short-term operating receivables in the amount of €1,730. The assessment method for making an allowance for receivables in 2019 remained unchanged.

In € (excl. cents)	31/12/2019	31/12/2018
Balance as at 1/1	17,292,494	17,829,444
Write-down of receivables	12,420,884	85,923
Reversal of allowances	3,096,257	451,026
Formation	1,730	0
Balance as at 31/12	1,777,083	17,292,494

The reversal and write-down of deferred tax assets is largely the result of a settlement with a third party. Receivables in that respect were fully reversed.

No receivables of DARS d.d. were pledged as security for liabilities as at 31 December 2019. Short-term operating receivables of DARS d.d. include current Company receivables and have been secured with bank guarantees and enforcement drafts in the amount of €15,252,544.

II.5.1.12 Cash and cash equivalents

In € (excl. cents)	31/12/2019	Share	31/12/2018	Index
Cash at bank	4,076,424	12%	6,247,203	65

In € (excl. cents)	31/12/2019	Share	31/12/2018	Index
Deposit redeemable at notice	30,000,000	85%	40,000,000	75
Overnight bank deposit	587,758	2%	1,971,467	30
Cash on hand and cheques received	1,146	0%	865	133
Cash in hand at toll stations	454,850	1%	297,360	153
Cash in transit	265,219	1%	477,965	55
Total cash and cash equivalents	35,385,398	100%	48,994,859	72

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 0.003%. Overnight bank deposits are short-term bank deposits tied overnight in the amount of €587,758 at a 0.01% interest rate.

Cash in transit is cash from the tolls collected that has not been deposited in the Company transaction account. Following the annual inventory listing of cash in transit from the tolls collected as at 30 November 2019, the Company reconciled the balance disclosed in the books of account with the actual balance.

II.5.1.13 Short-term deferred costs and accrued revenue

In € (excl. cents)	31/12/2019	Share	31/12/2018	Index
Short-term deferred costs – other	553,370	52%	479,013	116
Short-term deferred costs – sales commission from vignettes sold for 2020	416,103	39%	399,581	104
Short-term deferred costs – cost of vignettes sold for 2020	15,110	1%	14,835	102
Short-term accrued revenue	71,786	7%	44,993	160
Total	1,056,369	100%	938,423	113

II.5.1.14 Equity

The movement in equity is shown in the Statement of Changes in Equity for the period from 1 January 2019 to 31 December 2019 in which the reasons for the changes in equity items are evident.

Share capital

The Company's share capital amounts to €2,086,559,144 and is distributed into 55,650,231 ordinary registered shares owned by the Republic of Slovenia. The book value of a share on 31 December 2019 was €51.45. It is calculated as the ratio between the total equity value and the number of shares.

The shares give the owner the full right to participate in the management of the Company, the right to profit participation (dividend) and the right to an adequate part of the remainder of assets upon the liquidation or bankruptcy of the Company.

In 2019, the Company share capital reduced from €2,322,284,140 by €235,724,996 and now amounts to €2,086,559,144 and is distributed into 55,650,231 ordinary no par value shares. The share capital decrease was conducted as a regular share capital decrease aimed at optimising Company operations.

Due to reduced share capital, the sole shareholder, i.e. the Republic of Slovenia, received items or, rather, assets, the book value of which amounted to €235,724,996, instead of remuneration in cash.

On 4 March 2019, the Company signed an Agreement with the Republic of Slovenia executing the transfer of the assets managed by Government bodies from the assets of DARS d.d. to the assets of the Republic of Slovenia at the existing book value amounting to €235,724,996. On 25 March 2019, the General Meeting of the Company was held at which a resolution was adopted to reduce the Company share capital by €235,724,996. Due to reduced share capital, the sole shareholder, i.e. the Republic of Slovenia, receives items or, rather, assets, the book value of which amounted to €235,724,996, instead of remuneration in cash. Payment to the Republic of Slovenia was made with the handover of assets pursuant to Article 375 of the Companies Act. DARS transferred the assets to the Republic of Slovenia with a record on the transfer of a title as of 16 December 2019.

Capital surplus

Capital surplus in the amount of €26,940,767 includes:

- the amount transferred to real property for the performance of motorway operation and maintenance tasks that was provided by the Republic of Slovenia upon the restructuring of the Company in 2004 in the amount of €26,202,240,
- general equity revaluation allowance in the amount of €225,817, which was transferred to capital surplus on 1 January 2006 upon transfer to the SAS 2006,
- surplus assets, which represent the difference between the in-kind contribution made by the Republic of Slovenia in 2010 and the value of newly issued Company shares, in the amount of €27,
- differences upon the merger of the subsidiary DELKOM d.o.o. in 2015 in the amount of €148,410,
- surplus assets, which represent the difference between the in-kind contribution made by the Republic of Slovenia in 2017 and the value of newly issued Company shares, in the amount of €35, and
- amounts of subsequent pay-ups by the Republic of Slovenia to the Company capital based on Government decisions issued on the basis of Article 16 of the ZDARS-1, thus identifying and specifying real estate that was owned by the Republic of Slovenia and that is to be obtained by DARS pursuant to Article 14 of the ZDARS-1 in the amount of €364,238. Subsequent payments are established by the Company Management Board with a resolution.

Fair value reserves

Fair value reserves amounting to €11,765,862 refer to:

- a change in the revaluation surplus for actuarial gains and losses.
Actuarial deficits and surpluses include changes in the present value of employee payables due to changes in actuarial assumptions. At the end of 2019, the revaluation surplus amounted to €301,330;
- change in the fair value of a financial derivative for interest rate hedging, which includes changes in the value of the financial derivatives used for the purposes of cash flow protection, and is evident from the statement of comprehensive income, amounting to €11,464,532 at the end of 2019 (less deferred tax). Financial derivatives are disclosed in detail in the policies and notes on short-term financial liabilities.

In 2019, the reserves made due to valuation at fair value decreased by €4,378,288. Changes in individual surplus components in 2019 are shown in the statement of other comprehensive income for 2019.

Retained earnings

At the 16th General Meeting of DARS d.d. held on 28 August 2019, the shareholders adopted a resolution on the use of 2018 available profit in the amount of €55,008,600, which was distributed to other profit reserves according to the resolution.

Other changes in retained earnings in the amount of €15,030 relate to a decrease in retained earnings referring to the transfer of a proportionate share of actuarial losses related to the utilisation of provisions for severance pay upon retirement.

Net profit or loss for the financial year

Net profit or loss for 2019 amounted to €139,611,455. Upon the compilation of the Company's Annual Report, legal reserves amounting to €6,979,821, statutory reserves amounting to €33,154,151 and other profit reserves amounting to €49,731,226 were formed pursuant to the Company's Articles of Association and Articles 64 and 230 of the ZGD-1.

Earnings per share

In € (excl. cents)	31/12/2019	31/12/2018
Net profit or loss for the accounting period	139,611,455	154,421,963
Total No. of shares	55,650,231	55,650,231
No. of ordinary shares	55,650,231	55,650,231
Basic and diluted earnings per share	2.51	2.77

The basic net earnings per share has been calculated by dividing the net profit or loss for the period with the weighted average number of ordinary shares.

All shares issued by DARS d.d. are ordinary no-par value shares, which is why the diluted earnings per share equal the basic earnings per share.

II.5.1.15 Provisions and long-term accrued costs and deferred revenue

Provisions and long-term accrued costs and deferred revenue in 2019

In € (excl. cents)	Balance as at 31/12/2018	Utilisation in 2019	Reversal in 2019	Additional creation in 2019	Balance as at 31/12/2019
Provisions for severance pay upon retirement	2,180,558	171,186	0	902,657	2,912,030
Provisions for employee jubilee benefits	1,224,436	92,866	0	356,911	1,488,481
Provisions for voluntary pension insurance	21,754	8,702	0		13,052
Provisions for employment-related claims	20,379	0	3,375	651	17,654
Provisions for legal claims related to construction and reconstruction	30,989,925	9,752,217	20,005,861	614,688	1,846,535
Free-of-charge acquisition of fixed assets	264,998	214,512	0	220,804	271,289
Lease of fibre optics	499,710	80,037	0	39,819	459,491
Guarantees drawn	5,039,637	481,899	0	402,083	4,959,822
EU grants and co-funding	158,428,872	8,357,358	0	820,613	150,892,127
Long-term deferred revenue from withheld funds	0	0	0	789,241	789,241
Total	198,670,269	19,158,776	20,009,236	4,147,466	163,649,723

Provisions for jubilee benefits and retirement severances are formed in compliance with the law, the collective agreement and the internal rules that bind the Company to pay its employees jubilee benefits and severance upon their retirement. These provisions are formed on the basis of an actuarial calculation made by a certified actuary. At the end of each financial year, the amount of these provisions is examined to see whether they need to be increased or decreased. The actuarial calculation of 31 December 2019 was performed for each employee taking into account the costs of retirement benefits and the cost of all the expected jubilee premiums until retirement. Provisions are formed in the amount of the estimated future payments for severance and jubilee benefits, discounted at the end of the reporting period. The actuarial calculation took into account the following assumptions:

- the nominal long-term interest rate is evaluated at 0.30% with respect to the average maturity at the Company, i.e. 15.3 years;
- the currently applicable amount of retirement benefits and jubilee premiums as set out in the internal rules;
- the expected long-term growth of jubilee premiums and non-taxable amounts in the calculation amounts to 1% per annum;
- employee fluctuation, which depends mostly on their age;
- the expected employee mortality rate in accordance with the mortality rate for Slovenia for the 2000-2002 period, separately by gender;
- future long-term nominal increase in salaries by 2% per annum.

Based on an actuarial calculation, provisions were set aside as at 31 December 2019 for jubilee premiums in the amount of €1,488,481 along with provisions for retirement benefits in the amount of €2,912,030.

The Company joined the collective voluntary supplementary pension insurance scheme in 2006. In accordance with an agreement concluded with the trade unions, all of the Company's employees were entitled to join this scheme, except those who were of retirement age on 31 December 2006, i.e. 50 years (women) and 55 years (men). The employer will pay these employees a lump sum equal to the interest-free premiums it would have had to pay on their behalf had they been included in the pension scheme. The Company thus set aside long-term provisions, which amounted to €13,052 as at 31 December 2019.

Based on the legal opinions obtained and the management's assessment, the Company discloses provisions amounting to €1,846,535 for lawsuits related to construction and reconstruction and €17,654 for claims arising from employment relationships. Provisions for liabilities under lawsuits have been formed based on an

assessment of the probable outcome, which was made with a high level of caution. The due date for the liabilities cannot be specified. Lawsuits for which provisions have been set aside are in various stages of proceedings.

In previous years, long-term accrued costs and deferred revenue were set up from grant funds in the amount of the acquisition values of holiday facilities and apartments that serve to cover the costs of depreciation of the holiday facilities with furnishings and apartments throughout their service lives. As at 31 December 2019, free-of-charge acquisitions of fixed assets amounted to €221,395.

The Company also shows long-term deferred revenue from advance payments for fibre optic leases by users in the amount of €459,491 under long-term accrued costs and deferred revenue.

Long-term deferred revenue is formed for assets received from the warranty bonds, performance bonds and tender 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. As at 31 December 2019, the bond amounts drawn amounted to €4,959,822.

The Company formed long-term deferred revenue for EU grants and other co-funding received for financing the preparation of spatial and design documents and motorway construction or therewith related tasks (improving traffic safety – construction of traffic control and management systems).

The amount of the long-term deferred revenues is reduced by the amount of depreciation of fixed assets and by the amount of any other types of costs for which funds have been received.

In € (excl. cents)	Balance as at 31/12/2018	Increases	Decrease	Balance as at 31/12/2019
EU Cohesion Fund: Slivnica - Draženci	4,180,368	0	267,351	3,913,018
EU Cohesion Fund: Pluska - Ponikve	24,400,128	0	1,328,236	23,071,892
EU Cohesion Fund: Ponikve - Hrastje	10,771,431	0	595,934	10,175,497
EU Cohesion Fund: Construction of noise barriers	21,987,741	0	1,507,555	20,480,186
EU Cohesion Fund: Reconstruction of MW sections	19,125,607	0	966,808	18,158,799
EU Cohesion Fund: MW Draženci - IBCP Gruškovje	60,962,982	0	2,522,100	58,440,882
Other European funds: TEMPO – connect (ITS, developer MzP) and EasyWay – stages I and II	1,079,144	0	113,467	965,676
Other European funds: TEN T: Draženci - Gruškovje PGD and PZI	2,708,966	0	83,949	2,625,016
Other European funds: TEN T: CROCODILE I	885,025	0	69,670	815,355
Other European funds: CEF PGD/PZI Karavanke	2,531,415	115,000	0	2,646,415
Other European funds: CEF CROCODILE 2	764,103	151,731	106,693	809,141
Other European funds: CEF C-Roads	213,352	292,049	27,219	478,182
Other European funds: CEF CROCODILE 3	0	221,785	0	221,785
Other European funds: CEF MW Karavanke tunnel, construction of 2nd tube	0	14,127	0	14,127
Other co-funding	8,818,610	0	742,454	8,076,157
Total:	158,428,872	794,691	8,331,436	150,892,127

Long-term deferred revenue in the amount of €789,241 derives from the funds withheld from the contractor for motorway construction. The payment of withheld funds was enforced by the contractor through court proceedings. By concluding a court settlement and effecting payment, all relations between DARS d.d. and the plaintiff were resolved and the parties have no claims or receivables against each other. Withheld funds in the amount of €789,240.70 are a source for the payment of subsequent costs related to the completion of the project.

II.5.1.16 Long-term financial liabilities

In € (excl. cents)	31/12/2019
a) Long-term financial liabilities relating to motorway construction and reconstruction	1,821,091,772
b) Long-term lease liabilities	2,266,372
Total	1,823,358,144

a) Long-term financial liabilities relating to motorway construction and reconstruction

The Company borrows funds on international and domestic financial markets for its business purposes. All liabilities for borrowing are fully secured by government guarantee, other than the loan granted by the European Investment Bank for the deployment of the DarsGo system (ETS) in the amount of €51 million, which is secured with a guarantee by the European Union or the European Fund for Strategic Investments. The purpose of the loans is to finance motorway construction and reconstruction and to refinance the existing debt. There was no new borrowing in 2019.

The interest rates and manner of calculating interest for the received loans are contractually defined and represent a business secret, while the weighted annual interest rate on the total Company debt amounted to 1.69% as at 31 December 2019. The interest rate on the total Company debt as at 31 December 2019 ranged from 0 to 4.96%.

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

In € (excl. cents)	31/12/2019	Share
Long-term loans acquired from domestic banks	719,604,155	40%
Long-term loans acquired from foreign banks	829,981,874	46%
Long-term loans acquired from foreign entities	15,924,776	1%
Loan based on the Schuldschein promissory note	37,780,000	2%
Issued NSV registered notes	100,000,000	5%
Long-term bonds issued	117,800,967	6%
Total	1,821,091,772	100%

Long-term financial liabilities by maturity

In € (excl. cents)	31/12/2019	Share
Long-term financial liabilities with a maturity of up to 5 years	612,181,746	34%
Long-term financial liabilities with a maturity longer than 5 years	1,208,910,026	66%
Total	1,821,091,772	100%

Long-term financial liabilities in 2019

Long-term financial liabilities	Balance as at 31/12/2018	Increase in 2019	Decrease in 2019	Balance as at 31/12/2019
European Investment Bank	689,137,713	0	42,931,882	646,205,832
Nova Ljubljanska banka	362,019,231	0	38,778,205	323,241,026
Kreditanstalt für Wiederaufbau	158,828,125	0	16,718,750	142,109,375
Consortium of Slovenian banks	77,590,231	0	43,202,481	34,387,750
Deutsche Pfandbriefbank	65,476,191	0	23,809,524	41,666,667
UniCredit Banka Slovenija	20,010,015	0	8,335,837	11,674,178
KA FINANZ	7,000,000	0	7,000,000	0
Addiko Bank	25,637,373	0	6,669,505	18,967,868
Regione Autonoma Friuli Venezia	19,109,732	0	3,184,955	15,924,776

Long-term financial liabilities	Balance as at 31/12/2018	Increase in 2019	Decrease in 2019	Balance as at 31/12/2019
Intesa Sanpaolo	84,666,667	0	2,333,333	82,333,333
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	100,000,000	0	0	100,000,000
Bonds	160,364,547	0	42,563,580	117,800,967
Total	2,056,619,825	0	235,528,053	1,821,091,772

b) Long-term lease liabilities

In € (excl. cents)	31/12/2019
Long-term lease liabilities – principal	2,345,332
Long-term lease liabilities – interest	-78,960
Total	2,266,372

In € (excl. cents)	31/12/2019
Long-term lease liabilities – principal	2,345,332
Short-term lease liabilities – principal	1,034,728
Total	3,380,060

Maturity of lease liabilities

In € (excl. cents)	31/12/2019
Up to 1 year	1,034,728
from 1 to 5 years	2,181,764
more than 5 years	163,568
Total	3,380,060

II.5.1.17 Long-term financial liabilities to banks

Long-term share of the principal amount of bank loans by lender

Lender	Balance as at 31/12/2019	In € (excl. cents) Share
Consortium of Slovenian banks	34,387,750	2%
Addiko Bank	18,967,868	1%
UniCredit Banka Slovenija	11,674,178	1%
Intesa Sanpaolo	82,333,333	5%
Unicredit + Intesa Sanpaolo	99,000,000	6%
NLB	323,241,026	21%
Abanka	50,000,000	3%
SKB banka	50,000,000	3%
SID	50,000,000	3%
European Investment Bank	646,205,832	42%
Kreditanstalt für Wiederaufbau	142,109,375	9%
Deutsche Pfandbriefbank	41,666,667	3%
KA FINANZ	0	0%
Total	1,549,586,029	100%

a) Loans from the Consortium of Slovenian Banks

DARS d.d. obtained seven loans from the Consortium of Slovenian Banks in the period from 1996 to 2004. These loans were paid off in the total amount of €57,365,362 in 2019. In 2019, loans II and III from the Consortium of Slovenian banks were repaid in full.

Long-term liabilities to the Consortium of Slovenian Banks and loan repayment periods

Type	Repayment period	In € (excl. cents)
II	from 2004 to 2019	0
III	from 2007 to 2019	0
IV	from 2008 to 2020	0
V	from 2007 to 2020	0
VI	from 2009 to 2021	16,480,026
VII	from 2012 to 2024	17,907,724
Total		34,387,750

b) Loans from Addiko Bank (Hypo Alpe Adria Bank before 11 July 2016)

The Company took out three loans from Addiko Bank in 2003, 2004 and 2005. These loans were paid off in the total amount of €6,669,505 in 2019.

Long-term liabilities to Addiko Bank and loan repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2011 to 2023	8,330,419
II	from 2012 to 2024	4,378,060
III	from 2014 to 2023	6,259,389
Total		18,967,868

c) Loans from UniCredit Banka Slovenija

The Company took out two loans from UniCredit Banka Slovenija in 2005 and 2009. The loans from UniCredit Banka Slovenija were paid off in the total amount of €8,335,837 in 2019.

Long-term liabilities to UniCredit Banka Slovenija and loan repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2011 to 2023	5,007,511
II	from 2007 to 2021	6,666,667
Total		11,674,178

d) Loan from Intesa Sanpaolo

The Company took out a loan from Intesa Sanpaolo (formerly Banka Koper) in 2006 that was intended for the refinancing and early repayment of loans taken out with the bank Kreditanstalt für Wiederaufbau, which was repaid early in 2016 in full.

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

These loans were repaid in the total amount of €2,333,333 in 2019.

Long-term liability to Intesa Sanpaolo and loan repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2007 to 2021	2,333,333
II	from 2021 to 2036	80,000,000
Total		82,333,333

e) Loans from NLB

In 2007, 2008 and 2013, DARS d.d. took out three loans with NLB, which were spent in full for financing motorway construction. In 2016, NLB I and NLB II loans were rescheduled to extend loan maturity.

Long-term liability to NLB and loan repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2020 to 2027	166,350,000
II	from 2020 to 2025	106,891,026
III	2028	50,000,000
Total		323,241,026

f) Loan from Abanka

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

Long-term liability to Abanka and loan repayment periods

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

g) Loan from SKB

The Company took out a €50 million loan with SKB in 2015 that was intended for the refinancing and early repayment of loans.

Long-term liability to SKB and loan repayment periods

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

h) Loan from UniCredit Banka Slovenija and Intesa Sanpaolo

In 2016, the Company took out a €99 million loan from Unicredit and Intesa Sanpaolo that was intended for the refinancing and early repayment of loans.

Long-term liability to UniCredit Banka Slovenija and Intesa Sanpaolo and loan repayment period

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

i) Loan from SID

In 2016, the Company took out a loan of €50 million from SID Bank that was intended for the refinancing and early repayment of loans.

Long-term liability to SID Bank and loan repayment period

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

j) Loans from the European Investment Bank (EIB)

Loans from the European Investment Bank, taken out in the period from 1994 to 2006, were repaid in the amount of €66,966,970 in 2018. The final maturity of the loans is between 2019 and 2041.

In 2017, the Company took out a new €51 million loan from the European Investment Bank that was intended for financing the electronic tolling system project. The loan was partly drawn in 2018.

In 2019, loans II and IV from the European Investment Bank were repaid in full.

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

Type	Repayment period	In € (excl. cents)
III	from 2004 to 2019	0
IV	from 2005 to 2019	0
V	from 2007 to 2027	39,000,000
VI	from 2012 to 2029	53,570,000
VII	from 2014 to 2037	182,954,545
VIII	from 2015 to 2034	205,944,445
IX	from 2022 to 2041	145,000,000
X	from 2019 to 2028	19,736,842
Total		646,205,832

k) Loans from Kreditanstalt für Wiederaufbau (KfW)

In 2008 and 2009, DARS d.d. took out three loans from Kreditanstalt für Wiederaufbau to finance motorway construction. The loans were paid off in the amount of €37,718,750 in 2019. In 2019, loans III and IV from KfW were repaid in full.

Long-term liabilities to Kreditanstalt für Wiederaufbau and loan repayment periods

Type	Repayment period	In € (excl. cents)
II	from 2013 to 2029	142,109,375
III	from 2014 to 2019	0
IV	from 2014 to 2019	0
Total		142,109,375

l) Loans from Deutsche Pfandbriefbank

In 2006, DARS d.d. took out two loans from Deutsche Pfandbriefbank in the total amount of €225,000,000. The two Deutsche Pfandbriefbank loans were repaid in the amount of €23,809,523 in 2019.

Long-term liabilities to Deutsche Pfandbriefbank and loan repayment periods

Type	Repayment period	In € (excl. cents)
I	from 2014 to 2024	25,000,000
II	from 2013 to 2021	16,666,667
Total		41,666,667

m) Loan from KA FINANZ AG (formerly Kommunalkredit)

In 2010, DARS d.d. obtained a loan from Kommunalkredit Austria AG (now KA FINANZ AG) in the amount of €70,000,000. The loan was taken out at a fixed interest rate. The principal of the loan was paid off in the amount of €14,000,000 in 2019.

Long-term liabilities to KA FINANZ AG and loan repayment period

Type	Repayment period	In € (excl. cents)
I	from 2015 to 2020	0
Total		0

II.5.1.18 Long-term financial liabilities for bonds

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

Issue	Maturity	Issue size In € (excl. cents)
DRS1	2024	56,042,047
DRS2	2025	61,758,920
DRS3	2020	0
Total		117,800,967

a) DARS 1st Issue Bonds (DRS1)

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

b) DARS 2nd Issue Bonds (DRS2)

In 2005, the bonds of second issue, designated DRS2, were issued in the aggregate nominal amount of €61,758,920. The principal is due in its total amount in 2025 and the annual coupon rate is 4.5%. The bonds are traded with on the Ljubljana Stock Exchange.

c) DARS 3rd Issue Bonds (DRS3)

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

II.5.1.19 Other long-term financial liabilities

a) Loan from Regione Autonoma Friuli Venezia

The loan from Regione Autonoma Friuli Venezia 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 for connecting the Slovenian motorway network with the Italian network. The loan was taken out in 2000. In 2019, the loan from Regione Autonoma Friuli Venezia was paid off in the amount of €3,184,955.

Long-term liabilities to Regione Autonoma Friuli Venezia and loan repayment period

Type	Repayment period	In € (excl. cents)
I	from 2011 to 2025	15,924,776
Total		15,924,776

b) Loan on the basis of the Schuldschein promissory note

In 2015, DARS d.d. took out a loan on the basis of the "Schuldschein" promissory note for €37.78 million. The loan was taken out for a period of 15 years. A Schuldschein is an agreement on a loan that is not traded with on the regulated market.

Long-term liabilities for the Schuldschein promissory note and loan 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 falls due in the total amount in 2037. The instrument is not subject to trading on the stock

market. A Namensschuldverschreibung is a registered note that is a hybrid between a bond and loan, but closer to a bond. The organiser of the issue keeps a record of holders.

Long-term liabilities from the registered note and repayment period

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

d) Long-term lease liabilities

In € (excl. cents)	2019
Balance as at 1/1	3,334,618
Acquisition of new liabilities	842,671
Transfers to short-term financial liabilities	1,910,917
Balance as at 31/12	2,266,372

II.5.1.20 Other long-term operating liabilities

Other long-term operating liabilities include a liability for the right of superficies compensation in the amount of €93,847,261. Based on the annual performance contract (on the execution of contracts on the basis of Article 4 of the ZDARS-1 for 2020), the short-term part of the long-term liability is transferred to short-term liabilities.

The right of superficies was established pursuant to the ZDARS-1 for the benefit of DARS d.d. on land owned by the Republic of Slovenia, where motorways are considered as structures that had been constructed or the construction of which had commenced prior to the enforcement of the ZDARS-1. The right of superficies is established for a 50-year period (from 4 December 2010 to 4 December 2060) free of charge. Pursuant to the Fiscal Balance Act, the right of superficies is subject to the payment of annual compensation in accordance with the annual performance contract pursuant to Article 4 of the ZDARS-1.

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.

Pursuant to the ZGD-1 and SAS 2016, the Company keeps its right of superficies under property, plant and equipment in the item land.

II.5.1.21 Deferred tax liabilities

Deferred tax liabilities in 2019

In € (excl. cents)	31/12/2018	Recognised in the Income Statement	Recognised in the Statement of Other Comprehensive Income	31/12/2019
Cash flow hedging from interest rate swaps	50,181	0	-50,181	0
	50,181	0	-50,181	0

II.5.1.22 Short-term financial liabilities

Short-term financial liabilities in the total amount of €264,576,081 comprise:

- the short-term share of long-term financial liabilities that fall due in the following year and accrued interest on loans, bonds issued and liabilities for financial derivatives in the amount of €263,601,803, and
- short-term lease liabilities in the amount of €974,278.

Short-term financial liabilities to banks in the total amount of €195,649,378 comprise:

- a. the share of the principal of short-term bank loans for the purchase property, plant and equipment that falls due in 2020;

Lender	In € (excl. cents)	
	31/12/2019	31/12/2018
European Investment Bank II	0	0
European Investment Bank III	0	5,833,333
European Investment Bank IV	0	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
European Investment Bank IX	0	0
European Investment Bank X	2,631,579	2,631,579
Kreditanstalt für Wiederaufbau 267.5	16,718,750	16,718,750
Kreditanstalt für Wiederaufbau 55	0	11,000,000
Kreditanstalt für Wiederaufbau 50	0	10,000,000
KA FINANZ	7,000,000	14,000,000
Deutsche Pfandbriefbank I	7,142,857	7,142,857
Deutsche Pfandbriefbank II	16,666,667	16,666,667
Intesa Sanpaolo I	2,333,333	2,333,333
Consortium of banks II	0	9,112,629
Consortium of banks III	0	21,028,249
Consortium of banks IV	10,332,489	10,332,489
Consortium of banks V	17,865,485	11,116,302
Consortium of banks VI	9,888,015	659,201
Consortium of banks VII	5,116,493	5,116,493
Addiko Bank I	3,332,168	3,332,168
Addiko Bank II	1,250,874	1,250,874
Addiko Bank III	2,086,463	2,086,463
Unicredit bank I	1,669,171	1,669,171
Unicredit bank II	6,666,667	6,666,667
Nova Ljubljanska banka I	17,400,000	0
Nova Ljubljanska banka II	21,378,205	0
Total principals	189,779,518	209,664,195

- b. interest accrued on long-term bank loans as at 31 December 2019 in the amount of €5,869,860.

Short-term financial liabilities for interest refer to interest accrued until 31 December 2019. Interest rates and the interest calculation method for concluded transactions are contractually determined and ranged between 0 and 4.96% per annum as at 31 December 2019.

Short-term financial liabilities for bonds in the amount of €45,975,233 refer to financial liabilities related to DRS III bonds in the amount of €42,563,580 and to interest accrued until 31 December 2019 in the amount of €3,411,653.

Other short-term financial liabilities in the amount of €22,951,470 refer to:

In € (excl. cents)	31/12/2019	31/12/2018
Short-term share of the Regione Autonoma Friuli Venezia loan principal	3,184,955	3,184,955
Short-term financial liabilities for accrued interest from others	1,552,391	1,553,468

In € (excl. cents)	31/12/2019	31/12/2018
Interest on financial derivatives	620,485	564,563
Liabilities for financial derivatives	16,619,360	9,927,858
Short-term lease liabilities – principal*	1,034,728	0
Short-term lease liabilities – interest	-60,449	0
Total	22,951,470	15,230,845

*Lease liabilities are disclosed in the item long-term financial liabilities.

DARS d.d. is exposed to interest rate risk, which is why it was decided in previous years to reduce exposure to the risk of interest rate variability on the market pursuant to the Company's active financial risk management policy. On 31 December 2019, 45% of the Company's debt portfolio value was exposed to a variable interest rate, while 54% was exposed to a fixed interest rate. Together with the concluded interest rate swaps, the share of the portfolio exposed to variable interest rates stood at 28% and the share exposed to fixed interest rates stood at 71%. Interest-free loans account for the remaining percent.

To hedge against interest rate risks, the Company uses financial derivatives (ordinary interest rate swap) to provide long-term stability of a certain share of variable interest rates. The purpose of hedging is to fix the interest rate, thus achieving a fixed cash flow. When concluding interest rate swaps, the Company observes the principle that interest rate swaps have comparable characteristics of a hedged item transaction (nominal amount, maturity, accounting period). Most financial derivatives are used to hedge against the risk of interest rate variability, where hedged items present an efficient hedging relation.

The total fair value of interest rate swaps as at 31 December 2019 amounted to €16,619,360.

Short-term lease liabilities refer to a principal amount of €1,034,728, decreased by interest amounting to €60,449.

A detailed description of the financial derivatives concluded by the Company as at 31 December 2019 follows.

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 taken out 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 the second half of 2016, DARS d.d. concluded two interest rate hedging transactions in the total amount of €100,000,000 with 10-year maturity. With individual €50 million transactions, DARS d.d. partially insured the loans 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 hedging transactions in the total amount of €99,500,000 with 10-year maturity. With individual €50 and €49.5 million transactions, DARS d.d. partially insured the loans 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.

Nominal and book value of interest rate hedging instruments

In € (excl. cents)	Nominal value of hedging instruments	Book value of hedging instruments	
		31/12/2019	31/12/2018
Total	349,500,000	(16,619,360)	(9,663,745)

The book value of the hedging instruments equals the fair value, which is calculated using the total average net present value method, pursuant to the repayment schedule and taking into account market prices. Fair value is classified to level 2 in the fair value hierarchy.

In € (excl. cents)	Change in the value of hedging instruments recognised in the Statement of Other Comprehensive Income	Inefficient hedging instruments _ amount recognised in the Income Statement
	31/12/2019	31/12/2019
Total	(5,327,642)	(1,627,973)

II.5.1.23 Short-term operating liabilities

In € (excl. cents)	31/12/2019	Share in %	31/12/2018	Index
Short-term trade liabilities	37,347,137	49%	30,743,653	121
Short-term liabilities for advances	61,819	0%	62,736	99
Short-term employee payables	4,811,205	6%	4,260,901	113
Short-term liabilities to the State	32,656,639	43%	23,747,959	138
- corporate income tax liability	2,756,310	4%	2,842,378	97
- VAT liability	8,337,984	11%	8,237,602	101
- liabilities for payer's taxes and contributions arising from salary and other remuneration	2,207,874	3%	2,010,734	110
- short-term liability for the right of superficies	17,375,437	23%	9,868,988	176
- liabilities for the charged toll mark-up	954,005	1%	0	-
- other liabilities to the State	1,025,030	1%	788,257	130
Short-term liabilities to others	555,271	1%	854,993	65
Short-term liabilities to subcontractors	1,369,394	2%	1,037,602	132
Total	76,801,465	100%	60,707,844	127

The Company trade liabilities comprise unpaid liabilities for performed and charged works in the construction of motorways performed by local and foreign suppliers (including contractually withheld amounts), liabilities from indemnifications in land acquisition for transactions on behalf of and for the account of the Republic of Slovenia, operating liabilities for the operation and maintenance of motorways and other short-term operating liabilities.

Contractually withheld funds are funds withheld as a performance guarantee and are, until the fulfilment of all the contractual obligations by the contractor (work acceptance, the rectification of all deficiencies and the handover of warranty bonds), withheld in the maximum amount of 5 or 2% of the contractual value. Assets are also withheld due to non-submitted documents that should be attached to the interim payment certificate by the contractor pursuant to the contract. This mostly involves the contractor's statement based on which direct payments are made to the subcontractors included in the execution of contractual works pursuant to the Public Procurement Act. Long-term withheld assets that are still withheld from the contractor by the Company are used to repay potential financial liabilities for the received subcontractors' claims for which an agreement was made with the contractor. The funds withheld pursuant to contracts concluded with contractors belong to the contractors or subcontractors and are remitted once they fulfil their contractual obligations and furnish the investor with the required documents. As at 31 December 2019, short-term trade liabilities based on withheld funds amounted to €17,556,950 and accounted for 47% of total trade receivables.

Short-term operating liabilities also include the short-term share of the long-term liability arising from the compensation for the right of superficies, which for 2020 amounts to €17,375,437 in accordance with the annual performance contract based on Article 4 of the ZDARS-1.

On 13 December 2018, the Government adopted a decision introducing a toll mark-up on certain sections of the motorway network, which will be paid by persons liable to pay tolls within the scope of the DarsGo electronic tolling for heavy vehicles. DARS d.d., as the operator of toll roads, is obliged to charge the mark-up as of 1 January 2019. The funds collected will be assigned revenue of the Republic of Slovenia budget and can be used exclusively for the second track of the Divača-Koper railway line. The mark-up will be charged to all persons liable to pay tolls driving a vehicle with a maximum permissible laden weight exceeding 3.5 tonnes who pass the toll sections

between Koper and Ljubljana and between Ljubljana and Šentrupert. As at 31 December 2019, the liability for the charged toll mark-up amounted to €954,005.

Short-term trade liabilities by maturity as at 31 December 2019

In € (excl. cents)	Non-past-due	up to 60 days	over 60 days	Total
Short-term trade liabilities (current liabilities)	18,985,992	791,196	12,998	19,790,186
Short-term trade liabilities (withheld amounts)	17,556,950	0	0	17,556,950

Trade liabilities as at 31 December 2019

In € (excl. cents)	31/12/2019	Share
KOLEKTOR CPG d.o.o.	3,341,354	9%
CPK d.d.	2,110,306	6%
ALPINE BAU GMBH, Salzburg – Celje subsidiary - in	1,888,452	5%
CGP d.d.	1,663,418	4%
POMGRAD d.d.	1,414,520	4%
VOC Celje d.o.o.	1,390,198	4%
Q-FREE NORGE AS	1,327,381	4%
GORENJSKA GRADBENA DRUŽBA d.d.	1,232,845	3%
ISKRA d.o.o.	1,130,720	3%
DRI upravljanje investicij d.o.o.	1,108,428	3%
Other suppliers	20,739,515	56%
Total	37,347,137	100%

Employee payables predominantly comprise accounted December salaries and salary compensations and the reimbursement of job-related costs to employees that were disbursed in January 2020.

Debts to Members of the Management and Supervisory Boards as at 31 December 2019 comprise the accounted December salaries and attendance fees and the reimbursement of job-related costs disbursed in January 2020.

II.5.1.24 Short-term accrued costs and deferred revenue

In € (excl. cents)	31/12/2019	Share	31/12/2018	Index
Short-term accrued costs	472,417	2%	435,505	108
Short-term deferred revenue	21,198,406	98%	21,547,546	98
Total	21,670,823	100%	21,983,051	99

The Company's liabilities comprise accrued costs or expenses referring to accrued costs for the auditing of 2019 financial statements in the amount of €31,219, costs for the actuarial calculation of the provisions for jubilee benefits and severance pay as at 31 December 2019 in the amount of €540, accrued costs for the supervising engineer for completed investments projects in the amount of €106,868, accrued cost for the variable remuneration of the Management Board in the amount of €277,627 and the variable share of the salaries paid to employees under executive contracts in the amount of €56,162.

Short-term deferred revenue arises when services to be rendered in the future have already been invoiced or even paid for.

Short-term deferred revenue was formed for:

- annual vignettes charged in 2019 that will be valid in 2020 and for one-track half-year vignettes that will be partly or entirely valid in 2020 in the total amount of €16,624,933 (a half-year vignette is valid for six months from the date of purchase, and the annual vignette for 2020 is valid from 1 December 2019 to 31 January 2021).

- the credit from the old tolling system transferred to prepay toll media (DARS cards, ABC tags) amounting to €500,000. As of 1 April 2018, vehicles with a maximum permissible weight exceeding 3.5 tonnes pay tolls electronically in free traffic flow, i.e. in the DarsGo system. Users of the old tolling system may request the reimbursement of the remaining credit balance on ABC tags and DARS cards;
- the credit in DarsGo units amounting to €3,979,000, charged and paid in 2019, but not used in the same year. The revenue will be recognised as deferred until service users use it;
- other short-term deferred revenue in the amount of €94,473.

II.5.1.25 Off-balance sheet items

As at 31 December 2019, the Company discloses the following items in off-balance-sheet records:

1. The amount of €106,138,049 represents potential cash or receivables deriving from the received bonds or other security instruments for the coverage of indemnification and risks related to a public contract, the fulfilment of contractual obligations (the sound and timely execution of works, the risk of default and pursuant to the agreed contractual obligations) and the elimination of errors in the warranty period.

In € (excl. cents)	31/12/2019	31/12/2018
Performance bonds	48,509,722	47,049,134
Warranty bonds	24,988,183	38,994,545
Payment bonds	15,252,544	14,457,744
Tender bonds	17,387,600	11,040,700
Total	106,138,049	111,542,123

2. The value of inventories of vignettes for the use of toll roads in the Republic of Austria that are sold by DARS d.d. amounts to €783,276.
3. As at the reporting date, lawsuits worth €43,094,605 (principal amounts) were lodged against the Company, 84% 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 €1,864,190 (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 that are assessed with 50% or less likelihood that the plaintiff will succeed amount to €39,890,575 (principal amounts) as at 31 December 2019. The amount of the liability from the mentioned lawsuits cannot be measured with sufficient reliability. With respect to the course of proceedings, it is hard to predict when a particular case will be closed with an adequate degree of reliability.
4. The amount of €3,704,392 represents receivables where the probability of any payment from the bankruptcy estate to the benefit of ordinary creditors, which also include DARS d.d. receivables, is estimated to be minimum.
5. On 16 November 2017, a new contract was concluded with the EIB for a loan amounting to €51 million to finance the deployment of the DarsGo system. In 2018, the loan as partially drawn in the amount of €25 million. The remaining €26 million is the non-drawn share of the loan. The final date for drawing the loan is 36 months following the signing of the loan agreement. To close the financial structure for the deployment of the DarsGo system, a contract was concluded with KfW IPEX-Bank on 25 April 2019 for a loan amounting to €51 million. Liabilities deriving from the loan are not secured by a government guarantee. Borrowing terms have been adjusted to the terms and conditions laid down in the credit contract concluded with the EIB. The loan is planned to be drawn in full in 2020.

As at 31 December 2019, none of the mentioned liabilities meet the conditions for recognition under balance-sheet items and the Company expects no material consequences as a result.

II.5.2 Notes on the Income Statement

II.5.2.1 Net sales revenues

In € (excl. cents)	2019	Share	2018	2019/2018 index
Toll revenue	466,611,271	97%	451,497,703	103
- revenue from vignette sales	195,280,372	42%	188,408,769	104
- revenues from freight traffic tolls	271,330,898	58%	263,088,934	103
Revenue from rest area leases	8,951,984	2%	8,038,859	111
Revenue from closures and overweight load transport	1,040,540	0%	1,142,321	91
Revenue from easement for base stations and other	864,655	0%	686,602	126
Revenues from the lease of optical fibres	996,843	0%	1,026,446	97
Revenue under the performance contract	326,820	0%	300,000	109
Other sales revenue	1,958,763	0%	2,913,930	67
Total net sales revenue	480,750,876	100%	465,605,859	103

Revenue from tolls collected in 2019 amounts to €466,611,271 and accounts for 97% of total sales revenues, which is 3% more than in 2018. Revenue from the tolling of vehicles weighing under 3.5 tonnes (vignette system) amounted to €195,280,372 and accounts for 42% of toll revenue, while revenue from the tolling of vehicles with a maximum weight exceeding 3.5 tonnes amounted to €271,330,898 or 58%. Toll revenue is explained in detail in chapters I.9.2 and I.10.

Toll revenue is followed by revenue from leases for rest stops, which amounted to €8,951,984 in 2019. 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 11% compared to 2018.

Sales revenues also include revenue from road closures and overweight road transports in the amount of €1,040,540, revenue from the lease of fibre optics in the amount of €996,843 and revenue from easement charged in the amount of €864,655.

Revenue under the performance contract in 2019 amounted to €326,820. The revenue refers to the execution of tasks performed by DARS d.d. on behalf of and for the account of the RS based on an annual performance contract and Article 4 of the ZDARS-1. The tasks include the spatial planning and siting of motorways as well as real estate acquisition for purposes of motorway construction.

Other sales revenue in the amount of €1,958,763 includes revenue from the commission generated in the sale of Austrian vignettes, revenue from the sale of DarsGo units, revenue from towing, snow ploughing and clearing road accidents, revenue from the rental of holiday facilities and apartments, revenue from the sale of waste materials and other sales revenue.

Net sales revenues were generated entirely on the domestic market.

II.5.2.2 Capitalised own products and services

In 2019, the Company capitalised its own investment services in relation to motorways that were not charged to external contractors providing motorway reconstruction services. In 2019, revenue arising from capitalised own services amounted to €1,671,338.

II.5.2.3 Other operating revenue

In € (excl. cents)	2019	Share	2018	Index
Reversal of long-term provisions	21,577,606	54%	10,882,212	198
Insurance compensations	2,054,276	5%	1,755,102	117
Revenue from the consumption of long-term deferred revenue	11,508,171	29%	9,455,839	122
Revenue from the equipment and real estate sold	607,234	2%	640,979	95
Other operating revenue	3,885,733	10%	141,107	2,754
Total other operating revenue	39,633,020	100%	22,875,241	173

The reversal of long-term provisions amounting to €21,577,606 also includes the reversal of provisions for lawsuits amounting to €20,009,236, the reversal of long-term deferred revenue for unused credit balances in ABC tags and DARS cards due to the transfer from the old tolling system to electronic toll collection in the amount of €1,355,142, and the reversal of provisions for unused leave of absence in 2018 amounting to €184,050.

Insurance benefits include revenue from received insurance benefits for the repair of damage on motorway sections and facilities along motorways. In 2019, that revenue amounted to €2,054,276.

Revenues from the consumption of long-term deferred revenues in the amount of €11,508,171 refer to the consumption of funds from the EU and other co-funding received for the preparation of spatial and design documents and motorway construction or therewith related tasks (improving traffic safety – construction of traffic control and management systems) and 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 2019, the Company transferred to revenue €7,588,983 of long-term deferred revenues it received within the scope of the EU Cohesion Fund, the TEN-T and CROCODILE projects and the EasyWay and TEMPO-CONNECT programmes. The Company transferred long-term deferred revenues amounting to €791.554, received from the municipalities (City of Ljubljana), ELES and other project funders, to revenue. To cover the cost of the rectification of defects made by contractors in motorway construction and reconstruction and other assigned costs, the Company spent €2,086,419 from the bonds drawn and €1,041,216 from withheld funds for contractors.

Other operating revenue in the amount of €3,096,257 also refers to the reversal of allowances for receivables.

II.5.2.4 Costs and operating expenses

Overview of costs and expenses

In € (excl. cents)	2019	Share	2018	Index
Cost of material	9,750,970	3%	10,784,758	90
Cost of services	40,632,033	13%	36,862,228	110
Labour costs	45,244,673	15%	40,847,516	111
Depreciation/amortisation	180,055,717	58%	171,160,088	105
Operating expenses for the revaluation of intangible fixed assets and property, plant and equipment	30,864,914	10%	3,749,710	823
Operating expenses for the revaluation of current assets	98,990	0%	171,922	58
Other operating expenses	4,417,931	1%	3,408,916	130
Total operating expenses	311,065,228	100%	266,985,138	117

Breakdown of the costs of materials

In € (excl. cents)	2019	Share	2018	Index
Cost of material	3,041,070	31%	4,318,443	70
Energy costs	4,483,512	46%	4,604,820	97

In € (excl. cents)	2019	Share	2018	Index
Cost of spare parts	680,569	7%	588,474	116
Write-off of small tools	1,370,033	14%	1,077,972	127
Other costs of material	175,786	2%	195,050	90
Total	9,750,970	100%	10,784,758	90

The cost of materials accounts for a 3% share of the total operating expenses and fell by 10% with respect to 2018.

Breakdown of the costs of services

In € (excl. cents)	2019	Share	2018	Index
Cost of supervising engineer	940,734	2%	869,548	108
Services related to recruitment agencies	0	0%	535,375	0
Cost of fixed asset maintenance	13,788,623	34%	10,732,123	128
Rent	565,164	1%	1,652,824	34
Cost of payment transactions and insurance premiums	3,467,958	9%	2,984,544	116
Commissions on vignettes sold	7,592,712	19%	7,391,375	103
Costs of other services	14,276,843	35%	12,696,438	112
Total	40,632,033	100%	36,862,228	110

The cost of services accounts for a 13% share of total operating expenses. Major services in 2019 included the cost of fixed asset maintenance (34%), commissions on vignettes sold (19%) and the cost of payment transactions and insurance premiums (8%).

The cost of fixed asset maintenance increased due to the maintenance of the DarsGo system, which mostly includes the cost of software maintenance, the cost of external DarsGo service operations and maintenance, including the logistics of DarsGo units, maintenance costs for toll gantries, DarsGo units, and other additional equipment, and routine maintenance costs for road infrastructure.

The cost of commissions for vignettes sold and the cost of payment transactions and bank fees are higher than last year due to increased vignette sales and tolls for goods vehicles.

The cost of other services increased due to the cost of disassembly and the removal of existing old toll station facilities, which were removed due to the introduction of the electronic tolling system in free traffic flow (DarsGo system).

Costs by functional group:

In € (excl. cents)	2019	2018
Routine maintenance (incl. depreciation)	46,957,852	42,425,181
Tolling (incl. depreciation/amortisation)	36,653,003	34,169,423
Other (incl. depreciation/amortisation)	192,072,538	183,059,986
- of which motorway infrastructure depreciation	157,969,941	152,654,608
TOTAL	275,683,393	259,654,590

II.5.2.5 Labour costs

Labour costs account for a 15% share of the total operating expenses of DARS d.d. In 2019, they increased by 11% compared to 2018.

Type of labour costs	2019	Share	2018	Index
Salaries and wages	32,897,516	73%	30,226,388	109
Pension insurance costs	3,633,892	8%	3,374,030	108
Other social security costs	2,759,949	6%	2,539,836	109
Other labour costs	5,953,316	13%	4,707,262	126
Total	45,244,673	100%	40,847,516	111

Labour costs include the cost of supplementary pension insurance premiums in the amount of €878,169.

As at 31 December 2019, there were 1,257 workers employed by the Company. The average staff count in 2019 was 1,212 (computed on the basis of working hours).

In 2019, wages and salaries were paid in line with the Corporate Collective Agreement of DARS d.d., while the salaries of the Management Board of DARS d.d. were also paid in accordance 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).

Average salary at DARS d.d. in 2019 (in EUR)

Average gross salary	2019	2018
DARS d.d.	2,250	2,104
Republic of Slovenia	1,754	1,682

The number of employees and the employee educational structure as of 31 December 2019 are presented in the business section of the Annual Report, under the chapter Human Resource Management (Section I.16.6).

The total gross remuneration received by Members of the Management Board of DARS d.d. in 2019 amounted to €740,521. The table below shows the remuneration received by Members of the Management Board of DARS d.d. by individual member.

In EUR (without cents)	Matjaž Knez, Chairman of the Board until 13 January 2016	Franc Skok, Member of the Board until 13 January 2016	Gašper Marc, MSc, Member of the Board since 15 May 2015	Marjan Sisinger, Member of the Board/Labour Manager until 8 May 2019	Tomaž Vidic, PhD, Chairman of the Board since 13 January 2016	Vili Žavrlan, Member of the Board since 7 October 2016	Rožle Podboršek, Member of the Board/Labour Manager since 9 May 2019	TOTAL
Gross salaries	0	0	126,241	34,792	125,641	125,376	64,872	476,922
Disbursement of variable income	567	510	21,199	35,722	22,738	15,388	0	96,125
Severance pay	53,909	48,518	0	0	0	0	0	102,427
Default interest, cost of proceedings	20,059	19,178	0	0	0	0	0	39,236
Benefits	0	0	6,157	2,402	2,843	6,733	1,671	19,806
Reimbursement of costs	0	0	917	222	1,008	953	649	3,748
Supplementary pension insurance	0	0	456	207	606	636	352	2,256
TOTAL	74,535	68,206	154,970	73,344	152,836	149,086	67,544	740,521

The gross remuneration received by employees under executive employment contracts not subject to the Tariff Section of the Collective Agreement amounted to €267,844 in 2019.

The remuneration received by Members of the Supervisory Board in 2019 is shown below.

In € (excl. cents)	Remuneration for being a Supervisory Board Member	Supervisory Board meeting fees	Remuneration for being a member of the Audit Committee	Audit Committee meeting fees	Remuneration for being a member of the Remuneration Committee	Remuneration Committee meeting fees	Travel expenses	Benefits	Total
Rožle Podboršek	3,792	1,045	0	0	948	220	0	128	6,133
Marjan Mačkošek	13,596	2,750	0	0	0	0	1,425	322	18,103
Miha Juhart, PhD	9,970	2,750	2,266	1,320	3,399	440	0	322	20,477
Tatjana Colnar, MSc	9,064	2,750	3,399	1,540	2,266	440	65	204	19,728
Igor Pirnat, MSc	9,064	2,750	2,266	1,540	0	0	165	204	15,988
Darko Kodrič	13,000	4,290	0	0	2,185	660	1,307	286	21,728
Mojca Lahajner	0	0	3,250	1,980	0	0	123	0	5,353
Martin Stožir	8,387	2,970	867	220	0	0	575	128	13,147
Igor Kolar	2,934	990	0	0	0	0	267	0	4,191
Jože Oberstar	5,669	1,540	867	440	0	0	472	0	8,988
Boris Božičnik	4,283	1,540	0	0	867	440	120	0	7,249
Matej Čufer	3,936	1,540	1,300	440	0	0	28	0	7,244
Andrej Hudoklin, MSc	3,936	1,540	0	0	1,300	440	391	0	7,607
Jožef Zimšek	3,936	1,540	0	0	0	0	319	0	5,796
Total	91,567	27,995	14,214	7,480	10,964	2,640	5,258	1,613	161,731

As at 31 December 2019, the Company has no receivables due from or liabilities to Supervisory Board Members other than liabilities for remuneration deriving from attendance fees and the performance of functions in December, which were paid out in January 2020.

As at 31 December 2019, the Company has no receivables due from or liabilities to Management Board Members other than liabilities for December salaries, which were paid out in January 2020.

The claims of employees deriving from labour disputes that are contested by the Management Board of DARS d.d. are disclosed in the notes to long-term provisions.

II.5.2.6 Write-downs

In € (excl. cents)	2019	Share	2018	Index
Amortisation of intangible fixed assets	4,020,864	2%	3,609,646	111
Depreciation of property, plant and equipment	175,036,433	83%	167,520,749	104
Depreciation of investment property	29,693	0%	29,693	100
Depreciation of property, plant and equipment	968,726	0%	0	-
Operating expenses for the revaluation of intangible fixed assets and PPE	30,864,914	15%	3,749,710	823
Operating expenses for the revaluation of current assets	98,990	0%	171,922	58
Total	211,019,620	100%	175,081,720	121

The depreciation of property, plant and equipment in 2019, which also includes the depreciation of the right of superficies, amounted to €3,926,356. The right of superficies was established pursuant to the ZDARS-1 to the benefit of DARS d.d. on land owned by the Republic of Slovenia, where motorways are considered to be structures that had been constructed or the construction of which had commenced prior to the enforcement of the ZDARS-1. The right of superficies was established for a period of 50 years.

Depreciation increased in 2019 primarily as a result of the amortisation of intangible fixed assets within the scope of the DarsGo system, the start of depreciation of the second stage of the Draženci-Gruškovje section and the changed method of lease management as of 1 January 2019.

Operating expenses for the revaluation of intangible fixed assets and property, plant and equipment (PPE) also refer to:

- a loss in the sale of real estate in the amount of €933,066,
- a loss in the exclusion and shortages of fixed movable assets in the amount of €22,929,
- a loss due to the impairment and destruction of DarsGo units in the amount of €29,700,
- the abolition of toll stations that were demolished in 2019 in the amount of €8,444,149,
- the exclusion of noise barriers in the amount of €3,001,001,
- the exclusion of motorway components upon reconstruction in the amount of €16,891,139,
- the exclusion of other fixed assets due to reconstruction in the amount of €302,201, and
- the revaluation of assets held for sale to fair value, decreased by selling costs, in the amount of €1,240,728.

Operating expenses for the revaluation of current assets mostly comprise write-downs of receivables in the amount of €20,414 and the revaluation of 2019 vignette inventories, the sale of which ended on 30 November 2019, i.e. in the amount of €72,500.

II.5.2.7 Other operating expenses

Other operating expenses of €4,417,931 (€3,408,916 in 2018) include:

- long-term accrued costs for expected losses related to tort claims for motorway construction and reconstruction in the amount of €614.688 (€2,597,861 in 2018) and for lawsuits related to labour disputes in the amount of €651 (€20,379 in 2018),
- costs amounting to €3,017,804 incurred in relation to investments in other state non-toll roads that do not fall within the scope of the motorway and expressway network operated by DARS. Such investments yield no economic benefits to the Company, which is why they are not disclosed under property, plant and equipment. According to the Ministry of Infrastructure, the Fiscal Balance Act (ZUJF), which also encroached upon the Motorway Company in the Republic of Slovenia Act (ZDARS-1) with its amendments and supplements, lays down that DARS d.d. is also responsible for the construction of certain state roads other than motorways in terms of the Roads Act and implementing regulations governing categorisation, as planned in the Resolution on the National Motorway Construction Programme in the Republic of Slovenia (ReNPJA). Along with motorways and expressways, the Fiscal Balance Act also included other state roads planned in the National Programme governing motorway construction in the definition of "motorway".
- other operating expenses in the amount of €784,788 (€434,131 in 2018).

II.5.2.8 Financial revenue from loans given

Financial revenue from loans given in the amount of €780,838 (€806,170 in 2018) also includes revenue from short-term surplus liquid funds deposited with banks in the amount of €780,562.

II.5.2.9 Financial revenue from operating receivables due from others

Financial revenue from operating receivables due from others in the amount of €8,212 (€10,968 in 2018) refers to financial revenue from operating receivables, charged default interest and exchange rate gains.

II.5.2.10 Financial expenses for investment impairment and write-down

Financial expenses for the impairment of investments in the amount of €1,627,973 refer to the revaluation of financial derivatives.

II.5.2.11 Financial expenses for loans received from banks

Financial expenses in the amount of €22,844,789 (€25,239,962 in 2018) include interest charged on long-term loans. The weighted average interest rate on long-term loans as at 31 December 2019 was 1.52%.

II.5.2.12 Financial expenses for bonds issued

Financial expenses in the amount of €7,335,306 (€7,340,872 in 2018) include interest charged on long-term securities issued. The weighted average interest rate on long-term securities as at 31 December 2019 was 4.55%.

II.5.2.13 Financial expenses for other financial liabilities

Financial expenses for other financial liabilities in the amount of €7,317,837 (€7,503,493 in 2018) also refer to:

- negative interest on financial derivatives amounting to €3,741,128, which represents the difference between the variable interest rate of an insured loan and the fixed interest rate of a financial derivative,
- interest charged on long-term loans received from others in the amount of €3,466,425,
- net interest on provisions for jubilee benefits and severance pay in the amount of €31,409, and
- interest on leases in the amount of €75,763.

II.5.2.14 Financial expenses for operating liabilities

Financial expenses for operating liabilities amounting to €65,389 (€280,055 in 2018) include, among other things, charged default interest amounting to €64,900 arising from liabilities that were settled late.

II.5.2.15 Other revenue

Other revenue in the amount of €276,588 (€5,231,151 in 2018) includes indemnities received under court decisions, charged contractual penalties, bonuses for exceeding the quota of disabled employees and similar.

II.5.2.16 Other expenses

Other expenses in the amount of €495,076 (€210,665 in 2018) primarily comprise indemnities paid under court decisions, reimbursed costs in audit procedures according to the Public Procurement Act, donations given and similar.

II.5.2.17 Corporate income tax

Corporate income tax is calculated in accordance with the Corporate Income Tax Act (ZDDPO-2). Corporate income tax for 2019 is accounted at a 19% rate on the taxable profit generated by the Company in a tax year.

In € (excl. cents)	2019	2018
1 Revenue	523,120,872	495,428,367
2 Expenses	350,751,597	308,286,955
3 Total profit (1 - 2)	172,369,274	187,141,412
4 Revenue decrease	3,107,957	54,275
5 Revenue increase	0	
6 Expense decrease for provisions and receivable revaluation	602,604	142,858
7 Expense decrease, other non-recognised expenses	7,987,872	7,476,368
8 Increase in recognised expenses	12,466,453	740,442
9 Difference between revenue and expenses recognised for tax purposes (1 - 2 - 4 + 5 + 6 + 7 - 8)	165,385,339	193,965,920
10 Tax base (9)	165,385,339	193,965,920
11 Change of tax base due to a change of accounting policies and error corrections	-115,035	7,428
12 Increase in tax base by the amount of tax relief used	57,229	43,710
13 Tax relief for investments	3,200,459	18,629,091
14 Relief for the employment of disabled persons	356,794	331,701
15 Relief for practical work during professional training	1,385	3,835
16 Tax relief for supplementary pension insurance	878,169	862,494
17 Tax relief for donations	90,616	107,210
18 Tax base (10 + 11 + 12 - 13 - 14 - 15 - 16 - 17)	160,800,109	174,082,727
19 Corporate income tax	30,552,021	33,075,718

The net profit for the period is the amount of total profit determined in the income statement decreased by the corporate income tax liability in the accounting period and decreased by deferred taxes.

In € (excl. cents)	2019	2018
Calculated corporate income tax	-30,552,021	-33,075,718
Deferred tax	-2,205,799	356,269
Taxes	-32,757,819	-32,719,449

In € (excl. cents)	2019	2018
Profit or loss before tax	160,800,109	174,082,727
Taxes	-32,757,819	-32,719,449
Effective tax rate	20.37%	18.80%

Deferred tax assets are recognised for corporate income tax amounts that will be recovered in future periods.

The effective tax rate calculated as a quotient between the total tax and total profit or loss for 2019 amounted to 20.37%.

II.6 Business risks

Business risks are presented in the business section of the Annual Report in chapter I.8.

II.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 the Slovenian Sovereign Holding (SSH) pursuant to the new Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 25/2014).

Companies related to the owners are companies in which the Republic of Slovenia and the SSH hold together and directly at least a 20% shareholding. A list of such companies is published on the SSH website (<http://www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb>).

In 2019, DARS d.d. made transactions worth €196,988,792 with companies in which the State has a direct or indirect dominant influence, i.e. from sales to such undertakings in the amount of €183,789,700 and from purchasing in the amount of €13,199,092. Most sales referred to services related to toll collection, while the largest purchases referred to energy costs, commission on vignettes sold and insurance, and the purchase of assets within the scope of the ETS system. As at 31 December 2019, the Company disclosed receivables due from such undertakings in the amount of €22,149,201 and liabilities amounting €2,407,539.

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.

II.8 Events after the balance sheet date

Significant business events after the balance sheet date are:

January 2020

The Government recategorised the Maribor expressway between Pesnica and Tezno into a regional road, thus exempting it from the vignette system as of 1 January 2020. DARS d.d. will continue to collect tolls from goods vehicles or, rather, all vehicles with a maximum permissible laden weight exceeding 3.5 tonnes. The Government confirmed the amendments to the decrees and they were published in the Official Gazette of the Republic of Slovenia on 20 December 2019 under No. 78/2019, entering into force on 1 January 2020.

The 18th extraordinary session of the General Meeting of DARS d.d. was held on 28 January 2020, where shareholders adopted a resolution on the execution of a special audit along with amendments and supplements to the Company's Articles of Association in respect of the acquisition of preliminary approvals from the Supervisory Board.

February 2020

DARS concluded a loan agreement with the European Investment Bank (EIB) for financing the Karavanke tunnel project in the amount of €90 million. After the deployment of the new electronic tolling system for goods vehicles (DarsGo) and the simultaneous removal and rearrangement of the areas of former toll stations, that was the second funding for a motorway project in Slovenia with a guarantee by the European Union or, rather, the European Fund for Strategic Investments (EFSI).

March and April 2020

Response to the COVID-19 epidemic

General

On 12 March 2020, Slovenia declared an epidemic based on Article 7 of the Communicable Diseases Act due to an increasing number of coronavirus infections. Hence, the State followed the declaration of a pandemic made by the World Health Organisation. The Government closely monitored the situation since the start of the coronavirus outbreak at the national, European and global levels. To manage the situation and reduce the harmful consequences for the economy and population in the long term, the State used a 2-level system approach:

- immediate intervention measures that can be implemented in a short period of time (including measures intended to restrict social contacts, measures in healthcare, measures in work environments and other measures) and
- by developing strategic (long-term) measures to assist the population and the economy (legislative packages with the priority of quick financial aid to the population to prevent and mitigate the implications of the epidemic).

The coronavirus epidemic as an external factor will have significant negative effects on economic activity. Based on public information as at the date of the approval of the financial statements, the Company management examined numerous likely scenarios related to the potential development of the outbreak and the expected impact on the Company and the economic environment in which the Company operates, including the measures already adopted by the Slovenian Government. All the necessary routine works have been tailored to the conditions.

The most important assumption in the Company estimates was the time definition of the coronavirus epidemic. The first scenario was based on the assumption that the epidemic would last somewhere until the end of May, while the second scenario foresees that it would last until the end of 2020. Nevertheless, it is believed that conditions will stabilise in the second half of the year. It is expected that economic activity will gradually return to growth in the following three quarters, since the slowdown will be the result of the virus (and the State's response to it) rather than structural problems or imbalances in the local or global economy. In 2021 and 2022, economic growth could again be somewhat higher than this year, which mostly depends on the assumption that the conditions in the second half of this year will stabilise.

After the end of the epidemic, it is expected that economic activity will gradually bounce back to growth. In the assessment of the consequences of the epidemic, we estimated that no government aid will be required. The Management Board started preparing simulations of operations and the implementation of measures to plan and regulate liquidity, purchase flows, costs and investments. As a priority, we updated and adjusted the established system of cost control, supervision over the execution of payment obligations and the system of additional controls to ensure uninterrupted and compliant operations. The Management Board established a coordination group for risk management. The Company is closely monitoring the spread of the coronavirus ever since its first incidence in the EU and promptly adopts suitable measures at the level of the organisation of work in order to ensure business operations. The central focus of the management and coronavirus coordination group is on concern for the safety and health of employees and motorway and expressway users.

1) Impact on revenue and profit or loss

Regarding the outbreak of COVID-19 and the adopted Government measures, DARS identified a loss of revenue from the tolling of goods vehicles and passenger cars as the main risk. It is estimated that the impact will be greater in goods vehicles, since an economic downturn has been noticed throughout Europe (which is the main factor contributing to the traffic volume of goods vehicles). In vignettes, the first major loss is expected in the sale of weekly and monthly vignettes during the Easter and May Day holidays. It is expected that sales will also decrease during the summer holidays if the situation does not settle down before then. Regarding vignettes, the revenue from yearly vignettes has mostly been secured (sales from December 2019 to March 2020), which account for an important share of vignette revenue (revenue from yearly vignettes account for 46% of total revenue from vignette sales in 2019).

The final loss of revenue and impact on the Company's profit or loss will depend on the duration of the epidemic and the rate at which traffic will return to normal after the end of the epidemic. In relation to this, the Company management examined several scenarios within the scope of assessing the assumption of going concern, including a serious but probable scenario that the epidemic and therewith related consequences would last until the end of 2020.

It is estimated that the situation will have an impact on the attainment of the Company's profit or loss, but not such that would significantly threaten its financial sustainability, operations and the assumption of going concern. The reduction in the volume of freight traffic in March 2020 compared to March 2019 amounted to some 20%.

2) Financial position and management of liquidity risks

Based on all the possible scenarios discussed, we believe that liquidity risk in the period of at least 12 months following the balance sheet date will not be high, which means that the Company will continue its operations without interruptions. At the time of the approval of financial statements, the financial and liquidity position of the Company is stable, which is why the execution of financial liabilities will by no means be threatened due to the coronavirus. A sound liquidity position allows the Company to service its debts regularly (the explanation is provided in note II.5.1 of the Annual Report). Furthermore, the fulfilment of financial liabilities and commitments deriving from loan agreements and regular infrastructure maintenance will not be threatened.

Liquidity risk is assessed as low and liquidity will be provided in 2020:

- with investments in the form of bank deposits and other bank balances,
- with own funds from current operations,
- from available credit lines.

Furthermore, the Republic of Slovenia provides a guarantee for refinancing DARS's debt up to €300 million annually for liabilities deriving from loans and debt securities pursuant to the provisions of 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. (ZPKROD).

The assessment of financial expenses took into account the current interest rates, since a large part of the Company's credit portfolio has fixed interest rates, but it is also estimated that a drop in risk-free interest rates will follow the end of the epidemic.

3) Human resource management

To manage operational risks, the Company implements measures directed to protect human resources. The Company closely monitors the spread of the coronavirus and promptly adopts suitable measures at the level of the organisation of work in order to provide uninterrupted operations. The provision of information and awareness-raising among employees with the purpose of prevention started immediately upon the incidence of the coronavirus in the EU. Employees who are more exposed to contact with MW and EW users were equipped

with protective equipment from own inventories. Employees were allowed to perform work from home, while those who cannot be provided work for business reasons were laid off. All others who have to be present in the business process due to the nature of their work have been provided with all protective equipment. If a large number of DARS employees are infected, the employer will organise work in a manner ensuring that the work process is conducted as uninterruptedly as possible or in a manner ensuring that all urgent work processes continue. In doing so, all the measures that have been and will be adopted by the Slovenian Government are and will be observed.

4) Maintenance and investments

The Company carries out everything necessary to continue public procurement procedures. Upon the declaration of the epidemic in Slovenia, many requests were received from tenderers in relation to the extension of tender submission deadlines. The Company granted the requests and suitably extended the tender submission deadlines. If necessary, tender requirements related to the submission of individual supporting documents in public procurement procedures will be somewhat adjusted subsequently. For projects under construction, the contracting parties have mostly sent individual requests in which they established the declaration of the pandemic and, consequently, hampered work at construction sites. At the same time, it has been found that works at sites are for the time being carried out mostly with unchanged intensity considering the foreseen time schedules. We are aware that conditions may affect the realisation of contractual periods, particularly short ones that expire soon, although problems with the supply of goods may also occur if the market is hampered for a prolonged period of time. No delays have been detected yet in the supply of materials, and the means needed for protection against the virus are also delivered regularly. In the future, no significant increase in operating expenses is expected due to any claims based on requests for the extension of contractual periods on account of the emergency conditions.

Conclusion

Pursuant to the adopted Government measures, DARS d.d. is carrying out all activities to continue operations during the existing conditions and has adjusted to the changed operating conditions in terms of organisation and execution. The Company promptly analyses all activities and has already established a system for documenting all the measures implemented. The goal of such activities is to determine the best practices that will provide the basis for all activities in future emergency conditions.

We believe that we have adopted all reasonable measures to prepare scenarios, methods to continuously assess the situation and monitor the effects of the adopted measures. In light of the above and based on all possible scenarios discussed, we believe that the liquidity risk in the period of at least 12 months following the balance sheet date will not be high, which means that the Company will continue its operations without interruptions and that the principle of going concern applies. However, it is not possible to rule out a prolonged duration of the epidemic, an escalation of Government measures and, consequently, any adverse effects of such measures on the economic environment in which we operate negatively affecting DARS d.d., its financial position and medium-term and long-term business results. We continue to monitor the situation closely and will respond accordingly to events and circumstances that take place during the epidemic.

Events that occurred after the balance sheet date did not affect the financial statements of DARS d.d. for 2019.

II.9 Audit of the Annual Report for 2019

The contractual price of the audit of the 2019 Annual Report of DARS d.d. amounts to €39,024 (excluding VAT). The audit was carried out by the audit firm KPMG SLOVENIJA d.o.o., Ljubljana.

II.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 DARS d.d. (»the Company«), which comprise the balance sheet as at 31 December 2019, the income statement, the statements of other comprehensive income, cash flows, and 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 2019, 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 z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb članic, ki so povezane s švicarskim združenjem KPMG International Cooperative ("KPMG International").

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	
<p><i>Revenue from vignette sales and toll revenue from freight traffic in 2019: EUR 466,611,271 (2018: EUR 451,497,703); short-term deferred revenue as at 31 December 2019: EUR 21,198,406 (31 December 2018: EUR 21,547,546)</i></p> <p><i>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).</i></p>	
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. Until 31 March 2018 toll was collected at toll stations and via electronic collection system. On 1 April 2018 the company introduced DarsGo, new electronic tolling system in the free traffic flow. Toll is collected upon passing through the gantry, which serves as basis for charging toll in that particular section.</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-monthly 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 passing through the gantry, which concurrently provides input data for accounting toll and user charges and for deferral of related income.</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 and vignettes, 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 transitions through the gantry, such as, among other things, the controls over system access and program changes; • Developing an independent estimate of the annual income from user charges and vignettes, based on the sold vignettes and the traffic volume data derived from the recording of truck transitions through the gantry and the publicly available pricing data per cargo vehicle and vignettes;

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<p>In view of the above-mentioned facts, revenue recognition was defined as an area relating to increased audit risk. As such, it was given special attention and is considered to be a key audit matter.</p>	<ul style="list-style-type: none"> • For a sample of accounts receivable balances, obtaining independent confirmations as at 31 December 2019, and seeking explanations for any differences between the amounts confirmed and those recognized by the Company; • 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	
<p><i>The carrying amount of property, plant and equipment (PPE) as at 31 December 2019: EUR 4,801,622,371 (31 December 2018: EUR 5,114,565,110); depreciation of PPE recognised in 2019: EUR 176,005,159 (2018: EUR 167,520,749).</i></p> <p><i>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).</i></p>	
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 2019. In the financial statements, property, plant and equipment is carried at 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</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;

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<p>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>In respect of the aforesaid facts, we believe that the accounting of property, plant and equipment is associated with the risk of material misstatement. Due to the above facts, this area required our increased attention in the audit, and as such we considered it to be our key audit matter.</p>	<ul style="list-style-type: none">• 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 and the reviewed supporting documentation, 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 2019 to significant components;• Challenging the reasonableness of the estimates made in respect of the asset lives by means of:<ul style="list-style-type: none">○ 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.
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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 in all important aspects 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.

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 auditor's 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 and EU Regulation (EU) No 537/2014 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.

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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 auditor's 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 auditor's 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.

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 auditor's 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 of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on Other Legal and Regulatory Requirements

We were appointed by the shareholder of DARS d.d. at the Shareholders' Meeting dated on 11 October 2017 to audit the financial statements of DARS d.d., for the year ended 31 December 2019. Our total uninterrupted period of engagement is four years, covering the periods ending from 31 December 2016 to 31 December 2019.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 9 April 2020;
- 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.

Matej Vrčkovnik, ACCA
Certified Auditor

Danilo Bukovec
Certified Auditor
Director

Ljubljana, 9 April 2020

KPMG Slovenija, d.o.o.
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