

ANNUAL REPORT
2018



DARS





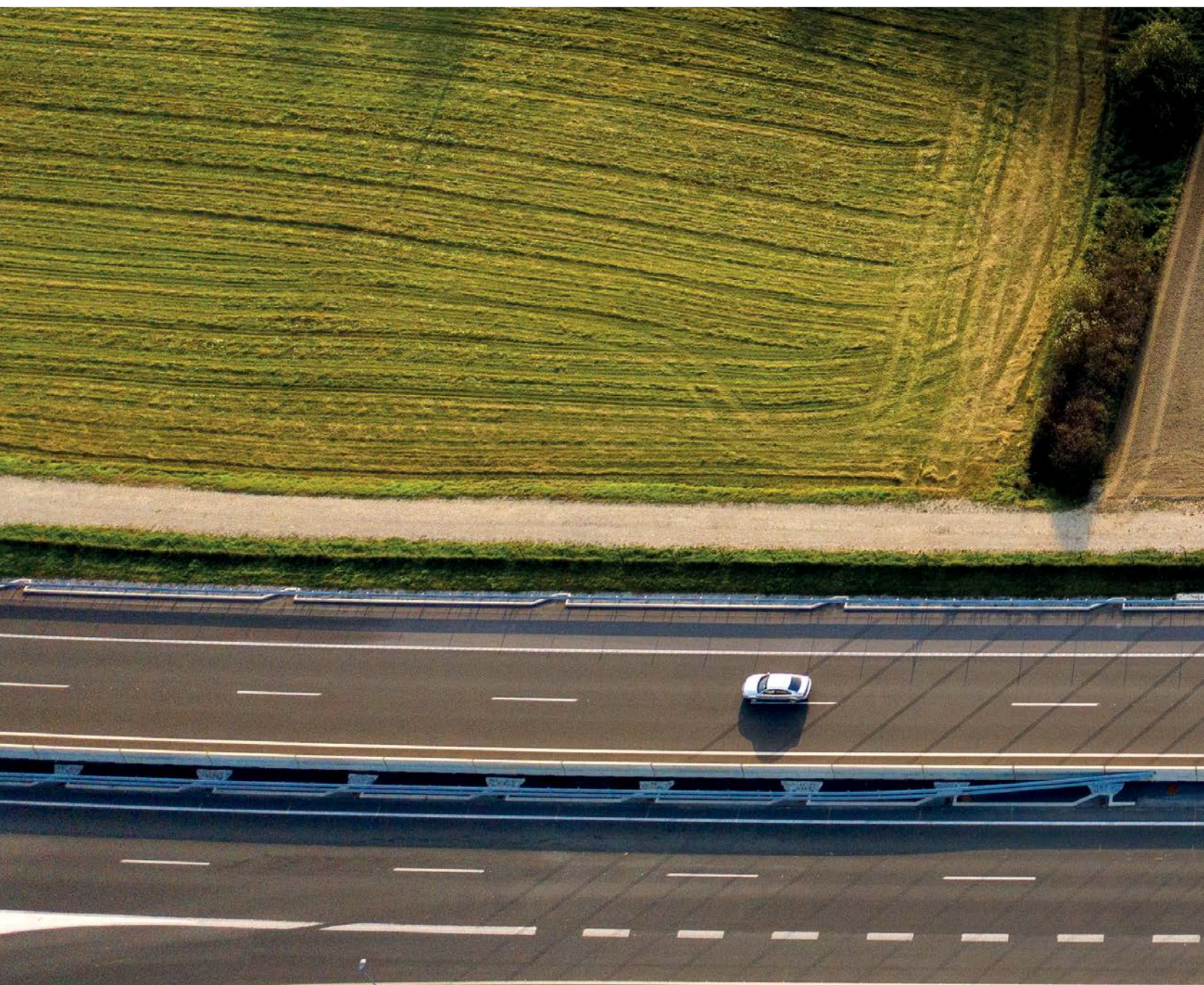
BUSINESS REPORT



FINANCIAL REPORT

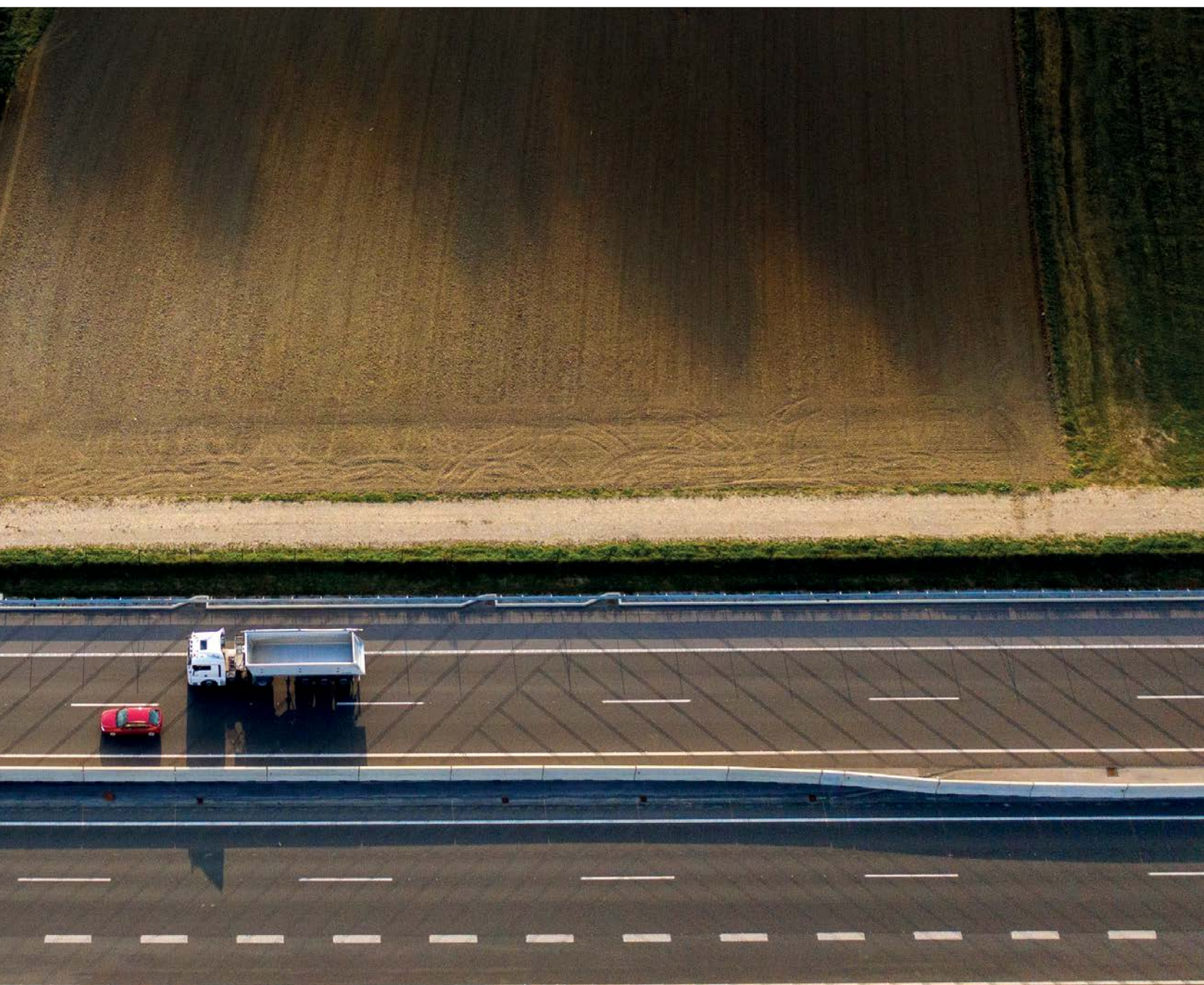


DARS





BUSINESS REPORT



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ACRONYMS AND ABBREVIATIONS

ABC	Automatic non-cash toll collection
MW	Motorway
RDB	Road 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
PD	Preliminary Design
EW	Expressway
ITS	Intelligent transportation system
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
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 whose maximum permissible weight exceeds 3500kg and groups of motor vehicles with two or three axles whose maximum permissible weight exceeds 3500kg.
R4	Motor vehicles with more than three axles whose maximum permissible weight exceeds 3500kg and groups of motor vehicles with more than three axles whose maximum permissible weight exceeds 3500kg.
RS	Republika Slovenija
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)

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 2018, 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. 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 changes to them have been disclosed.

Tomaž Vidic, PhD
Chairman of the Board



Gašper Marc, MSc
Member of the Board



Vili Žavrlan
Member of the Board



Marjan Sisinger
Labour Manager/Member of the Board





I.1 INFORMATION ABOUT THE COMPANY AND KEY BUSINESS DATA

NAME	Družba za avtoceste v Republiki Sloveniji d.d. (Motorway Company in the Republic of Slovenia) DARS d.d.
REGISTERED OFFICE	Ulica XIV. divizije 4, 3000 Celje Phone number: +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
REGISTER ENTRY NUMBER	1/06158/00, District Court of Celje
FOUNDER	Republic of Slovenia
SHAREHOLDER	Republic of Slovenia
REGISTRATION NUMBER	5814251000
VAT ID NUMBER	SI92473717
SHARE CAPITAL	€2,322,284,139.63
SHARES ISSUED	55,650,231 no par value shares

DARS d.d. was established in 1993 based on the ZDARS and began to operate on 1 January 1994. It had the status of a publicly owned company in the form of a public limited company until 31 December 2003. Since 1 January 2004, it has had the status of a public limited company operating as a corporate entity. The sole founder and shareholder of DARS d.d. is the Republic of Slovenia, which is represented by the Slovenian Sovereign Holding (SSH) in accordance with the Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 25/2014; ZSDH-1). DARS d.d. operates in compliance with both the Corporate Governance Code for Companies with Capital Assets of the State adopted by the SSH and the Recommendations and Expectations of the SSH as the manager of the Republic of Slovenia's capital assets, the aim of which is to establish an improved system of corporate governance for capital assets of the State and to achieve better company organisation, thereby improving company operations.

At the end of 2010, the ZDARS-1 entered into force, in accordance with which DARS d.d.:

- performs special tasks in relation to spatial planning and integrating motorways into the environment, as well as tasks in relation to acquiring real property for the requirements of motorway construction on behalf of the Republic of Slovenia and for its account;
- constructs motorways on its own behalf and for its own account;
- manages and maintains motorway sections based on granted construction concessions.

By enforcing developmental documents, the state maintains strategic supervision over the development of motorways by determining new sections and deadlines for opening newly built sections to traffic.

The ZDARS-1 lays down the status, tasks and obligations of DARS d.d. and regulates real property relations connected to motorways. Under that Act, DARS d.d. was transformed into a concessionaire that was awarded the right of superficies for the term of the concession relating to the land where it will build, and takes over all financial obligations related to the construction of new motorway sections. The ZDARS-1 also stipulates that DARS d.d. performs individual tasks related to spatial planning and integrating motorways into the environment and tasks relating to the acquisition of real property for the purposes of motorway construction on behalf of the Republic of Slovenia and for its account. The Act further lays down that DARS d.d. continues the construction of motorways and expressways that had commenced before the enforcement of the ZDARS-1, and continues to manage and maintain the existing motorways and expressways in the Republic of Slovenia.

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

Table 1: Key performance data by year

Key performance data by year	2014	2015	2016	2017	2018	Index 2018/2017
Revenues	365,358,022	373,067,610	399,300,535	458,871,408	495,428,367	108
Expenses	280,937,651	300,621,245	276,830,211	285,046,526	308,286,955	108
Net sales revenues	354,455,753	360,880,094	372,161,638	442,244,312	465,605,859	105
Operating revenues	361,316,158	370,468,252	397,249,272	453,654,877	489,380,078	108
Operating expenses	222,867,533	250,917,003	233,666,223	242,973,453	266,985,138	110
Operating profit or loss	138,448,626	119,551,249	163,583,049	210,681,424	222,394,940	106
EBITDA	285,679,869	269,429,961	318,288,799	371,822,312	397,476,660	107
Net profit or loss for the period	70,354,171	60,456,694	102,448,010	141,145,144	154,421,963	109
Share capital	2,319,866,345	2,319,866,345	2,319,866,345	2,322,284,140	2,322,284,140	100
Equity as at 31 December	2,531,278,379	2,566,206,940	2,665,453,020	2,811,184,886	2,963,264,000	105
Total assets as at 31 December	5,556,644,000	5,510,535,999	5,680,666,379	5,751,989,678	5,656,311,816	98
Debt as at 31 December	2,633,687,915	2,502,668,888	2,567,032,918	2,464,024,512	2,269,468,973	92
Debt repayment – principal	161,974,243	228,478,238	349,956,759	203,008,406	219,555,539	108
Payment of interest*	54,768,729	50,020,548	41,234,923	40,414,027	40,624,860	101
No. of employees	1,251	1,242	1,247	1,240	1,232	99
Operating margin	39.1%	33.1%	44.0%	47.6%	47.8%	100
EBITDA margin	80.6%	74.7%	85.5%	84.1%	85.4%	102
Net margin	19.8%	16.8%	27.5%	31.9%	33.2%	104
Return on equity (ROE)	2.8%	2.4%	3.9%	5.2%	5.3%	104

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

Figure 1: Total revenues, expenses and net profit or loss for 2014-2018

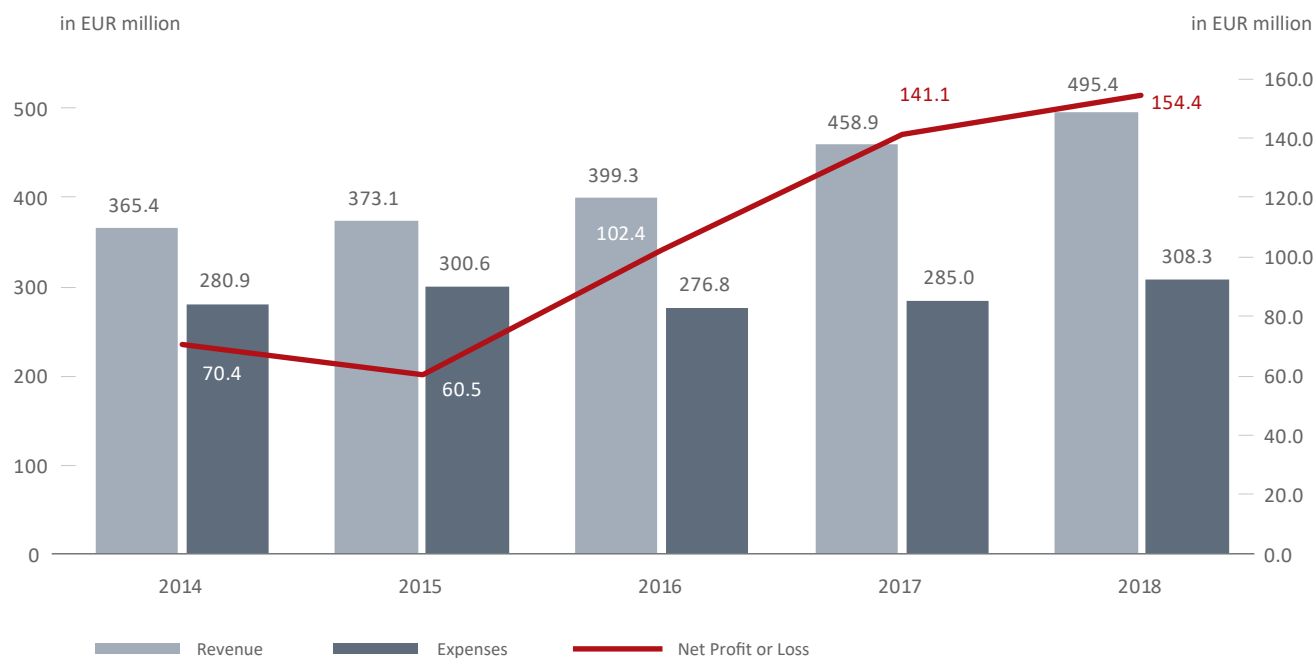


Figure 2: Net sales revenues and cash flow from operating activities (EBITDA) for 2014-2018

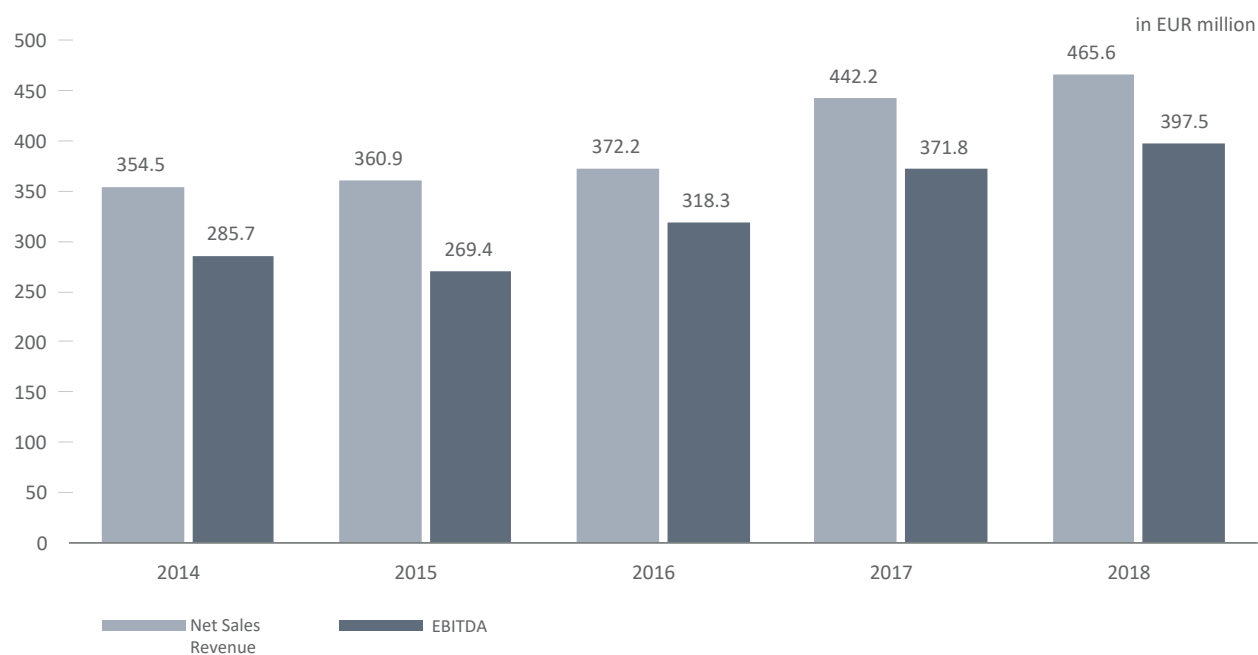


Figure 3: Debt as at 31 December, principal repayment and interest payments in the 2014-2018 period

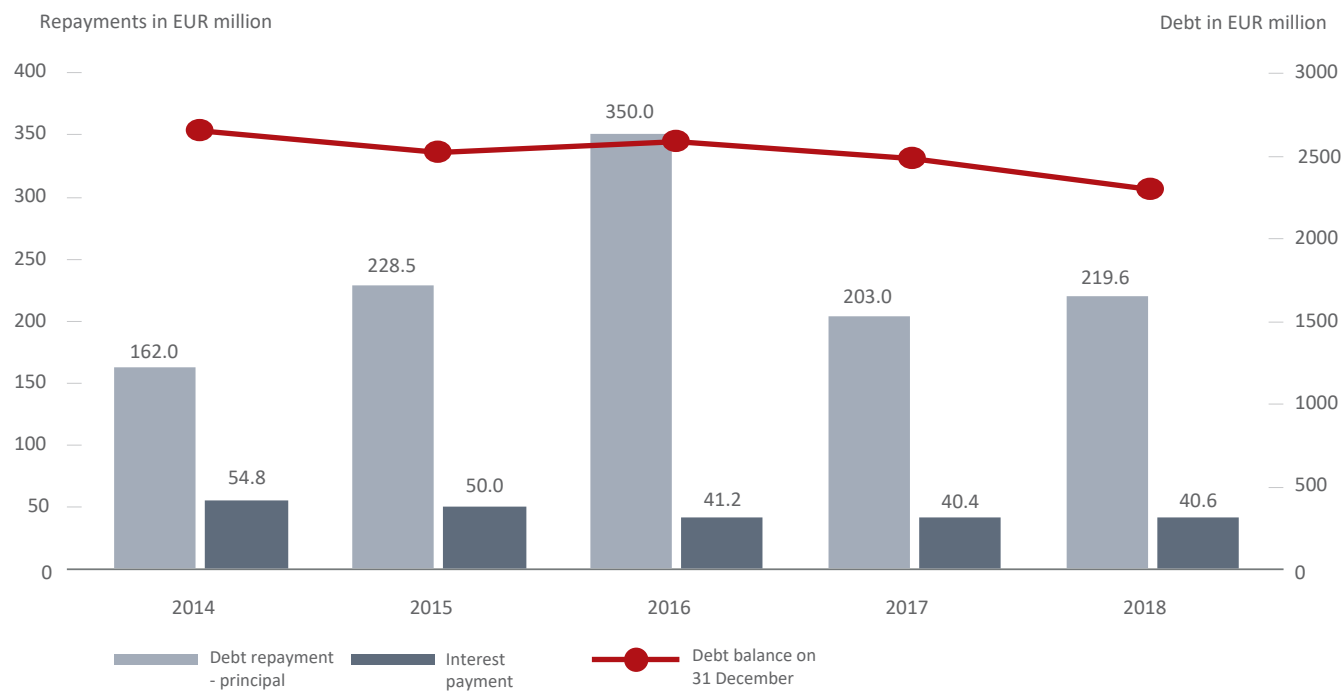


Figure 4: DARS d.d. revenues in 2017

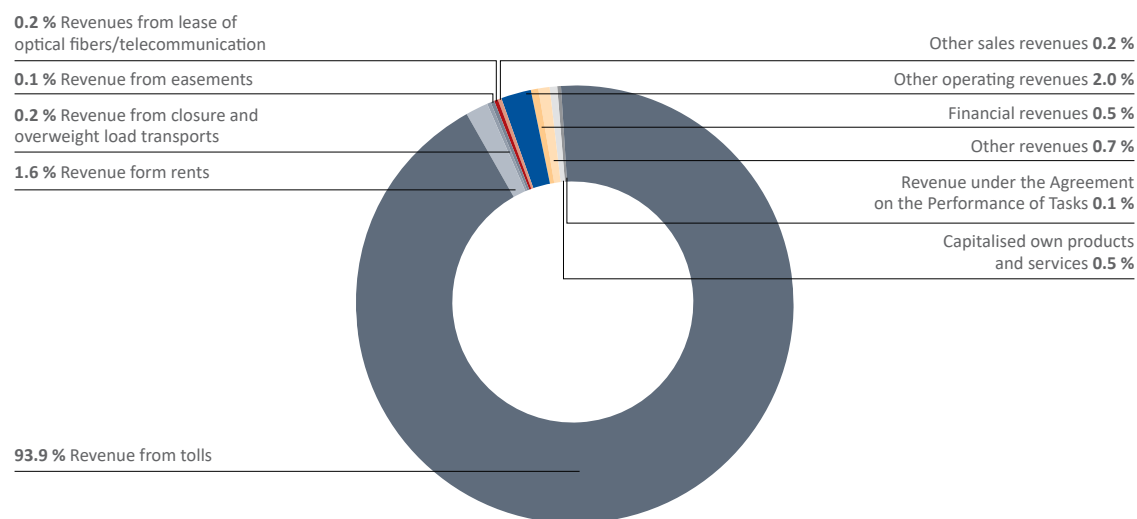


Figure 5: DARS d.d. revenues in 2018

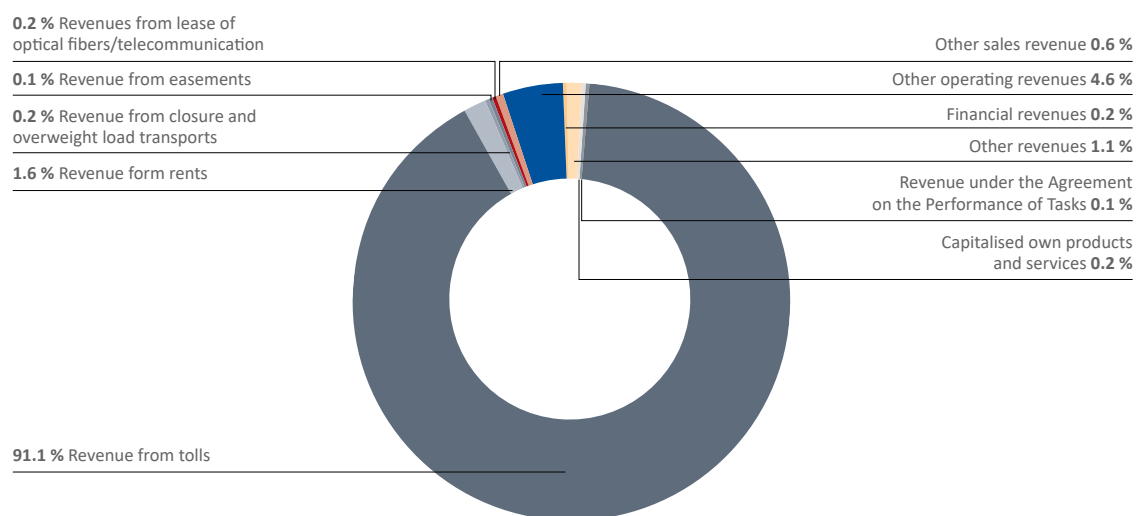


Figure 6: DARS d.d. revenues excluding toll in 2018

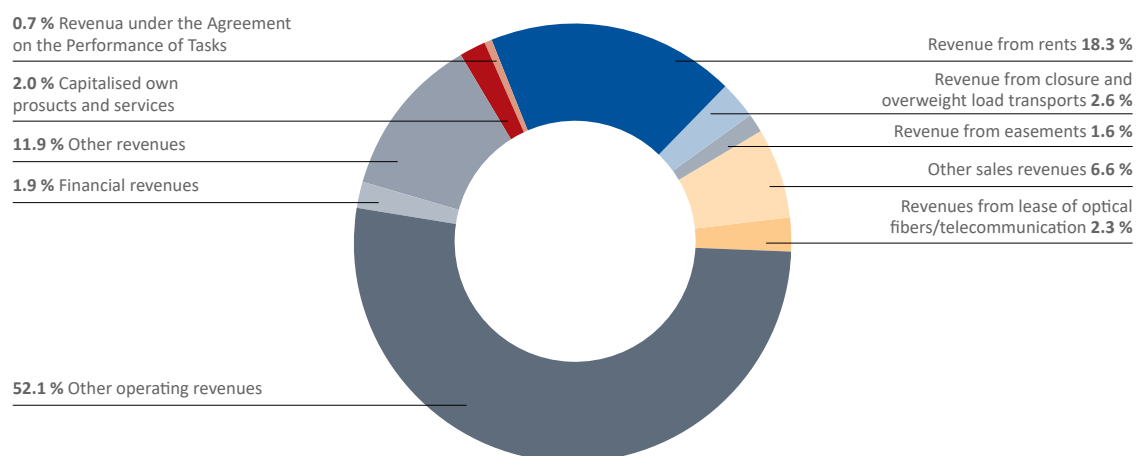


Figure 7: DARS d.d. expenses in 2017

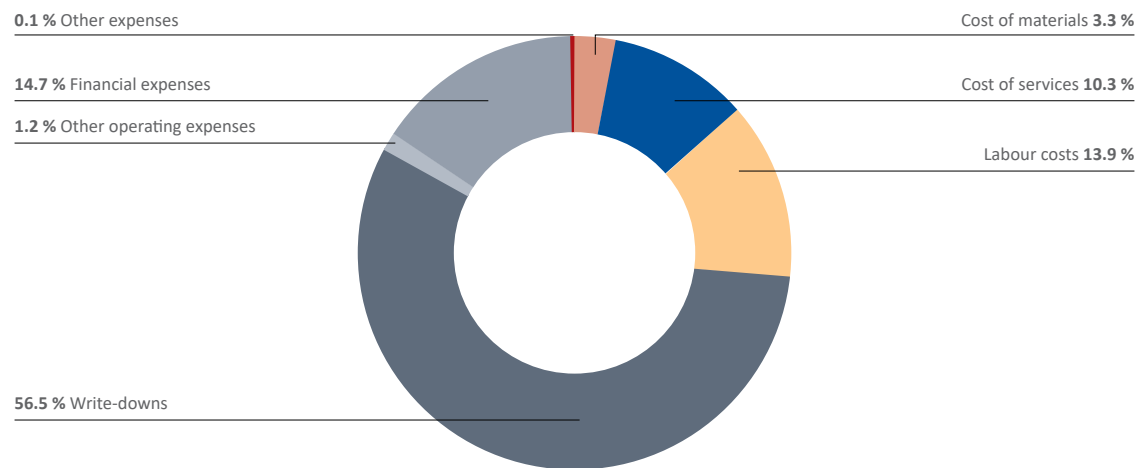
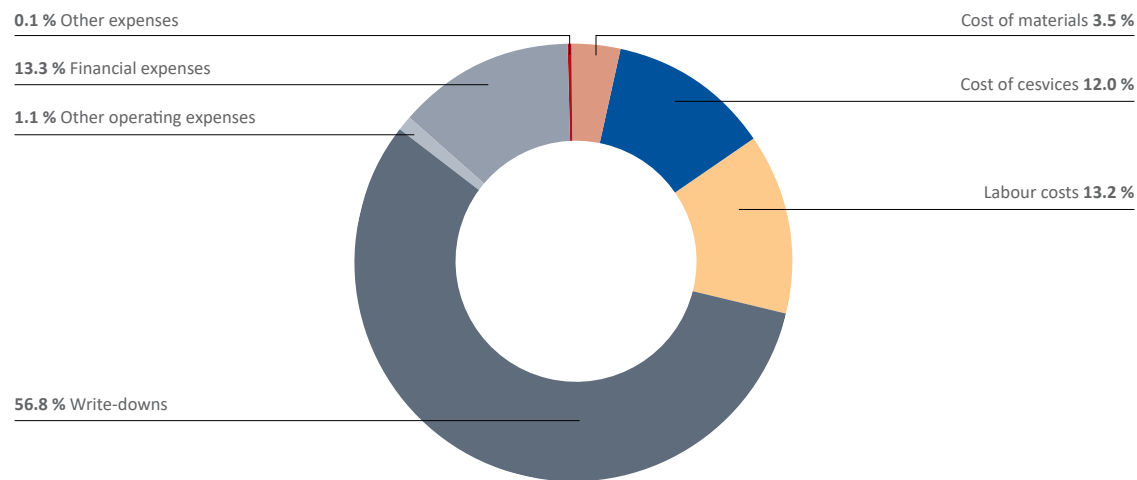


Figure 8: DARS d.d. expenses in 2018



1.2 LETTER FROM THE MANAGEMENT

Dear Sir/Madam,

The year 2018 was a landmark for DARS d.d. The Company introduced a modern electronic tolling system in free traffic flow on the motorways and expressways it manages and maintains that applies to vehicles with a maximum permissible weight exceeding 3.5 tonnes. The introduction of the new tolling system for heavy vehicles on 1 April was very successful. The new DarsGo system, in which more than 230,000 vehicles were registered at the end of 2018, increased the volume of toll kilometres by more than a tenth compared to the previous one.

The electronic toll system for heavy vehicles is closely related to the removal of toll stations and both projects are financed with a loan from the European Investment Bank with an EU guarantee. The successful introduction of the new toll system was the last prerequisite for the demolition and rearrangement of 34 toll stations on Slovenian motorways and expressways. Around a third of the toll stations were removed in 2018, while the demolition and rearrangement of the remaining ones are planned for 2019.

The Company's medium-term strategic plan also includes the goal of optimising traffic fluidity, while providing the maximum level of traffic safety. That is also realised with modern approaches and

responsibility to the environment. The introduction of the DarsGo system and the removal of toll stations improve traffic fluidity while reducing greenhouse gas emissions and noise, since heavy vehicles no longer have to stop at stations.

In 2018, before the expiry of the contractual period and for a lower cost than estimated, the last section of the Podravje motorway was put into service, i.e. slightly less than six kilometres of modern 4-lane road between Podlehnik and Gruškovje. The entire A4 motorway section between Draženci and Gruškovje totalling 13 kilometres, for which all the available European funds were drawn, is primarily intended to improve the quality of life of people in the region and to increase traffic safety. Situated on the link between two international border crossing point, Šentilj bordering Austria and Gruškovje bordering Croatia, the new motorway representing a part of the comprehensive pan-European traffic network also enabled undisturbed long-distance or international transport through Slovenia.

Although traffic on Slovenian motorways and expressways continued to grow in 2018, the Company managed to provide adequate traffic fluidity during the execution of routine and investment ma-



intenance works, the demolition and rearrangement of former toll station areas and construction works within the scope of the introduction of the DarsGo system, which was otherwise predominantly an IT project, with efficient organisation.

The renewed motorway and expressway sections – slightly more than 50 kilometres of directional lanes on motorways and expressways, including individual access points, and 21 minor bridging structures and 4 viaducts were comprehensively renewed in 2018 – ensure a higher level of traffic safety and comfort to users.

In 2018, the funds earmarked for traffic safety improvement were mostly used for new traffic signals and equipment and minor construction works to reduce the number of traffic accidents in the most efficient way and mitigate their consequences. Traffic safety on Slovenian motorways and expressways has improved. The year 2018 was the most successful in terms of the number of fatalities in traffic accidents in recent years.

The Company already faces new infrastructural projects, the largest being the second tube of the Karavanke Tunnel and the 3rd development axis. The Company has also increased investments into the renovation and upgrade of the existing network.

The Company continued with maximum effort to realise its vision focused on motorway and expressway users, the sustainable development of the Company and the needs of its employees in 2018. By successfully realising the business plan, the Company improved all the key performance indicators in 2018. In the 2018 financial year, the revenues of DARS d.d. amounted to €495.4 million, which is 8% more than in the previous year. In 2018, the Company generated net sales revenues amounting to €465.6 million, EBITDA amounting to €397.5 million and a net profit of €154.4 million.

The Company's efforts will continue to be focused on ensuring the long-term financial stability of DARS d.d., thus ensuring the coverage of liabilities arising from the existing debt; in 2018, the Company repaid €260.2 million of principals and interest.

DARS d.d. sees progress primarily as the provision of the maximum safety and fluidity on the Slovenian motorway network. Such investments require the advance provision of the necessary funds. Therefore, we will strive to conclude 2019 with the best possible business result and growth in all performance indicators.

Thank you for your trust.

Tomaž Vidic, PhD
Chairman of the Board

Gašper Marc, MSc
Member of the Board

Vili Žavrhan
Member of the Board

Marjan Sisinger
Labour Manager/Member of the Board

1.3 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;
- 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 that we operate in: 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 our assumed work commitments and provide for the quality implementation of assigned tasks, bearing in mind our users, our environment (the harmonisation of our activities with the capabilities and needs of the natural environment) and other stakeholders that we do business with (suppliers, contractors, other business partners, the owner, the local community – we are a reliable partner).

Development

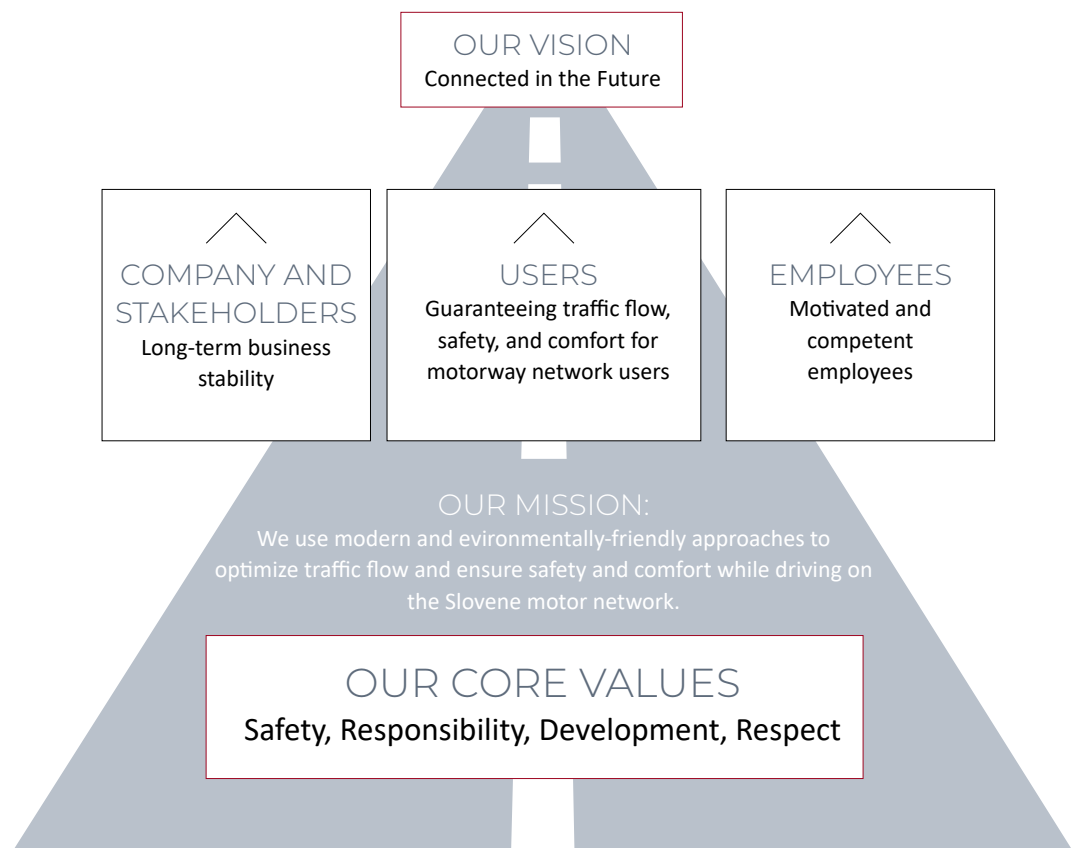
We constantly promote new innovative and modern approaches, as well as develop new and improve the existing services of the Company, also with a view to increasing energy efficiency. Creative and innovative thought is our guide because we know that this is the only way to develop innovative services 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 for all the 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 the safety, traffic fluidity and comfort of 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

Committed and competent employees

- Constantly strengthening competence
- 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 fulfil the requirements and expectations of the 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 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 concrete information and facts,
- by providing good conditions and relations between stakeholders within and outside the Company,
- by promoting proactive activities with an emphasis on employee innovations,
- by managing the identified risks and implementing detected opportunities,
- 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, 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.

1.4 CORPORATE GOVERNANCE STATEMENT OF DARS D.D.

In accordance with the fifth paragraph of Article 70 of the CA-1 (Official Gazette of the RS, No. 42/2006 and sub.), the Articles of Association of DARS d.d. adopted in August 2018 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 2018 and is accessible in electronic form on the website of the Ljubljana Stock Exchange (SEOnet) and on the official website of DARS d.d. (www.dars.si) for the term from 1 January 2018 to the date of publication in 2019.

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
- 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 2018, 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.

Composition and appointment of the Supervisory Board

Points 9, 9.2 and 9.3: In companies in which the SSH exercises at least $\frac{1}{4}$ 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 shareholders, the Supervisory Board and the Workers' Council.

Procedure to select candidates for Supervisory Board Members

Point 10: In companies in which the SSH exercises at least $\frac{1}{4}$ 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; 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 Members comply with the Company needs. Indicative training costs are provided in the Company's annual business plan.

Payment of 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 the 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 29.5: 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 of 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 the 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.

Point 6.8: In companies in which the SSH exercises at least $\frac{1}{4}$ 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: This is not used. 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.

Point 10.2.1: This is used partially. Within the scope of the Sustainability Report, the Company reports about 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 annual reports. Payments are made pursuant to the binding collective agreement and the agreements with social partners 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 the 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 in accordance with Article 18 of the Slovenian Sovereign Holding Act (Official Gazette of the Republic of Slovenia, No. 25/2014) is represented by the Slovenian Sovereign Holding (SSH). Since the General Meeting is universal, the provisions of the ZGD-1 regarding the deadline for convening and publishing the agenda of the General Meeting need not be observed.

DARS d.d. will continue to follow the 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 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 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 covering 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 2018, 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 a Company shareholder.

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

5. The composition and activities of the management 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 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 Marjan Sisinger, Labour Manager/Board Member.

The Management Board runs the Company to the benefit of the Company, independently and at 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 the 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 Management Board.

The Management Board makes decisions that fall within its competence with a majority vote cast by all 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 staff 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 six Members. Two Members of the Supervisory Board 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 appointments and recalls 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 transactions exceeding a value of €2.5 million (exclusive of VAT); acquaints itself 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 CA-1; acquaints itself with the decisions of the Management Board on the purchase and divestment of stakes or shares in other companies; grants consent regarding the planning documents of the company; aligns the text of the Articles of Association with the valid resolutions of the General Meeting; notifies the company's bodies and the shareholder about its positions and proposals; and considers and decides on all other matters within its competence by 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 appropriation of accumulated 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 2018 are presented in the Report of the Supervisory Board.

Provisions referring to the General Meeting, Management Board, Supervisory Board and Company securities are summarised as per the Articles of Association adopted at the General Meeting held on 3 August 2018.

Ljubljana, 5 April 2019

Supervisory Board
of DARS d.d.

Marjan Mačkošek
Chairman of the
Supervisory Board



Management Board
of DARS d.d.

Tomaž Vidic, PhD
Chairman of the Board



Gašper Marc, MSc
Member of the Board



Vili Žavrlan
Member of the Board



Marjan Sisinger
Labour Manager/
Member of the Board



I.5 NON-FINANCIAL REPORTING AT DARS D.D.

An independent Sustainability Report of DARS d.d. for 2018 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, 60a. and 70c. of the ZGD-1J).

The Company has reported on sustainable development or corporate social responsibility in its annual reports since 2009 and published a separate "Sustainability Report of DARS d.d. for the first time for the 2017 financial year. In the 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 Annual Report, also includes key non-financial information about business, environmental, human resource and social affairs that are necessary in order to understand the position, performance and development of DARS d.d.

We are aware of the large 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 2018 will be published by 30 June 2019 on the website of DARS d.d. pursuant to the ZGD-1J.



I.6 ANALYSIS OF BUSINESS PERFORMANCE

Revenues of DARS d.d.

Table 2: Overview of DARS d.d. revenues

Type of revenue	2017 (in EUR)	2018 (in EUR)	Index 2018/2017	Structural shares for 2018
Revenue under procurement contracts	330,295	300,000	91	0.1
Toll revenue	430,894,988	451,497,703	105	91.1
- vignettes	180,421,374	188,408,769	104	38.0
- goods traffic	236,394,732	248,177,768	105	50.1
- Karavanke tunnel	14,078,883	14,911,166	106	3.0
Revenue from leases	7,449,857	8,038,859	108	1.6
Revenue from closures and overweight load transports	834,351	1,142,321	137	0.2
Revenue from easements	676,395	686,602	102	0.1
Revenues from the lease of optical fibres	1,018,613	1,026,446	101	0.2
Other sales revenues	1,039,813	2,913,930	280	0.6
Other operating revenue	9,331,102	22,875,241	245	4.6
Financial revenues	2,152,269	817,138	38	0.2
Other revenues	3,064,261	5,231,151	171	1.1
Capitalised own products and services	2,079,463	898,978	43	0.2
TOTAL REVENUES	458,871,408	495,428,367	108	100.0

In the 2018 financial year, the revenues of DARS d.d. amounted to €495.4 million, which is 8 percentage points more than in 2017. Toll revenue, which represents 91.1 percent of the total revenues, was 5% higher than in 2017. Toll revenue increased due to improved vignette sales, increased freight traffic and the introduction of the new tolling method as of 1 April 2018, which partly offset the negative impact of changes to the freight traffic structure in terms of EURO emission standards. The increase in other operating revenues is largely due to the reversal of provisions. Other revenues account for minor shares of the total revenues.

Expenses of DARS d.d.

Table 3: Overview of DARS d.d. expenses

Type of expense	2017 (in EUR)	2018 (in EUR)	Index 2018/2017	Structural shares for 2018
Cost of materials	9,397,092	10,784,758	115	3.5
Cost of services	29,238,361	36,862,228	126	12.0
Labour costs	39,730,512	40,847,516	103	13.2
Write-downs	161,140,888	175,081,720	109	56.8
Other operating expenses	3,466,600	3,408,916	98	1.1
Financial expenses	41,763,767	41,091,153	98	13.3
Other expenses	309,307	210,665	68	0.1
TOTAL EXPENSES	285,046,526	308,286,955	108	100.0

The expenses of DARS d.d. in 2018 amounted to €308.3 million and were up by 8% with respect to 2017. Their increase is largely the result of the increased costs of write-down, materials and services. Write-downs represent the largest share of expenses with a 57% share.

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 2018 amounts to €154.4 million and increased by 9% compared to the net profit or loss of 2017.

Table 4: Performance indicators

		31/12/2016	31/12/2017	31/12/2018
Financing ratios				
Equity financing ratio in %	Equity	46.92	48.87	52.39
	Liabilities			
Long-term financing ratio in %	Equity + provisions + long-term liabilities	94.41	93.88	94.39
	Liabilities			
Short-term financing ratio in %	Short-term liabilities (including short-term accrued costs and deferred revenue)	5.59	6.12	5.61
	Liabilities			
Investment ratios				
Fixed asset investments ratio in %	Fixed assets (at carrying amount)	91.89	89.86	90.98
	Assets			
Long-term investments ratio in %	Fixed assets + investment property + long-term inv. + long-term op. rec.	92.35	94.73	92.06
	Assets			
Horizontal financial structure ratios				
Quick ratio in % (taking into account accrued costs and deferred revenue)	Liquid assets + short-term receivables	18.34	23.07	33.51
	Short-term liabilities			
Current ratio in %	short-term assets + short-term deferred costs and accrued revenue	135.17	84.68	139.59
	short-term liabilities + short-term accrued costs and deferred revenue			
Operating efficiency ratios				
Operating efficiency ratio in %	Operating revenue	170.01	186.71	183.30
	Operating expenses			
Operating profit rate in %	Operating profit	41.18	46.44	45.44
	Operating revenue			
Net profit margin in %	Net profit	25.66	30.76	31.17
	Revenues			
Profitability ratio				
Net return on equity	Net profit for the period	0.04	0.05	0.05
	Average equity (excluding net profit for the period)			

1.7 SIGNIFICANT BUSINESS EVENTS IN THE 2018 FINANCIAL YEAR

April

On 1 April 2018, Slovenia introduced the electronic tolling of vehicles in free traffic flow with a maximum permissible weight exceeding 3.500 tonnes, called the DarsGo system. As of 1 April 2018, the Government of the Republic of Slovenia increased the infrastructure charge per kilometre travelled by 3% and abolished pre-pay discounts.

According to the ZDARS-1, DARS d.d. records the real estate of other operators in its books of account. With the cooperation of a wide circle of stakeholders, the Management Board actively approached the execution of a comprehensive solution and will actively strive to execute the transfer or sale of the mentioned assets at the existing book value.

The Supervisory Board discussed and confirmed the audited Annual Report for 2017 on 23 April 2018.

Pursuant to the provisions of the Ljubljana Stock Exchange Rules and the applicable law, DARS d.d. published the audited 2017 Annual Report of DARS d.d., also comprising the Corporate Governance Statement and the annual document.

May

The Supervisory Board gave its consent to the Revised Business Plan for 2018, which aligns the investment plan with the concession implementation plan and performance contract for 2018.

June

Between 6 and 8 June, Ljubljana was the venue of the 46th ASECAP Study and Information Days, organised by the European Association of Operators of Toll Road Infrastructures, which are in content dedicated to the role of infrastructure investments in the new package for EU mobility in the area of roads.

On 28 June 2018, the 13th General Meeting of DARS d.d. was held, where the owner was informed of the audited Annual Report of DARS d.d. for 2017, the Auditor's Report and the Report of the Supervisory Board on the review of the Annual Report of DARS d.d. for 2017 containing the Auditor's Report, including the remuneration received by Members of the Management and Supervisory Boards in 2017. It adopted a resolution on the distribution of the available profit for 2017 and the granting of a discharge to the Management Board and Supervisory Board for the 2017 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.

Based on the provisions of the Ljubljana Stock Exchange Rules and applicable legislation, the Company published the Sustainability Report for 2017.

August

On 3 August 2018, the 14th General Meeting of DARS d.d. was held, where amendments and supplements to the Articles of Association were adopted. Furthermore, a clean copy of the Articles of Association was adopted, which was amended with respect to the resolutions adopted at the General Meeting.

The Supervisory Board of DARS d.d. was informed of the non-audited report on Company operations between January and June 2018 at its 35th regular session. Pursuant to Articles 112 and 113 of the Market in Financial Instruments Act, the Company published an unaudited report on operations for the first six months of 2018.

November

DARS put into service the last section of the Podravje A4 motorway between Draženci and the Gruškovje international border crossing measuring 5.8km in length.

December

On 13 December 2018, the Government adopted a decision to introduce a toll mark-up at certain sections of the motorway network, which will be paid by parties liable to pay tolls within the scope of the DarsGo electronic toll system 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 to the revenue of the Republic of Slovenia budget and will be used exclusively for the second track of the Divača-Koper railway line.

1.8 RISK MANAGEMENT

1.8.1 Business risks

DARS d.d. is aware of the severity of the consequences that might arise if various types of risk were to be realised. In the increasingly uncertain business environment, risk management represents a significant factor in 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 risk in 2018. In November 2018, the DARS d.d. Strategy for 2017–2020 was amended and includes somewhat revised strategic goals, based on which strategic risks have been re-identified. The system is reviewed and supplemented on an ongoing basis, so that the key risks to which the Company is exposed are identified, evaluated and managed in due time.

Risks have been identified with the goals set at the highest level in the DARS d.d. Strategy for 2017-2020 and with the goals set at lower levels within the scope of each process. The methodology for risk assessment was not upgraded in 2018. 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 €100,000, €100,000 to €1 million, €1 million to €10 million, €10 million to €50 million and €50 million to €100 million) or semi-qualitatively with grades 1 to 5 (low, moderate, medium-high, high and very high). The Company also measured the number of events in the period of likelihood, which were graded using a four-level scale (1-5, 5-10, 10-50, 50-100).

Based on the identified and evaluated risks, members of the Risk Management Council prepared a selection of 20 risks that require more attention. An acceptable level of risk that the Company is still prepared to assume was determined for the selected risks. The upper risk limit 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 the acceptable risk must be resolved during the management of the identified risks. The management in every organisational unit that bears the risk 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 risks identified to which the Company paid special attention are:

- limited funds available for investments in development,
- an increasing number of accidents and a decreasing level of safety,
- dependence on outsourcers,
- loss of income from the functioning of the new DarsGo system,
- failure of key information systems,
- efficiency of DarsGo system operation,
- economic viability of investments,
- interest rate risk,
- revenue risk,
- loss of competent or key staff (undesired fluctuation),
- increased share of actively non-engaged employees,
- insufficient sources to increase employee competence 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 ensure and properly allocate funds for the renewal of motorway infrastructure, the Road Infrastructure Department and the Restoration Department again prepared an Action Plan for a 3-year period (2019-2021) based on the findings of infrastructure monitoring, analyses of the expert system and expert groups, and on expert assessments of the value of the proposed measures, and represents a basis for the proper planning of investment restoration works. The document includes all the measures foreseen in the next 3 years along with indicative values of works, mostly to inform the relevant services in advance of the foreseen needs to provide funds for investments in the existing infrastructure. The competent services must adjust the planning of the necessary funds for investments in the existing infrastructure to the needs expressed in the mentioned document.

An increasing number of accidents and a decreasing level of safety

To prevent a growing number of traffic accidents or a decreasing level of traffic safety, the Company is required to act with due diligence as the entity operating and maintaining the motorway network, while carrying out relevant and efficient actions that have an indirect or direct effect on that. When carrying out measures pertaining to traffic safety, the Company primarily observes the requirements laid down in the national legislation and the obligations imposed by European directives, while carrying out various projects in traffic safety, the use of advanced IT and introduction of smart infrastructure based on good practice examples and studies conducted. In 2018, the Company intensively participated in the legislative area of section speed control. Traffic safety projects, particularly new crash barriers and burners, have yielded positive safety results. The entire concept of renovations, maintenance, new ITS technologies and traffic management has resulted in improved safety in relation to the increasing traffic. Positive effects are also shown in coordinations (carried out from control centres, mostly when operative groups act on site and upon outstanding events), provisions of measures that are adjusted to traffic and weather conditions, and the provision of information to users. Furthermore, the Company makes sure that safety campaigns are carried out continuously and actively cooperates with stakeholders in safety in order to promote traffic safety.

Dependence on outsourcers

The risk of dependence on outsourcers is managed by the Company with diligent monitoring of all information related to the operations of its business partners, the preparation of measures to prevent the impact of events detrimental to Company operations (amendments to contractual provisions, consensual terminations of contracts) and the maintenance of healthy business relationships. Already during the contractor selection procedure within the public procurement, the company carefully examines the envisaged implementation deadlines, payment conditions and guarantees; it carefully prepares time schedules for concluding individual phases of construction and ensures quality negotiations. We have appointed custodians of contracts to watch over the fulfilment of the contracts throughout their entire life cycle ranging from the preparation of the tender documentation to contract conclusion and from contract work implementation to the expiry of the warranty period, if any. Furthermore, custodians monitor the validity of individual documents, such as warranties, and are obliged to give warning, so that they are renewed on an ongoing basis. The Company also employs new competent human resources, who are further trained and directed to administer a certain area. The Company regularly supervises investment costs, both regular and those incurred due to subsequent changes to a particular project.

Efficiency of DarsGo system operation (ETS in FTF)

The project to set up the DarsGo system was managed under a project organisation system running according to project management standards and based on good practice. All activities were documented and the rules and technical means for the management of project activities were set up. To supervise the fulfilment of the technical specifications, the Company engaged two contractual engineers. It systematically conducted system tests and "end-to-end" tests, and prepared test scenarios for a simulation of operations in the trial period in order to ensure that the system is put into production. At regular meetings with the engineers and contractor, regular reports were created on activities, and a risk register and compliance matrix were established. The Management Boards of DARS d.d. and the Telekom – Qfree Consortium met regularly and monitored developments in the project. The manager of the DARS d.d. project regularly reported on activities to the Board and Management Board of DARS d.d., as well as to the Supervisory Board of DARS d.d. The DarsGo system has a business continuity system and security measures for protection against unauthorised actions and loss of data.

The DarsGo system was successfully put into operation on 1 April 2018. The first toll transaction was recorded at 00:00:00.202 (202 milliseconds past midnight) and the first payment order for a violation was issued at around half past midnight. The introduction of the system was conducted without complications and caused no delay upon introduction on any toll road, including border crossings. It is estimated that the system and all DarsGo subsystems function well and reliably, but that certain improvements are necessary, primarily in terms of providing a more user-friendly and operator-friendly system.

Failure of key information systems

The failure of key information systems is managed by regularly monitoring the condition of the IT systems and promptly responding to any extraordinary events. The Company has set up a system of continuous operation of the IT system (duplication of the essential parts of the IT equipment) and introduced security measures aimed to protect and safeguard IT systems against unauthorised tampering and loss of data. To identify potential threats, the Company carries out independent IT security checks. The risks identified that could affect the confidentiality, integrity or availability of the IT systems and infrastructure are managed through regular maintenance and backups, firewalls and anti-viruses, upgrades of software and hardware, updates of security policies and increased information security, and by implementing a clear development vision for the Company IT system. In some key segments, the Company started establishing a 24/7 maintenance system last year. In certain key ITS systems, the Company started setting up applications allowing automatic malfunction signalling in 2017. Malfunctions are processed at control centres, where employees are always present, thus allowing an immediate response to extreme events. In telecommunications, regular standby duty by in-house staff was organised. Services for which we are not sufficiently competent or lack HR are rendered by outsourcers.

Loss of income from the functioning of the new DarsGo system

The introduction of the new DarsGo system was essential for DARS d.d., since it is necessary to provide toll payment for vehicles with a maximum permissible weight exceeding 3.5 tonnes, which is the largest and most important source of the Company's income. An important risk in the functioning of the new DarsGo system is the risk of the loss of income arising from the tolling of heavy vehicles with a maximum permissible weight exceeding 3.5 tonnes, which is why suitable parameters in Service Level Agreements (SLA) were agreed in the Contract on the deployment and operation of the DarsGo system. During the DarsGo implementation stage, checks and tests of the functionality of the supplied solution were conducted with the hired engineers. In cooperation with an outsourcer with expert staff in the auditing of IT systems, 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, continuous assessment of the scope and quality of services (and also 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 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.

The growth of revenue, however, fails to fully reflect the number of tolled kilometres in the DarsGo system compared to the old tolling system, since the number increased by 5% compared to the same period in 2017. The reason for the deviation between revenues and the number of toll kilometres lies in the pricing policy. A certain share of vehicles (mostly occasional users) paid tolls directly at toll stations (by cash or payment card and without properly personalised electronic media) in the old system, in which they were not eligible to pay differentiated tolls with respect to the EURO emission class and paid the full toll.

In the DarsGo system, all vehicles must be registered in the system, whereby companies make sure that they submit documents demonstrating the true EURO emission class upon registration. Hence, at the end of 2017, a full toll was paid by 28.7% of vehicles and, at the end of 2018, only by 8.2%. On the other hand, the minimum toll was paid by 40% of vehicles at the end of 2017 and by 60.5% at the end of 2018. The share of cleaner vehicles continues to grow, which will also have to be taken into account in the pricing policy, reducing discounts for cleaner vehicles.

Economic viability of investments

The risk of the economic viability of investments at DARS d.d. is managed with various control mechanisms. To examine the economic viability of measures on road infrastructure, the Company has used the PMS DARS expert system for several years and, furthermore, conducts expert economic assessments with external experts for minor investments. In stage 1, the Company mostly reviews the functionality of individual infrastructure elements and safety for road users, and in continuation also the durability and level of harm. 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 in 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 mechanical equipment was performed in 2017 and a medium-term plan of investments in their refurbishment was created for the 2018-2022 period.

Revenue risk

Revenue risk is managed with the preparation of revenue forecasts for future periods that are as realistic as possible, the identification of any deviations from the business plan, and by planning measures that will bridge any gaps. All amendments to implementing regulations governing toll collection and prices must first be harmonised by DARS with the transport section of the Slovenian Chamber of Commerce and Industry and Chamber of Craft and Small Business, and the harmonised initiative must then be approved by the Ministry of Infrastructure, which prepares a proposal of Government decisions that provide the basis for the implementation of amendments. In 2018, DARS d.d. carried out various activities 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 the vehicles also hold the greatest weight in the coverage of toll road costs with respect to their traffic load. When planning the toll pricing policy, it was also necessary to take into account the changes brought about by the introduction of the DarsGo system as of 1 April 2018. The latter also provided toll collection in toll sections where that had not been possible before, which is why the number of toll kilometres increased compared to the previous year, which has had a positive impact on revenue. However, the introduction of the DarsGo system also caused a change in the structure of vehicles with respect to EURO emission classes to the benefit of cleaner vehicles, which had a negative impact on revenue. Upon the above-mentioned increase in the number of toll kilometres, the target values of the planned toll revenue were achieved or somewhat exceeded with a 3% increase in infrastructural charge per kilometre travelled and with the abolition of prepayment benefits (discounts) as of 1 April 2018. A constant concern for the preservation of sound relations with the transport sections of the Slovenian Chamber of Commerce and Industry and the Chamber of Craft and Small Business, and responsiveness to their initiatives improving the quality use of the motorway network and building a maximally stable environment for reaching an agreement with them on necessary changes to toll prices and therewith revenue.

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

The risk of the loss of competent or key staff at DARS d.d. is reduced by providing a creative, safe and sti-

mulating working environment. 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 raise employee competencies and improve the organisational culture, the Company earmarked more funds in 2018 than in previous years. To improve the employees' well-being on the job, measures were carried out last year within the scope of the full Family Friendly Company certificate, thus making it easier for employees to coordinate their work and family duties. Employees were given the opportunity to educate and train in-house in order to achieve personal and professional development. The results of the survey on the organisational climate and employee satisfaction in 2017 show improvements in all points measured.

Employee engagement improved in 2018 compared to 2017 on account of a lower share of non-engaged and actively non-engaged employees, which was identified with measurements of employee engagement using the Gallup method. To improve employee engagement and eliminate the identified weaknesses and risks in HR management, the Company prepared the 2020 HR Management Strategy in 2018, which includes an action plan with measures to prevent undesired fluctuation, to increase the share of non-engaged and actively non-engaged employees, and to support employee competence, while improving organisational culture. The Company started implementing measures to strengthen the competence of older employees and improve intergenerational cooperation and communication. Being aware that managers have a major impact on the successful work of employees, the Company also started remeasuring the competencies of DARS managers in order to review managerial competencies and identify any gaps in the management process that may reflect as a risk of the loss of competent staff or reduced employee engagement. Employees were offered more opportunities than in previous years to obtain specific current expertise and skills outside the scope of DARS at various expert meetings in Slovenia and abroad, which enabled them to grow professionally and personally.

Concern for health and safety at work

Dars is well aware of the importance of protecting the safety and health of employees at work. Therefore, it has dedicated a great deal of funds for the purchase of new safer work equipment and the creation of a working environment that provides the maximum level of safety and health at work for employees.

Alongside the implementation of the most significant novelty - the change of the tolling system for vehicles with a maximum permissible weight exceeding 3.5 tonnes, which abolished toll collection at toll booths on the motorway (thus abolishing dangerous lane crossing by employees and their exposure to exhaust gases, noise and draft) - the Company also notes two major acquisitions in maintenance in 2018, i.e. the replacement of a tunnel washing machine and the purchase of a machine for the production of horizontal signalling using the hot procedure (thermoplastic). The tunnel washing machine offers an ergonomic workplace for the operator in a large (enlarged) cabin. The operator is hence no longer in an awkward position (as in the old machine) when sitting on an adjustable and rotating air suspension seat, exposed to vibrations, and has better control over washing – through large windows in the cabin walls and on the cabin ceiling and over the monitor broadcasting an image from 4 video cameras. The machine for the production of signals using the hot procedure (thermoplastic) allowed the Company to take a significant step forward in improving work conditions, since it is no longer necessary to use dangerous chemicals (2 mass components and solvents). The old procedure called for a great deal of tool washing, where employees were exposed to vapours from organic solvents, which is not required in the new procedure. Furthermore, the new machine doses the granulate into the device using a lift and the machine operator is no longer exposed to external factors (noise, sun, draft, etc.), because the machine is remote controlled via a monitor in an air-conditioned vehicle cabin.

With respect to the identified risk of the fall of maintenance officers when crossing over high-security fences on the road and the fact that maintenance officers are getting old, the Company has prepared a solution to arrange crossings over fences higher than 80cm. The solution is specified in the internal instructions and will be realised on an ongoing basis upon the erection of new barriers and in the coming years on existing barriers.

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 policy at all levels of its operations. In 2018, the environmental management system was subject to continuous improvements with an emphasis on energy management and the identification of environmental aspects where it is reasonable to take into account all stages of a service life cycle. 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 are becoming 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 with preventive measures. Training and drills 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, the implementation of the Annual Programme of Operational Monitoring for rainwater (APOM), etc., and the collection, sorting and controlled disposal of waste (in 2018, the collection of waste electrical and electronic equipment was further organised), the implementation of measures to reduce light pollution and with ongoing monitoring of carbon monoxide concentrations and visibility in tunnels, the Company significantly contributed to reducing negative impacts on the environment and controlling risks for the emergence of environmental accidents. 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.

Furthermore, the Company carries out measures imposed by the governmental Noise Action Programme for 2013-2018. The measures included in the Noise Action Programme, lot B, on five motorway sections have already been implemented, and the protection of the most affected individual residential buildings along the motorway network continues – in 2019, it is planned to implement noise protection measures at 11 locations along the Slovenian motorway network.

In 2019, it is expected that the Noise Action Programme will be revised for the 2018-2023 period. 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 a noise action programme laying down criteria for the restoration of noise protection barriers.

In line with the law, DARS d.d. carries out operational noise monitoring for the motorway and expressway network. Based on the results, noise protection measures will be planned that will be included in the preparation of expert bases for the Noise Action Programme in affected areas. Expert bases for the Noise Action Programme lay down guidelines for protection against the noise produced by road traffic and will also lay down criteria for the assessment of the economic viability and proportionality of noise protection measures, guidelines for passive protection design and guidelines for noise barrier design.

1.9 BUSINESS ACTIVITIES OF THE COMPANY

1.9.1 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 acceptance 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. We develop the system in such a way as to make constant improvement and innovation a key characteristic of all employees at all organisational levels.

The main goals of DARS d.d. in 2019 are:

- After the successful establishment of the new tolling system in 2018, it will be necessary to optimise it in 2019 to ensure better user servicing, increased revenue and compliance with the requirements imposed by EU regulations (integration of EETS providers).
- The continued rearrangement of toll stations after the establishment of the DarsGo system.
- The contractor selected for the Karavanke tunnel is planned to be familiarised with work and construction works are expected to commence.
- Continuation of activities pertaining to the 3rd development axis – north and south.
- 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.
- Continued procedure for adequate loan refinancing.
- Establishment of a lean and flexible organisational structure with a view to boosting operating performance.

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

1.9.2 Tolling

Toll revenue accounts for 91% of the total Company revenue and amounted to €451.5 million in 2018, which is 5% more than in 2017. Toll revenue from vehicles with a maximum permissible weight exceeding 3.5 tonnes (heavy vehicles) amounted to €248.2 million, revenue from the sale of vignettes amounted to €188.4

million and toll revenue from the Karavanke Tunnel amounted to €14.9 million. The growth of toll revenue in 2018 is related to increased revenue from the tolling of heavy vehicles due to the introduction of the DarsGo electronic tolling system, growing traffic, a change in toll prices as of 1 April 2018 and increased sale of vignettes. In terms of quantity, sales increased by 4.6%, with 7,302,299 vignettes sold.

In quarter 1 of 2018, heavy vehicles paid toll at 28 toll stations, where 4,688,445 vehicle passages were recorded. As of 1 April 2018, the Company introduced an electronic tolling system in free traffic flow called the DarsGo system. The transfer from the old tolling system to DarsGo was continuous with no parallel operation of both systems, i.e. at midnight, the old tolling system ceased and the DarsGo system was put into operation, recording its first transaction 202 milliseconds past midnight. Due to numerous measures to manage risks taken during the set-up of the DarsGo system, the launch was conducted with no complications and caused no delay upon introduction on any toll road, including border crossings. It is estimated that the system and all the DarsGo subsystems function well and reliably. At the end of 2018, there were some 59,000 customers registered in the system along with 259,500 accounts and 232,000 DarsGo units issued.

In the first nine months of operations (1 April - 31 December 2018), 10% more km were tolled and 5% more revenue was generated compared to the same period in 2017. In order for the revenue to follow the growth rate in tolled kilometres, it will be necessary to adjust the pricing policy accordingly.

As of 1 April 2018, a new toll price list entered into force. DARS d.d. set the toll price list in a manner allowing it to:

- follow the owner's goals regarding the return on its assets;
- take into account the findings of a study dealing with the methodology for setting toll rates for toll-rate categories of goods vehicles in the Republic of Slovenia.

The basic (baseline) price of infrastructure charge toll classes 1 (R3) and 2 (R4) increased by 3%. Due to systemic solutions for the electronic tolling system in free traffic flow and interoperability, the infrastructure charge was set in euro excluding VAT and provides the basis for the calculation of the per kilometre prices for EURO emission class vehicles.

In 2018, toll supervisors issued 37,722 payment orders (27,823 of which were due to a failure to pay a toll for vignette vehicles and 8,538 due to a failure to pay the toll for goods vehicles). The issued number of payment orders fell by 33% compared to 2017, for which there are objective reasons, i.e. associates from the toll supervision service largely and for a longer period participated in tests and the development of the new tolling system, newly recruited workers had to be trained for the work of a toll supervisor, while all toll supervisors had to be trained for work in the new system, informing and teaching them to use the 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. The main reason was that the supervision over toll payment targeted heavy vehicles, where the procedure takes longer. The Company, however, made arrangements with the police and Financial Administration of the Republic of Slovenia to intensify their control over the use of vignettes, which they did.

1.9.2.1 Electronic tolling system (DarsGo)

On 1 April 2018, DARS successfully introduced a modern electronic tolling system for vehicles with a maximum permissible weight exceeding 3.5 tonnes (hereinafter heavy vehicles) in free-flow traffic called DarsGo. The outdated tolling system was replaced with a modern microwave system that collects tolls for heavy vehicles using 128 portals. The introduction of the system was conducted without complications and caused no delay upon introduction on any toll road, including border crossings. The DarsGo system and all its subsystems are functioning well and reliably.

In addition to works that were the subject of the contract made with the contractor, the Telekom-QFree Consortium, DARS also carried out extensive parallel projects and activities that provided conditions for the

deployment and operation of the DarsGo system: reorganisation of toll operations and human resources, establishment of own and partner customer services points (DarsGo services), marketing, advertising, adaptation of toll station traffic arrangements and the reorganisation and staff reinforcement of supervision.

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 (restoration of floor markings, tunnel washing, etc.).
- The implementation programme for winter service applies every year from 15 November to 15 March the following year. It lays down and defines traffic management, operational plans for the winter service 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, the Company reduced congestion, primarily on motorway sections carrying the largest traffic loads. Special attention was placed on the execution of night works in areas carrying the largest loads that are maintained by MMC Ljubljana and MMC Postojna.

The Company continued the project to optimise preventive wet salting of roads and also set up automatic mixing devices for saline preparation in 2018 at MMC Postojna, its branch office in Logatec and at MMC Ljubljana in Dob, which joined MMC Hrušica, its branch office in Podtabor and MMC Ljubljana.

In 2018, the Company erected a temporary branch office of MMC Kozina in Bertoki, which will start its operations at the beginning of this year. This will allow the Company to optimise the maintenance of the coastal section of the A1 motorway and the expressway towards Izola and Škofije, and will substantially shorten intervention times upon events in the Markovec tunnel and in the Dekani and Kastelec tunnels in the direction of Ljubljana.

In terms of scope, the maintenance works done in 2018 can be broken down as follows:

- patchwork and rehabilitation of 41,591 square metres of road pavement under 2 contracts in 46 working days and in the total amount of €971,148,
- investment maintenance works (resurfacing 151,768 square metres of road pavement, drainage asphalt covering 8,863 square metres and grooving along 9,585 metres) under 2 contracts in 110 working days and in the total amount of €4,974,053,
- crack sealing over 93,912 metres within 71 working days and in the total amount of €126,781 and over an additional 22,849 metres (carried out by the DARS team from MMC Slovenske Konjice within 41 working days), hence a total of 116,761 metres,
- Routine and investment maintenance of structures (dilatations and bridging structure beds, drainage systems, rehabilitation of concrete surfaces on structures, etc.) in the total amount of €243,830 within 70 working days.

Electrical and mechanical maintenance

Electrical and mechanical maintenance in 2018 comprised:

- 3 full graphic signal boards were erected and included in the TCMS system,
- repairs of damaged electrical equipment due to accidents in tunnels (Karavanke, Markovec),
- rehabilitation of the outdated fire alarm system in the Kastelec, Jasovnik and Trojane tunnels,
- replacement of lighting at MW and EW access points with LED lamps for energy savings,
- continued measurements of electrical and lightning protection installations by own staff (measurements of grounding, lightning protection installations, measurements of electrical installations in explosive areas) for all structures owned by DARS d.d.,
- maintenance of road weather stations,
- maintenance of traffic counters,
- maintenance of DEA aggregates,
- cooperation in and implementation of internal supervision over the refurbishment of electrical and mechanical equipment in tunnels, on the alignment and on structures pertaining to the MW/EW network, as well as in the removal of toll stations.

Restoration of road signalisation in tunnels

To ensure the undisturbed operation of electrical and mechanical equipment and systems, uninterruptible power supply (UPS) systems were replaced or restored in certain tunnels and 3 tunnel fans were replaced due to damage or the implications of traffic accidents. Two electrical maintenance officers obtained a certificate to use metal analysers or passed training at the Slovenian Nuclear Safety Administration.

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 real estate) to improve efficient management of Company assets and traffic management 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 2017.

In 2018, 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 2019-2021 period. That draft plan was later actively harmonised with the Restoration Department 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 2019.

Based on a contract for geotechnical monitoring that will last eight years and covers the entire motorway network (other than the Rebrnice area, where monitoring is already underway), which was concluded in 2015, all necessary measurements on geotechnical structures and monitoring of conditions on demanding structures (VA6007, Vogršček embankment, Jožefov hrib) were carried out in 2018. There were also a few intervention inspections and proposals to regulate the condition (protection of embankments).

The Maintenance sector has set up the basis for the implementation of annual inspections of road infrastructure by routine maintenance officers for road infrastructure and for the preparation of comprehensive reports on such inspections.

Furthermore, expert bases for the refurbishment of existing noise barriers have been prepared. 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

The Company has concluded stages III and IV of the replacement of road lights with energy efficient LED lights. The replacement was conducted to comply with the Decree on limit values due to the light pollution of the environment. Hence, DARS fulfilled its commitment to the Decree. Furthermore, an IT system for monitoring electricity consumption was executed, which also extended to the monitoring of other energy consumption within DARS. By carrying out some additional measures to reduce electricity consumption, the Company reduced electricity consumption by 3.9% in 2018 compared to 2017. It also prepared documents to carry out projects in 2019 (replacement of the remaining energy-consuming lighting, replacement of lighting in the Strmec cut and cover and Golovec tunnel).

Rest areas

Major activities in the management of rest areas / motorway service areas in 2018 included:

- the completion of construction works for the Podlehnik – west rest area and its transfer to operation in December 2018,
- within the scope of the management of minor rest areas, a public procurement procedure was conducted in 2018 for the selection of a contract 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 and the contract will be signed at the beginning of the following year.

Real estate management

In 2018, we continued the processing of the received applications or enquiries for the sale of excess real estate managed or owned by DARS d.d., the notification of interested parties, the identification of excess land and other real estate and the definition of possible ways to dispose of the real estate located outside the motorway alignment.

Three public notices for the sale of real estate owned by DARS d.d. were published in 2018. 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.

Easements

In 2018, the Company received 84 applications for the granting of easements. The Company concluded 55 easement contracts, which is 8 more than in 2017. A trend of growing investments and, consequently, the number of applications for the granting of easement and concluded easement contracts can still be noticed.

Easement for consideration was granted in 2018 mostly for minor works, i.e. the arrangement of road, municipal, energy and TC connections. Two easement rights were granted for major works, i.e. for the purposes of constructing power lines with the consideration amounting to some €20,000 for each. The total value of considerations for the awarded easement for consideration in 2018 amounted to €141,383.

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 23 of the Act Regulating Measures Aimed at the Fiscal Balance of Municipalities (Official Gazette of the Republic of Slovenia, No. 14/15) or Article 474 of the Energy Act (Official Gazette of the Republic of Slovenia, No. 17/14 and 81/15). The estimated loss of easement charge for such works amounts to €194,316.

Based on easement contracts concluded in previous years, where easement charges fall due periodically (i.e. once a year), another €37,822 was charged.



The costs of procedures to award easement by preparing easement contracts and the reimbursement of the cost of notarisations of such contracts (point XIV/10 of the DARS d.d. price list of services) amounted to €7,951.

Telecommunication marketing

In 2018, 4 contracts and 3 annexes were signed within the scope of telecommunications marketing, while 5 annexes were signed in relation to the creation of easements for the purposes of erecting and putting into operation public mobile phone base stations. The following services were also implemented:

- The marketing of broadband Wi-Fi access to the target group of heavy vehicle drivers at rest areas in three further locations, thus covering 26 major motorway rest areas. The sale of Wi-Fi coupons is conducted by PETROL d.d., Ljubljana, and OMV Slovenija d.o.o. petrol stations and the DarsGo Service.
- Access to the Internet was provided to two end business users along the motorway, while DARS provides the Internet to business users at 56 locations in total.
- Within the scope of marketing services to operators leasing optical fibres, 4 new relations were executed.
- Additional revenue was generated from the creation of easements for the purposes of erecting and putting into operation public mobile phone base stations for 14 new locations.

Traffic safety

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

Traffic safety investments in 2018:

- run-off areas were built at the Domžale and Dobruška vas access points,
- the erection of new crash barriers and end terminals in the area of MMC Novo mesto was completed and those works commenced in the areas of MMC Postojna and Kozina,
- the replacement of signposts on the A1 between Fram and Arja vas commenced,
- within the scope of analyses and inspection of traffic safety and arrangements at individual road sections, activities were funded under the EuroRAP programme and consultancy services.

Activities related to the production of design documents will provide the basis for the execution of works from 2019 to 2021.

In 2018, the realisation did not follow expectations. Activities (signing of a cooperation agreement) for the set-up of section speed control were terminated at the request of the Ministry of Internal Affairs, which is why the public procurement procedure for the supply of the equipment was terminated.

At the state level, 2018 was the most successful year in terms of the number of fatalities and injured persons in traffic accidents in recent years, which is definitely also the result of Company activities. In total, 91 road users died last year, which is 12.5% less than in the previous year. The number of fatalities in 2018 was, therefore, the lowest recorded since official traffic accident statistics have been kept (since 1954). The number of persons with serious bodily injuries decreased by 5.4% compared to the previous year - a total of 805 persons suffered serious bodily injuries, which is the lowest in the last 5 years.

2018 was the most successful year in terms of the number of fatalities in traffic accidents on motorways in recent years. In total, 15 road users died last year, which is 12.5% less than in the previous year. Years 2015 and 2018 are, therefore, the years with the lowest number of fatalities on motorways and expressways in the last 10 years. Notably, the phrase "most successful" is to be understood as a description of a statistical data trend rather than a description of the desired state. The most successful year will be the one in which there will be no fatality on the motorway. The Company believes that such a goal can be reached with the investment trend, set of traffic safety measures and range of stakeholders with which the Company cooperates.

However, the number of persons with serious bodily injuries increased by 44% compared to 2017, i.e. 69 road users. An increase is also recorded in persons with minor physical injuries, since 659 persons were injured last year, which is 22% more than in the previous year.

I.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 2018.

Siting activities were carried out in 14 projects in 2018 in the field of spatial planning and the integration of motorways and expressways into the environment. Key projects in 2018 were:

Expansion of the Ljubljana motorway ring and the radial roads

- Expert bases were prepared for the initiative along with an initiative for the national spatial planning procedure for the Ljubljana MW ring and radial roads. The initiative/Investment Project ID Document (DIIP) was discussed by the DARS Committee for the approval of investment documents and confirmed by the Management Board of DARS.
- In December 2018, the Initiative/DIIP was sent to the initiator, the Ministry of Infrastructure, which will forward it to the coordinator for the preparation of a national spatial plan, the Ministry of the Environment and Spatial Planning.

Slovenj Gradec - Dravograd and Otiški vrh - Holmec

- A Study of the modernisation of road connections in the Slovenj Gradec - Dravograd and Otiški vrh - Holmec sections was performed, which provided proposals for the most suitable course of the road links.
- In October 2018, the Ministry of the Environment and Spatial Planning and the Ministry of Infrastructure adopted a decision to continue the procedure to prepare two national spatial plans for the proposed alignments of the Slovenj Gradec - Dravograd and Otiški vrh - Holmec sections.
- Public procurement procedures were prepared for the acquisition of the necessary documents to continue siting procedures.

Ptuj - Markovci

- The Traffic study and bases for design and investment documents for a new Ptuj - Markovci - Gorišnica -

Ormož road connection were completed.

- Following the completion of the study, a decision was adopted by the Ministry of Infrastructure, Ministry of the Environment and Spatial Planning and DARS to continue the procedure to prepare and adopt a national spatial plan for the Pruj - Markovci section by conducting a new round of the Variant Study.
- Public procurement procedures were prepared and executed for the acquisition of the necessary documents to continue siting procedures.

Postojna/Divača - Jelšane

- A Study examining the possibilities of the reconstruction of the existing road connection was produced.
- Based on the study, the Ministry of Infrastructure and DARS adopted a decision to continue the procedure to prepare a national spatial plan.

Šentrupert - Velenje

- An amended EIA was created, based on which an application was submitted to the Ministry of the Environment and Spatial Planning, Slovenian Environment Agency, for the acquisition of an environmental permit. Upon the latter's request for the supplementation of the application, an additional expert basis "Noise Impact Assessment" was created.
- The expert basis "Analysis of existing conditions for medium and heavily affected agricultural holdings" was produced.

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 management provider, 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 the preparation of a new Decree on limit values for environmental noise indicators). 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 competences, 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 planning developer or consent authority. Extensive harmonisations were conducted with the investor in a secured parking place Brdo west, Slovenj Gradec Municipality, in relation to the harmonisation design solutions for the Slovenj Gradec southern bypass, in relation to the consent for a Building Permit Design for the Protection of SE part of Ljubljana against Flooding, with the City of Ljubljana due to the harmonisation of municipal spatial planning documents and many others.

In terms of design documents, the following main activities were carried out in 2018 (listed according to individual investments):

- Building Permit Design / Executive Design documents for the rearrangement of toll stations were completed and handed over and all consents and authorisations were obtained. The consent of the Minister was obtained without deviations from the rules. The contract with the design engineer was completed and the documents are being transferred to archives. A preliminary procedure was conducted pursuant to the Decree on environmental encroachments that require environmental impact assessments. The Slovenian Environment Agency issued a decision stating that the planned works require no environmental impact assessment and the acquisition of an environmental permit. An investment programme was created and confirmed.
- Building Permit Design documents were created and audited for the Jagodje - Lucija section. An audit

was also conducted for the most important lots of the Building Permit Design. Consents to the Building Permit Design documents are being obtained. Executive Design documents are mostly created and are being audited. An Environmental Impact Report was created, based on which an environmental permit is being obtained, while the application for the issue of an environmental permit was supplemented several times upon requests made by the Slovenian Environment Agency. Further procedure to obtain a building permit are related to the acquisition of an environmental permit and missing consents to the Building Permit Design, the consent of Piran Municipality being particularly important.

- 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 created. On 4 December 2018, the Slovenian Environment Agency issued a decision requiring the Company to obtain an environmental permit. The investment programme was created and confirmed by the DARS Committee and was also confirmed by the relevant Minister on 24 October 2018. The production of an amended Executive Design and Tender Documents as a result of legislative amendments has been completed and audited. Inventory taking and Tender Documents are 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. Inventory taking, Tender Documents and the acquisition of a building permit for the bridge crossing the canal are pending. The amended investment programme was confirmed by the relevant Minister on 28 March 2018. The relocation of 110 kV transmission lines - execution of construction and assembly works - was completed. Completion of the construction of the Sejanca viaduct – the contractor was introduced to the work on 20 September 2018 and construction works are underway and in line with the timeline.
- Building Permit Design documents were created and audited for the Koseze - Kozarje section (expansion into a 6-lane road), and opinions for it have mostly been obtained. Harmonisations are 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 and the application was supplemented in line with the request made by the Slovenian Environment Agency. Solutions for MW expansion between Koseze and Kozarje were harmonised with expert bases for the national spatial plan for the secured parking space Brdo.
- Building Permit Design documents were created and audited for the Dragomer access point section and consents for it have mostly been obtained (except the Slovenian Water Agency and SŽ Infrastruktura). For the purposes of acquiring a water consent, a hydrology and hydraulics study was performed at the request of the Slovenian Water Agency along with a proposal of measures for protection against flooding, and the application for the issue of a water consent was resubmitted. An application for the extension of an environmental permit was submitted to the Slovenian Environment Agency and was supplemented several times upon request. An agreement regarding investment co-funding is required for the completion of the investment programme.
- Building Permit Design and Executive Design documents were created, audited and revised for the construction of the second tube of the Karavanke tunnel, and all consents and building permits were obtained. The Executive Design for BIM model 3D, 4D and 5D is in the closing stage. Security documents were supplemented to take into account a new basis under which milestones will not be successively put into service during construction. Security documents were sent to the Ministry of Infrastructure several times by the Security Official and are to be confirmed by both countries. The protection and rescue plan was harmonised with DARS and DRI and presented to the emergency services at a meeting. The plan will be supplemented on the basis of conclusions reached at the meeting. After the rehabilitation concept is harmonised and confirmed, the Executive Design for the rehabilitation of the existing tunnel will be created.

ted. In relation to the co-funding of design documents by the EU, the final report was handed over, which was supplemented several times following remarks made by the Ministry of Infrastructure and INEA.

- A contract for the provision of expert consultancy services for the production of the Building Permit Design / Executive Design documents, land acquisition and the acquisition of all permits for constructions for both sections of the 3rd development axis north (Šentrupert - Velenje - Slovenj Gradec) was signed in the first half of the year. Terms of Reference were created for the execution of a public procurement procedure for the Building Permit Design / Executive Design documents, geological-geotechnical study and land acquisition in the mentioned 31.5-kilometre-long section. The public notice was published at the end of the year.
- A contract was signed with the design engineer for the production of Building Permit Design and Executive Design documents for the 3rd development axis – north, Velenje - Slovenj Gradec section. Building Permit Design documents are being created. All terms of reference have been obtained. The award of the public contract for the production of an investment programme is pending.
- A contract with the design engineer for Building Permit Design and Executive Design documents for the 3rd development axis - north, Šentrupert - Velenje section, was not signed due to an appeal filed to the Constitutional Court of the Republic of Slovenia.
- The public contract award procedure for the acquisition of the relevant architectural and landscaping solution for stages 1 and 2 of the 3rd development axis - south (access point Novo mesto east - access point Osredek) was completed and a contract was signed for the production of Preliminary Design / Building Permit Design / Executive Design documents for a bridge on the new 4-lane road and a parallel bridge for pedestrians and cyclists crossing the Krka River and riparian zone. Building Permit Design documents for the alignment were audited and completed. On 21 December 2018, an application for the issue of a building permit was submitted, which is incomplete. It is necessary to obtain opinions from Komunala Novo mesto for the faecal channel, Slovenian Water Agency, Institute for the Protection of Cultural Heritage of Slovenia and Plinovodi, and obtain an environmental permit. The production of Executive Design documents started. Due to a request by the operator Plinovodi, Building Permit Design documents for the relocation of a main gas pipeline are being created separately. A building and technical study was created and submitted for stages 3 and 4 of the 3rd development axis - south (from the Osredek access point to Maline), which dealt with two construction scenarios, i.e. the immediate construction of a 4-lane road and construction in stages - first a 2-lane road and later its expansion into a 4-lane road. A pre-investment concept was created for the 3rd development axis - south from the Novo mesto east MW access point to the Maline access point, which was confirmed by the DARS Committee and sent for confirmation to the Committee of the Ministry of Infrastructure in December 2018.
- An arrangement and agreement were signed 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 access point to H5 to the relevant link to the existing situation, within the scope of which access point Slavček is being designed, in 2017, laying down the activities and funding of co-signatories. Pursuant to the agreement, all necessary activities for the realisation of the project to the acquisition of the relevant building permits are managed by the Municipality of Koper. A study verifying the necessary measures in Šmarska cesta in Koper was performed, which dealt with several scenarios that included various measures in Šmarska cesta. In 2018, the traffic study and preliminary design for the selected scenario or solution that properly separates transit from local traffic were audited and submitted. In 2018, a public procurement procedure for an engineer was conducted and a contract was signed in December 2018. Tender Documents for the producer of Building Permit Design / Executive Design documents is under preparation.
- 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 necessary activities leading to the construction are managed by the Municipality of Kooper. In 2018, the traffic study and preliminary design for two stages were audited and created. In stage 1 (interim stage), the expansion of the Bertoki radial road into a 4-lane road is implemented, except in the area of the overpass over the expressway, where the existing overpass will be reconstructed and arranged as a 3-lane road. In stage 2 (final stage), the overpass will be rearranged into a 4-lane road. Stage 1 of the arrangement of the Bertoki radial road into a 4-lane road will be conducted pursuant to the Roads Act as maintenance works for the public benefit, which require no building permit. The production of Executive Design documents for stage 1 is underway.

The Construction Department carried out the following activities:

- It prepared Tender Documents for expert and consultancy engineering services for the purposes of preparing tender documents for the Koseze - Kozarje MW section and the Dragomer access point and for the selection of a contractor and investment management until the completion of foreseen works and follow-up of the structure made in the warranty period. The public notice was published in December 2018.
- Based on the public notice for the contractor for the Karavanke tunnel project in December 2017, the tenders received were opened on 20 March 2018. Nine tenderers submitted tenders ranging from €89 million to €140 million. Following the rating of tenderers based on criteria and a detailed review of the most favourable tenderer, a decision on the award of the public contract to the most successful tenderer was adopted at the end of July 2018. Review claims against the mentioned decision were filed by 3 unsuccessful tenderers. The Contracting Entity replied to the review claims made by the 3 unsuccessful tenderers, which nevertheless filed claims for the review of the procedure to the National Review Commission. At the beginning of December 2018, the National Review Commission granted all the review claims with Decision No. 018-166/2018-23 and annulled the Contracting Entity's decision on the award of the public contract. As a result, the Contracting Entity's committee made a detailed review of the tenders submitted by the other tenderers and sent questions and requests to the relevant parties in relation to the explanation of their tenders.

In relation to the Karavanke project, the selection was completed and a contract for the works and tasks of a safety and health at work coordinator was signed in 2018. Furthermore, tender documents were prepared and an invitation to tender for a contractor in external quality control was published. At the beginning of December 2018, an invitation to tender was also published for geological and geotechnical monitoring during construction works on the eastern tube of the Karavanke tunnel.

- In 2018, the 10-year warranty period expired on sections that were opened for traffic in 2008. Defects in the warranty period were eliminated at the following MW sections: Zrkovska - Pesnica, Maribor - Lenart, Lenart - Spodnja Senarska, Spodnja Senarska - Cogetinci, Cogetinci - Vučja vas, Beltinci - Lendava with a section to EW for Dolga vas, Lendava - Pince, Šentvid - Koseze, Vrba - Peračica.
- An invitation to tender for the construction of test fields for wind protection on EW Razdrto - Vipava - Ajdovščina was conducted and a contractor was selected.
- All stage 2a. construction works at the Draženci - international border crossing Gruškovje MW section are completed; the works exceeded the contractors' time schedule (101.5%) and the business plan for 2018 (102.4%). By the end of December 2018, all stage 1 and 2b construction works were completed in full (issued final interim payment certificate), and almost all the works in stage 2a. On 21 May 2018, the contractor for stage 1 works received a certificate of execution and the warranty period commenced. On 27 December 2018, the final operating permit was obtained for stage 1 MW. On 30 November 2017, a temporary operating permit was obtained for stage 2a MW and the section was opened for traffic.
- The contractor received a certificate of execution for the MW access point Šmarje - Sap on 9 March 2018. Construction works were hence completed and the warranty period commenced. On 12 June 2018, the final settlement – acceptance certification – was made.

- A 5-year contract with the contractor for post-excavation treatment of site archives for the executed rescue 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 by extensive archaeological field surveys was concluded and applies since 12 August 2016. The contractor processed the following sites in 2018:
 - Dolge njive pri Beli cerkvi, Obrežje, Velike njive, Školarice, Mariborska cesta stage IV, Na Vrh, Pobrežje, Loka pri Beli cerkvi, Podrečje pri Viru, Zagorica, Drnovo 1 and 2, Boško, Stranje, Kortinca, Radvanje, Draga pri Beli cerkvi, Ribnica na Dolenjskem, Pržanj, Na Lokah–Cikava, Mokrice–Na špici and Jaušina, Med cestami – Šikole. Dragomelj, Podgorica, Draga 2, Grofove njive pri Veliki vasi, Medlog. Škofije – Reber, Zadruga, Malečnik, Šušec, Med cestami J – access point Šikole, Lavše, Slivnica 2B, Kamna Gorica, Malečnik I and II, Meljski hrib, Križišče, Mariborska cesta stage III, Gmajna – Gorica, Bela cerkev, Krtina, Draga, Čateški grič, Gorica, Draženci – Turnišče, Turnišče II, Spodnje Hoče. Rebernice – Gladežnica, Vipava – Mlake, Gošča, Žutrenki, Med cestami jug, Trojane. Medvedjek, Sveti Urh, Hajndl.
- A building permit was obtained for the construction of a dry Malence retention basin in October 2018 and construction works will begin in 2019.

The Restoration Department carried out the following activities and projects:

- In 2018, 45.62 kilometres of directional section lanes and 4.66 kilometres of access points were renewed, i.e. resurfacing at Dobruška vas - Drnovo section, renovation of a part of the Vipava - Ajdovščina and Hrušica - Lipce sections, resurfacing of a section between TS Torovo and Vodice and measures improving fluidity at the Malence interchange. Within the scope of demolishing TS Logatec, the entire Logatec access point was renewed along with the entire Nanos interchange upon the rearrangement of TS Nanos. The reconstruction of the left Ravbarkomanda viaduct with a pertaining link to the alignment was completed and a total of 21 minor bridging structures and 4 viaducts were partially renewed within the scope of renovation works. In 2018, the rehabilitation of minor embankments was undertaken along with the rehabilitation of pre-stressed geotechnical anchors and protective covers of anchor heads throughout the network and drainage regulation under the Reber, Ponikve and Goli vrh viaducts and in the area of the Leščevje tunnel. 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 restoration works in future years.
- In the construction of noise barriers, the elimination of deficiencies found in the initial construction at the Dramlje - Celje and Celje - Arja vas sections was completed. An invitation to tender was conducted for active noise protection pursuant to the Noise Action Programme – Lot A at 12 locations. The first test fields for barriers with new noise protection panels were executed.
- A public procurement procedure was conducted for the first 3 lots of TS demolition and rearrangement of toll platforms (for 8 frontal TS and 10 lateral TS) following the introduction of the DarsGo system. Contracts for two lots were signed at the beginning of April, while a review claim was filed for one lot. All works on all TS for which the contract was signed were completed: TS Razdrto, TS Postojna, TS Torovo, TS Log, TS Unec, TS Logatec, TS Vrhnik, TS Nanos, TS Dane and TS Hrušica. In autumn, a new invitation to tender for the remaining TS was published.
- Two contracts were signed for design documents for the reconstruction of the Leskovškova and Letališka access points upon co-funding by the City of Ljubljana. Preliminary Designs were created, audited and confirmed. An application for a preliminary procedure under the Environmental Protection Act was made and submitted to the Slovenian Environment Agency for both access points and an investment project ID document was drawn up. Further stages of design documents and the harmonisation of design solutions with opinion givers are pending.

Electrical and mechanical works and ITS

In 2018, the renovation of the regional control centre in Kozina was completed. The Kozina Control Centre renewed and optimised traffic control management systems, upgraded and integrated the existing video systems and automatic traffic detection on the Primorska motorway section in the new regional centre. Stage 1 of video system centralisation was completed.

A TCMS was newly set up on the coastal expressway Koper - Izola and on the Štajerska motorway section between access points Celje west and Slovenska Bistrica south. A change of traffic regime with additional variable signalling at the Kozarje interchange was implemented. A pilot project was conducted on the Primorska motorway section presenting a new feature on Slovenian motorways that will help drivers when driving in fog. To that end, the Company set up new LED signs with road weather stations.

Major restoration works were carried out in the Trojane tunnels (rehabilitation of optic line signalling and upgrade to the hydrant network) and in the Kastelec tunnel, where optic line signalling was renewed. Furthermore, the upgrade to the hydrant network and the replacement of LED indicators in the Šentvid tunnel was completed. Some minor restoration works were also carried out.

The project to arrange outdoor lighting pursuant to the Decree on limit values due to light pollution of the environment, stages 3 and 4, which mostly include road lighting in the Gorenjska and Štajerska MW legs.

In 2018, DARS radio connections were comprehensively renewed. The Company shifted from analogue radio connections to digital radio connections (DMR). Diesel generators at MMC Hrušica, Ljubljana-Grič and Postojna and at TS Log and Torovo were replaced.

In 2018, several contracts were signed for the production of design documents for the renovation works planned for 2019. Hence, the Department finished designing the renewal of Tetra radio connections in tunnels, the purchase and erection of road weather stations and detection control cameras, and the replacement of LED lights in the Strmec cut and cover, the renewal of SOS call at the Golovec - Domžale MW section, the Vipava - Šempeter EW section and the Divača - Kozina MW section.

At the end of the year, a contract was signed for the execution of a traffic control management system (TCMS) at MW Brezovica - Divača, northern, eastern and southern Ljubljana bypass and MW Zadobrova - Luskovica – peripheral equipment, which will be realised in 2019.

I.9.6 Debt repayment

DARS is in a period of high annual liabilities arising from debt repayment. In 2016–2023, an additional €919.9 million of loan principals will fall due. In that period, annual debt repayment liabilities will consume the majority of the Company's operating cash flow, which is why a share of the debt will have to be refinanced. 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 that are 100% secured by a guarantee of the Republic of Slovenia. In 2018, the Company repaid the principal in the amount of €219.6 million and paid interest amounting to €40.6 million. The Company took out a new loan amounting to €25 million, thus reducing the total Company debt by €194.6 million, which amounted to €2,269 million as at 31 December 2018. In the last 5 years, the total Company debt reduced by €526 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.



1.10 MOTORWAYS AND EXPRESSWAYS IN THE REPUBLIC OF SLOVENIA AND TRAFFIC LOADS

In 1994, under a special agreement, the Republic of Slovenia transferred to DARS d.d. the management and maintenance of all constructed motorways, as well as infrastructural facilities and devices on them. DARS d.d. thus received the 198.8 kilometres of 2-lane and 4-lane motorways and expressways and 67.5 kilometres of access point constructed so far.

Through the implementation of the NMCP, the motorway network managed and maintained by DARS d.d. gradually expanded. At the end of 2018, DARS d.d. was responsible for the management of 623.3 km of motorways, 141.0 km of access points, 22.3 km of interchanges and 38.0 km of other roads.

Table 5: Length of the network managed and maintained by DARS d.d. as of 31 December 2018

	Balance as of 31 December 2018 (in km)	MW and EW lenght (A)	Lenght of turn-offs	Lenght of link roads	Lenght 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–Trebne–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

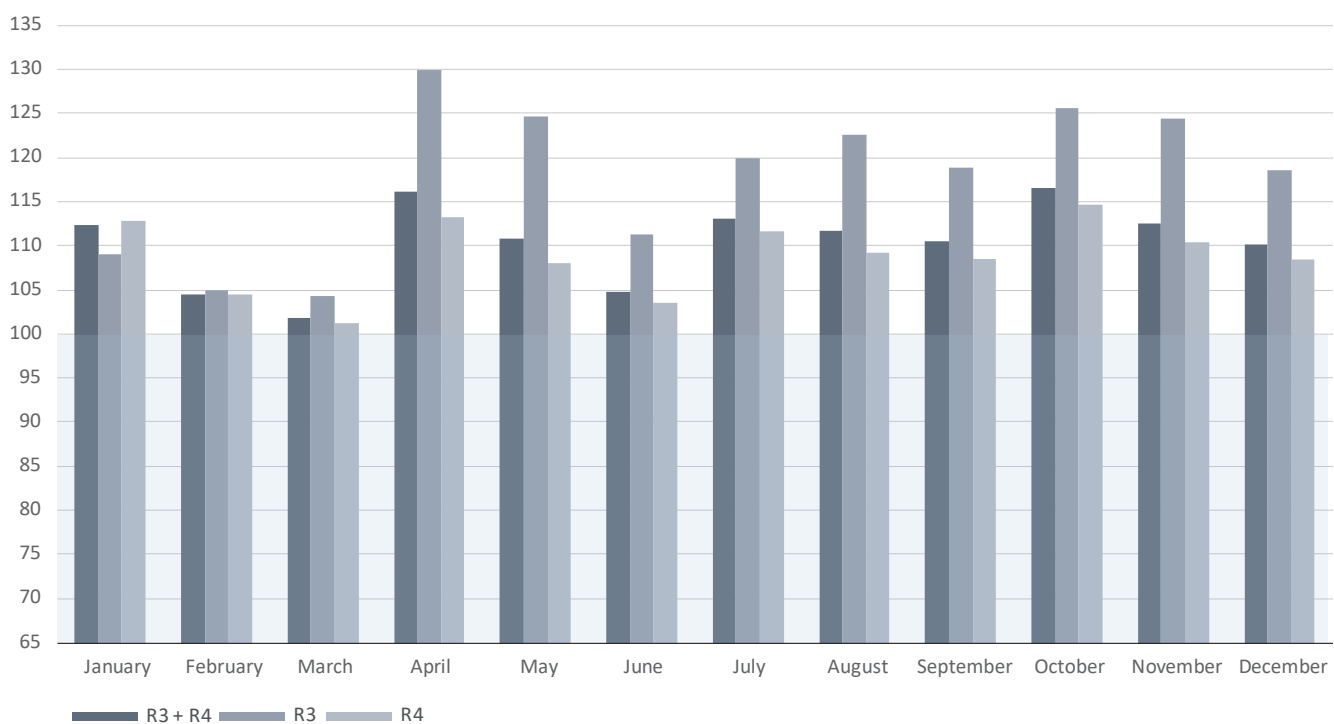
NOTE: A4 motorway has not yet been fully categorised.

Slovenia has had a vignette (toll sticker) tolling system for light vehicles since the second half of 2008. As of 1 April 2018, vehicles with a maximum permissible weight exceeding 3.5 tonnes pay tolls electronically in free traffic flow, i.e. using the DarsGo system. The outdated tolling system using toll stations was replaced with a modern microwave system that collects tolls for heavy vehicles without them having to stop using portals over motorways and expressways.

Heavy vehicles with a maximum permissible weight exceeding 3500 kilograms are tolled throughout the network operated by DARS unlike in previous years.

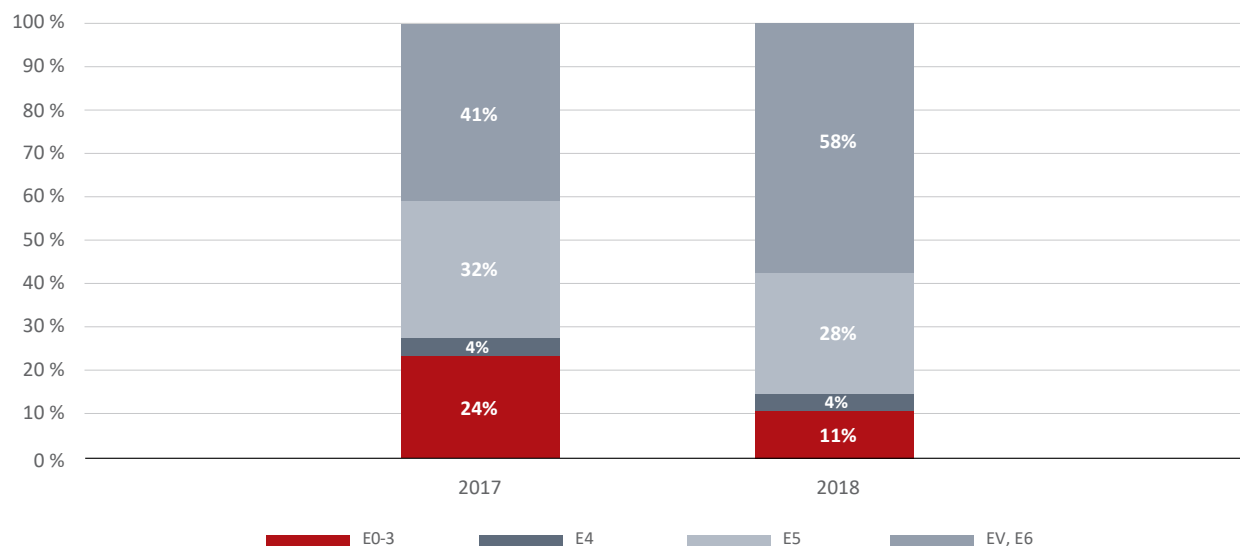
In 2018, the total number of toll kilometres driven by R3 and R4 vehicles increased by 10.3%. The main reasons for this are the introduction of the electronic tolling system throughout the network and growing traffic.

Figure 10: Monthly index of toll km of R3 and R4 vehicles 2017/2018 throughout the MW network



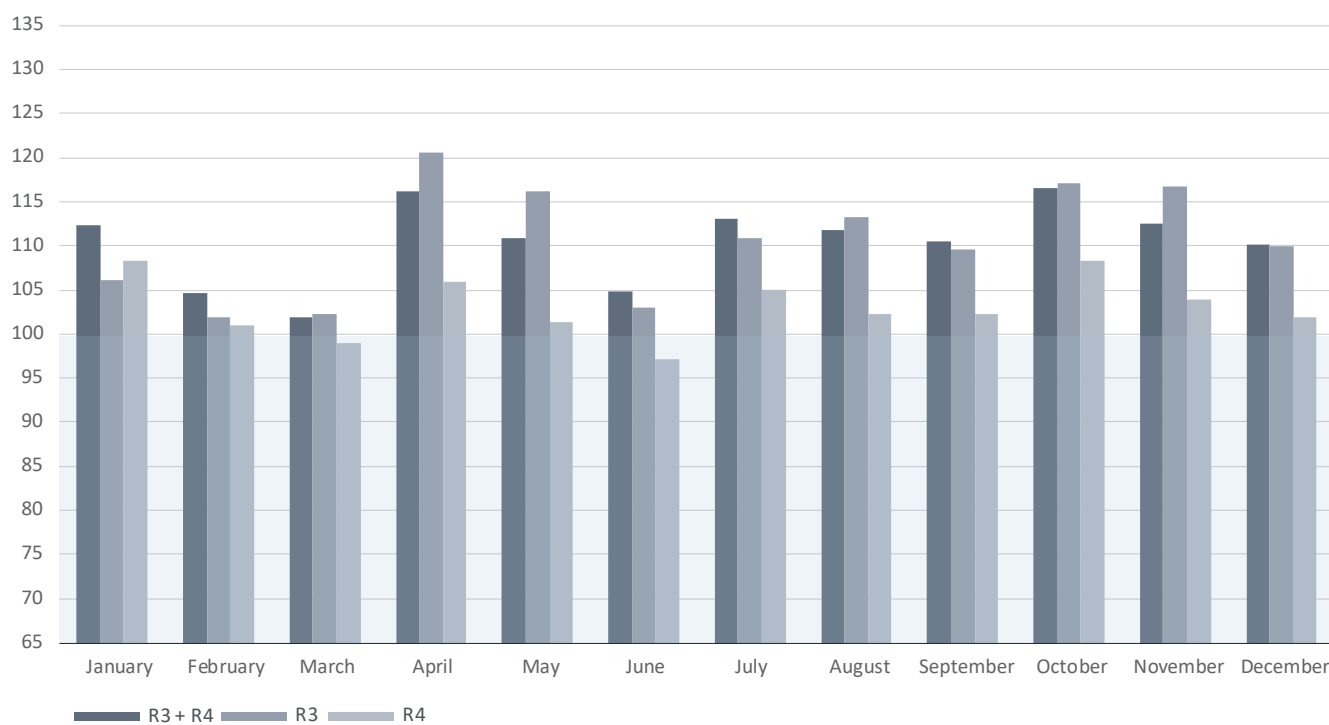
The deployment of DarsGo had a crucial impact on changes in the distribution of vehicles within each emission class. The number of goods vehicles in the low emission classes (EURO 0-3 classes) has been decreasing on account of the increased number of cleaner goods vehicles and the mandatory registrations of electronic media for higher EURO emission classes. 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 2017 and 2018



In 2018, the value of R3 and R4 vehicle passages increased by 3.7%, which reflects the toll price list change as of 1 April 2018 and an increased number of toll kilometres.

Figure 12: Monthly index of the value of passages 2018/2017 (for R3 and R4) by month



After the introduction of ETS, the structure of payment methods changed substantially. The largest share (51.3%) includes the post-payment of tolls using payment cards. Prepayments account for some 30% of the value of passages, which is also the result of the abolished discounts in the new system.

Figure 13: Share of the value of passages by payment method in 2018

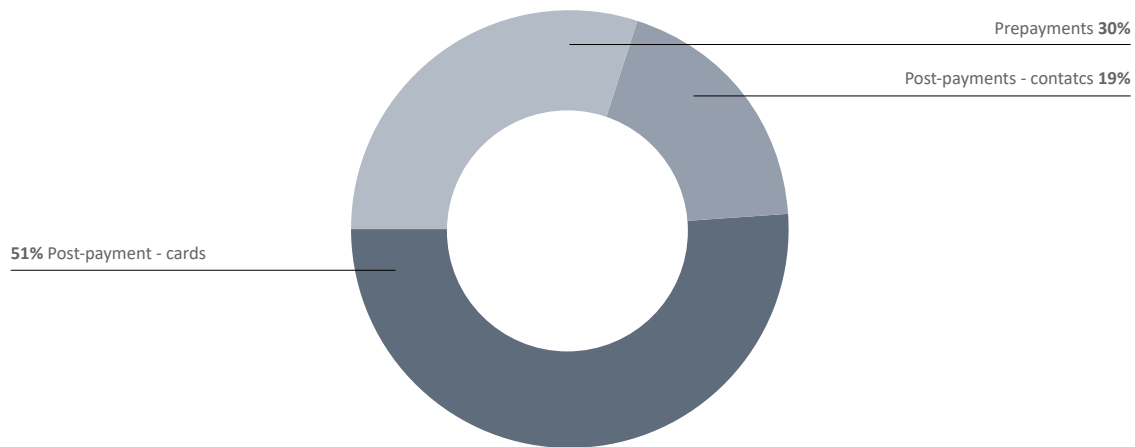
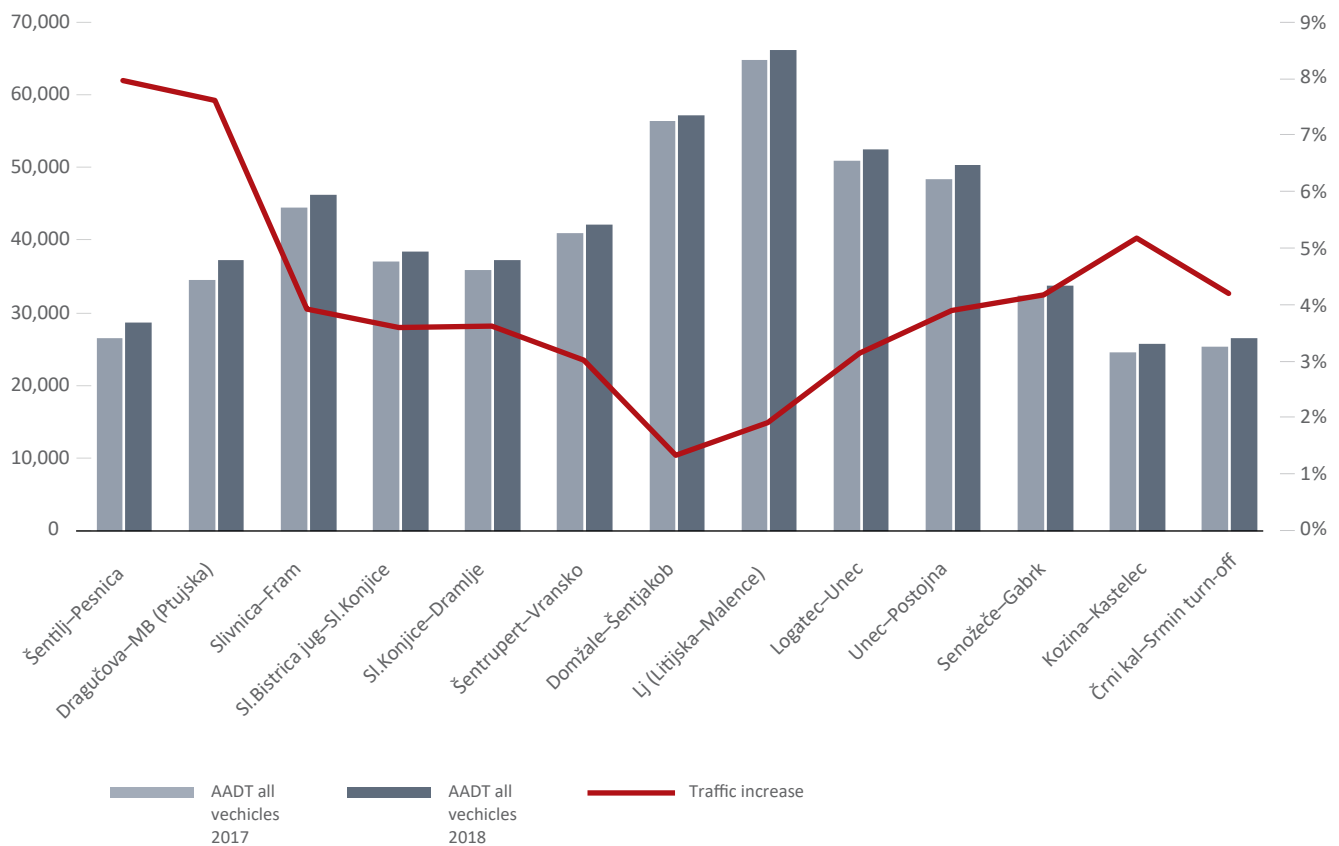
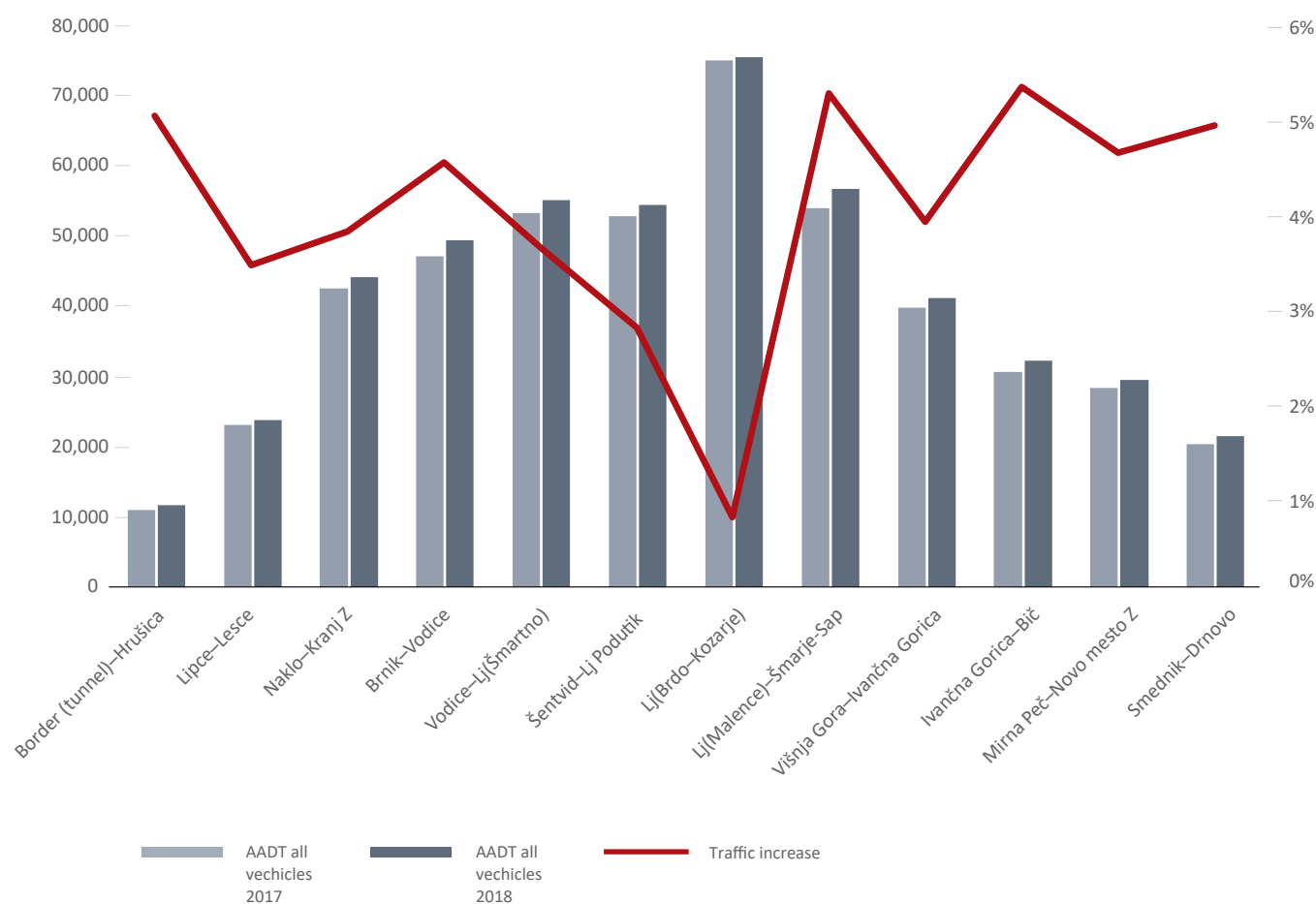


Figure 14: AADT comparison in 2017 and 2018 at selected A1 MW sections



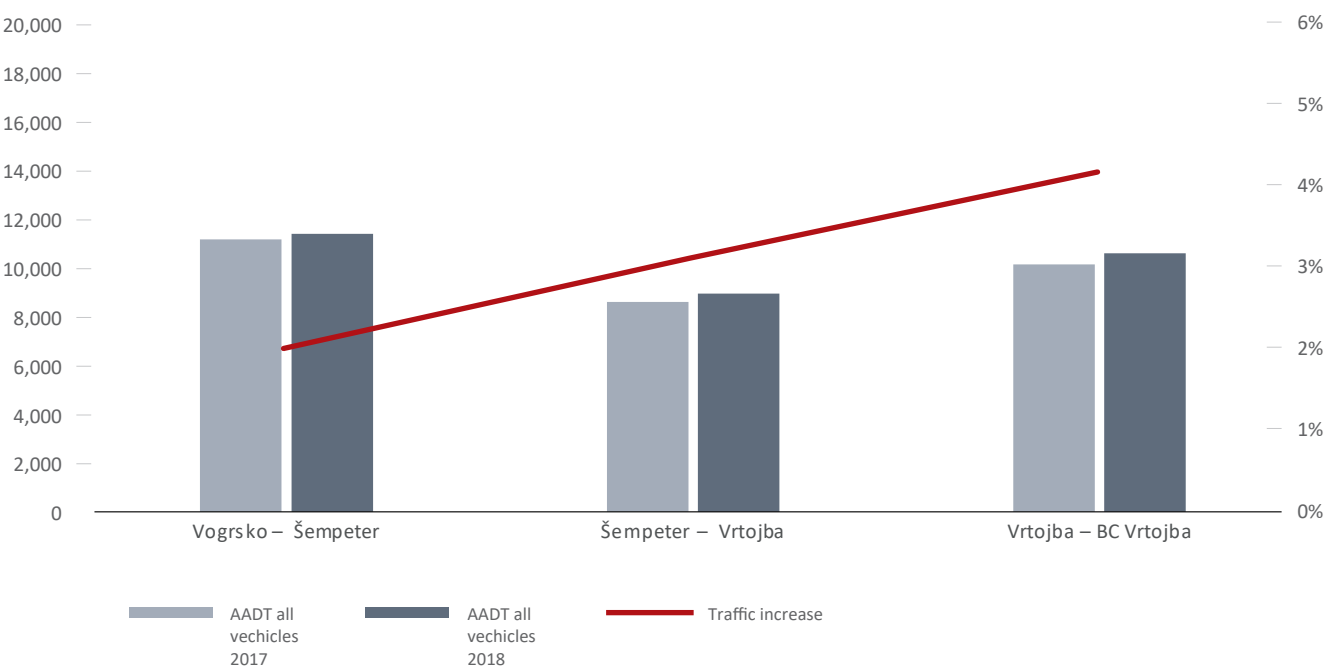
Traffic at A1 increased in all sections. The largest AADT increase took place at the Šentilj - Maribor section, i.e. from 2000 to 2500 more vehicles a day. Elsewhere, traffic increased evenly, on average by 1500 vehicles a day.

Figure 15: AADT comparison in 2017 and 2018 at selected A2 MW sections



Traffic on the A2 increased in all sections. At the section shown, AADT increased by 550 (through the Karavanke tunnel) to over 2800 vehicles a day (LJ Malence - Šmarje Sap section). The section carrying the largest load in Slovenia remains the LJ section (Brdo - Kozarje), where the AADT in 2018 amounted to 75,768.

Figure 16: AADT comparison in 2017 and 2018 at selected H4 EW sections



On the H4 expressway, the road pavement on the section between the Ajdovščina and Selo access points was renewed and the frontal TS Nanos was demolished. Due to the mentioned works, the Company only has data from Vogrsko to the Italian border, where traffic grew from 2% to 5% with respect to 2017.

Figure 17: Motorway system in the Republic of Slovenia, December 2018





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 and in the name and on behalf of the RS. The aforementioned tasks were realised in the amount of €10.96 million.

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

Spatial documents and real estate acquisition	Turnover*
Spatial planning	890,085
Real estate acquisition	10,070,506
Total spatial planning documents and real estate acquisition	10,960,591

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

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

In 2018, investment activities were performed in accordance with the ability to ensure financial sources. The value of motorway section construction and reconstruction in 2018 amounted to €152.78 million.

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

Motorway development	Turnover
DarsGo system	61,776,709
Design documents	3,575,412
Commencement of construction	339,335
Construction of sections for which design documents were prepared in 2018	36,406
Continuation of construction	16,058,894
Finishing works on motorways opened for traffic up to and including 2017	1,931,443
Other items	2,926,959
Motorway reconstruction (construction works)	41,557,136
Electrical and mechanical works and ITS	6,808,155
Traffic safety improvement	1,645,923
Investments in management and maintenance	16,120,236
Total development and reconstruction of motorways and connecting roads	152,776,606

I.12 INTERNATIONAL COOPERATION AND THE ACQUISITION OF EUROPEAN GRANTS

DARS d.d. has been trying to establish and maintain the best international connections possible for a number of years in line with its commitment to the Company vision, which is focused on integration in various areas. By participating in international associations, such as ASECAP, PIARC and IBTTA, 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 meeting with related business entities, cooperate with representatives of European institutions, in work groups 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. It always responds to the desire to cooperate at the level of "learning trips" of engineers and representatives of the economy and at the highest political and diplomatic level.

Several years of successful cooperation at ASECAP board meetings resulted in the Company's management of the traffic statistics and analyses board since 2017 (COPER IV). DARS confirmed its engagement and know-how in spring 2018, when it hosted the most important annual ASECAP event in Ljubljana, i.e. the 46th Study and Information Days. Many DARS associates took the opportunity to present the Company operations, projects and new features in toll collection, new technologies and, importantly, progress made in road traffic safety. Participation in IBTTA, a global association of owners and operators of road structures focused on toll collection and interoperability, smart mobility, new technologies and funding, became a permanent feature in two years.

More and more activities are also related to the acquisition of EU funds. Despite the fact that funds for motorway projects are decreasing, while the competition is getting fiercer and fiercer, DARS d.d. received a total of €8,601,420 of EU grants in 2018. The Company received €231,029 of CEF funds (Connecting Europe Facility) for Building Permit Design / Executive Design documents for the upgrade of the second tube of the Karavanke tunnel, €579,364 for projects in the Crocodile 2 programme and €144,848 for the C-Roads Slovenia project.

In 2018, funds from the European Cohesion Policy for 2014-2020 continued to be drawn. As a result, DARS d.d. received €7,646,179 for the construction of Draženci - Gruškovje international border crossing section in 2018. Hence, the EU funds approved for that project totalling €63,528,967 were used in full.

In 2018, activities started for 3 projects that had been approved in 2017 for co-funding from CEF funds; Crocodile 3, which is the continuation of the previous two projects in cross-border cooperation and harmonisation of ITS application, will be co-funded in the amount of 20%; C-Roads Slovenia 2, which is an upgrade to the initial C-Roads Slovenia project, will be co-funded in the amount of 50% of eligible costs; also, the largest cross-border project, where co-funding was requested together with Austria, the construction of the 2nd tube of the Karavanke MW tunnel, will be co-funded in the amount of 10% of eligible costs.

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 2018, the second self-assessment was conducted and a report with findings was drawn up along with an action plan containing 13 measures and short- 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, as one of nine strategic goals in the "DARs d.d. Strategy for 2017-2020", 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."

The Supervisory Board discusses the report on the realisation of self-assessment measures under the EFQM Excellence Model every 6 months and confirms the adequacy of 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 50001 standard, and the energy management aspect according to the ISO 50001 standard. Together, these aspects form a unified management system, which is described in the Rules of Procedure for the Management System and related documents.

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

In 2018, the Company started establishing a data protection system as per the requirements of the ISO/IEC 27001 standard, which will be integrated into the existing management system. The basis for the establishment of proper controls is the information risk assessment, which provides guidance for the introduction of the scope and number of measures in order to mitigate information risks to an acceptable level.

To provide the credibility of the quality control system, environmental management system, occupational health and safety system and energy management 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 AUDIT

The Internal Audit Service carried out internal auditing activities at Dars d.d. based on the Basic Charter on the Operations of the Internal Auditing Department and the Internal Auditing Department Handbook. The work is performed in compliance with the Strategic Internal Audit Plan and Annual Plan, which is based on the risks and includes all the identified and assessed types of risks, key Company documents and the instructions provided by the management and the 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.

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 is carried out in accordance with International Standards for the Professional Practice of Internal Auditing, the Code of Internal Auditing Principles, the Code of Ethics and the Code of Professional Ethics for Internal Auditors, taking into account also other legislation and internal Company acts. The internal auditors constantly improve their knowledge and methodology in compliance with the international standards of professional practice of internal auditing.

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

At the start of 2018, the internal audits initiated in 2017 were first concluded, which were followed by internal audits and consultancy services pursuant to the confirmed annual plan of work. Individual shortcomings 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 updated on the realisation of recommendations on a quarterly basis. We also provided advice in 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. In 2016, an external quality assessment was made of the operations of Internal Audit Service, which resulted in an opinion that the Internal Audit Service works in compliance with international standard of due diligence in internal auditing. The development of internal auditing is realised with a quality assurance and improvement programme.

I.16 SUSTAINABLE DEVELOPMENT

The Sustainable Development of DARS d.d. report for 2018, which will be published as a separate document, will provide information on economic, environmental, social and governance effects and results of Company operations. The strategy of DARS d.d. pursues long-term goals focused on sustainable development and steers the Company towards socially responsible future operations. With reports on its sustainable development, the Company on the one hand provides quality information on its socially responsible actions to its stakeholders and, on the other, forms decisions for 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.

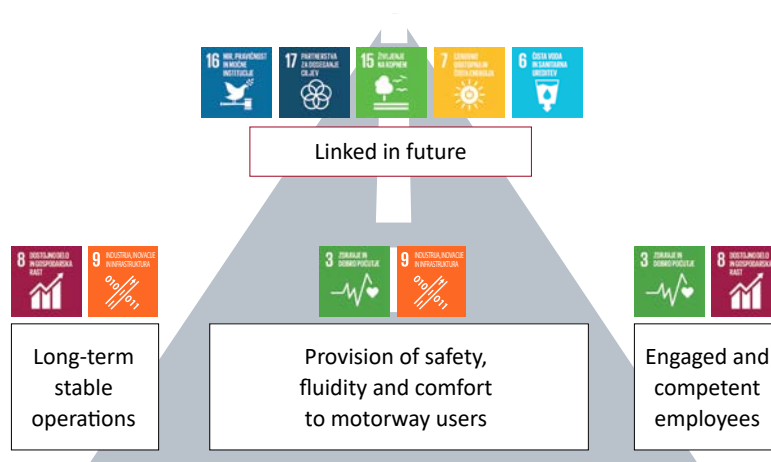
DARS d.d. is well aware of its responsibility to people, the environment and society. Hence, it exercises social responsibility in a sustainable manner in all projects and long-term plans at all levels. Ambitious and clearly defined goals ensure that the public will continue to identify DARS as a responsible 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: Connectivity of the DARS vision and strategic goals with 8 sustainable development goals

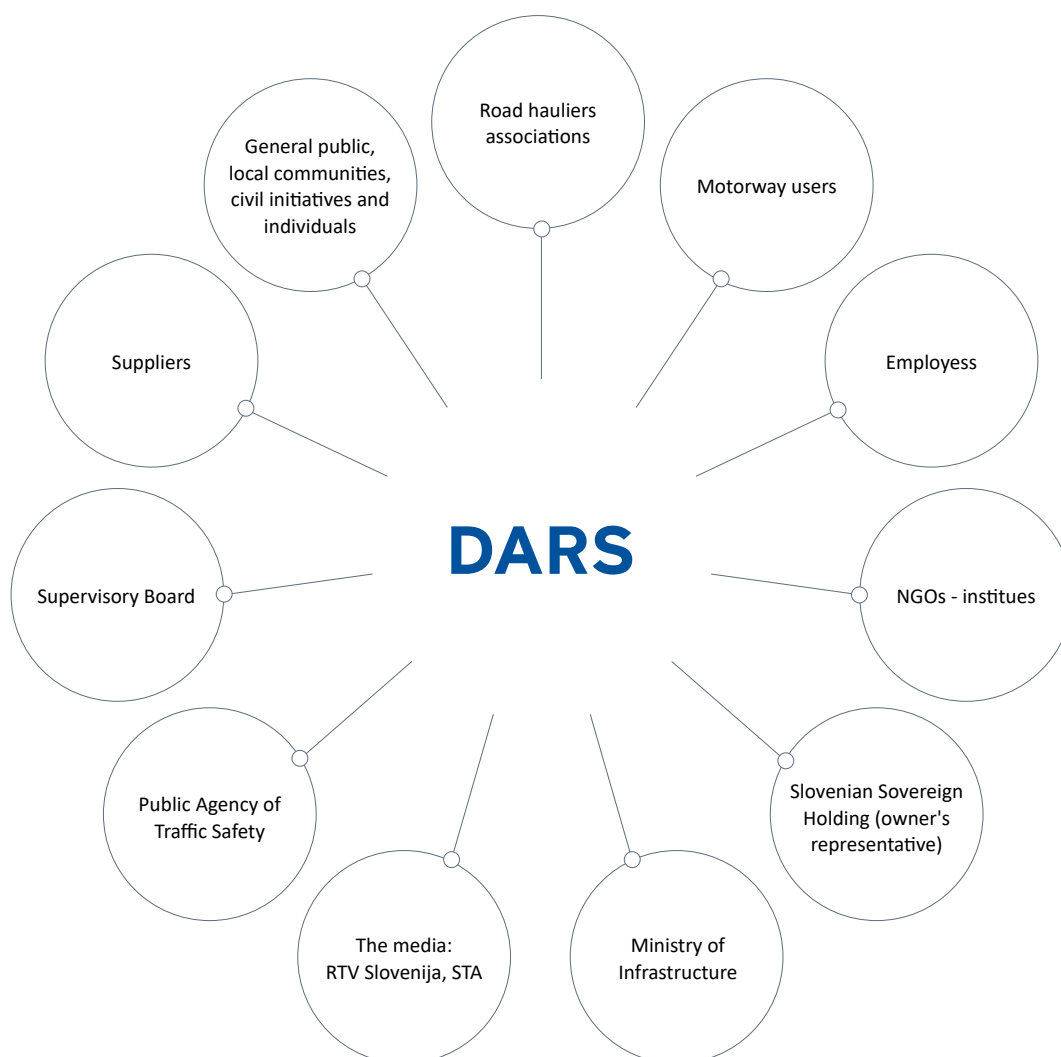


I.16.1.1 DARS d.d. and its stakeholders

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.16.1.2 Major sustainable development issues of DARS d.d.

The table below shows material issues that were relevant to DARS d.d. in 2017 and remain as such in 2018 as well. Material issues were selected on the basis of important content from the GRI standards, the Company's strategic policies and its impact on the environment, society and economy.

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



Based on the materiality matrix, DARS d.d. first selected the relevant indicators in terms of economic performance, the environment and Company in 2017, and reports about them in individual chapters of this Annual Report. While compiling the report, DARS d.d. observed sustainable reporting principles and, hence, actively included a large number of stakeholders in the preparation of the Report who assess the relevance of individual factors every two years. Based on that, it defined the materiality matrix.

I.16.2 Research and development activities

In 2018, DARS d.d. carried out 36 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 continuous improvements and innovations 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 2018, DARS d.d. continued implementing the road management project for the roads it manages. In addition to the current work with the PMS – DARS expert system (PMS: Pavement Management System), which is performed using the dTIMS_CT software tool (Deighton's Total Infrastructure Management System with Concurrent Transformation), we produced and successfully tested the pilot model of a Bridge Management System (BMS - DARS) with a database of 50 selected structures. In 2019, it is planned to expand the BMS model 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 2018, it started implementing the pilot projects of C-ITS cooperative systems with mobile connections of vehicles and infrastructure with LTE networks and with a microwave connection (C-ITS G5) for information transmission between the infrastructure and vehicles.

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 DA-TEXII standard and its inclusion in GEORSS. Furthermore, tools for tasks at DARS control centres were developed with the implementation of additional international standards for geographic referencing OpenLR and TPeg and improvements and upgrades to the DarsPromet+ application deriving from the use of such tools.

I.16.3 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.

A Company product is also considered to be safety, fluidity and comfort in the use of motorway infrastructure, which also constitute 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, maximum safety and mobility of users.

Charging for the use of infrastructure and sustainable development

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 to charge 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 the use of MWs and EWs.

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 2018, Slovenian roads carried over 85% 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. Although vehicle fleet modernisation is not only the result of the toll pricing policy, it nevertheless contributed. In 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.

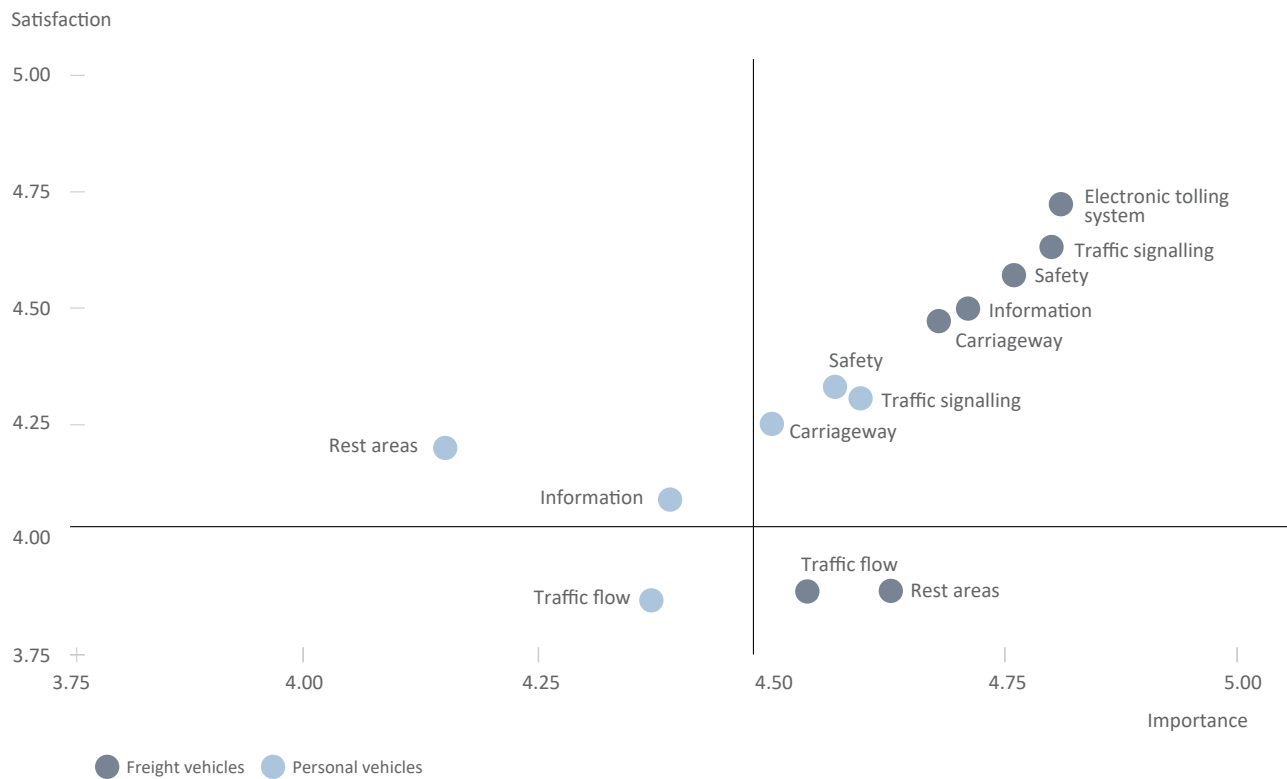
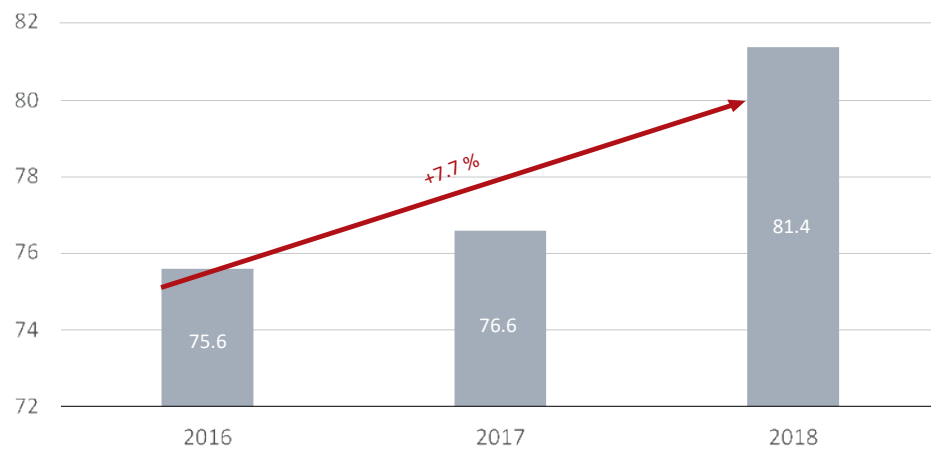
Customers and their satisfaction with Company services

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 2018, DARS conducted a research study measuring the satisfaction of the users of Slovenian motorways. In the research, drivers assessed satisfaction with different factors that were combined into the categories: pavement, safety, signalling, information provision, fluidity, rest areas and electronic tolling (the last category was only assessed by heavy vehicle drivers), and the results are shown in the figure 20.

The total satisfaction index was calculated from the scores of all factors and amounted to 81.4 in 2018 (76.6 in 2017), as evident for the last 3 years from the chart below. In 2018, foreign drivers were more satisfied than domestic drivers. This year's increase in the total satisfaction index is primarily the result of two facts:

1. The increased satisfaction of the foreign drivers of passenger cars – most likely because the survey was this year conducted in August and September for the first time, thus capturing a somewhat different type of foreign passenger car drivers, mostly tourists returning from holidays.
2. The introduction of the electronic tolling system for heavy vehicles was very well received by drivers of heavy vehicles and has been rated the best. In this year's research, this category replaced the toll station category, which received poorer scores in previous years.

Figure 20: Satisfaction by category**Figure 21: MW user satisfaction index**

A responsible attitude of DARS towards its customer 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.

A respectful attitude to customers is also reflected in market communication activities and communication in general. 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.

Due to increased traffic, certain sections have reached the capacity ceilings of the motorway infrastructure. 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.

Continuing efforts to establish good customer relations

Toll revenue from heavy vehicles accounts for over half of the Company's revenues. The Company has established and nurtures good relations with the representatives of the Slovenian Chamber of Commerce and Industry and the Chamber of Craft and Small Business that are based on mutual respect, achieved support for changes to the pricing policy and, on the other hand, on continued improvement of the quality of DARS services within the scope permitted by our competences and technical capacities.

I.16.5 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 MW/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 are new tools for campaign distribution: FB, TW, applications. Below is a comparison of emergency events by year and the implications of traffic accidents on MW and EW 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 23: Comparison of extraordinary events by year

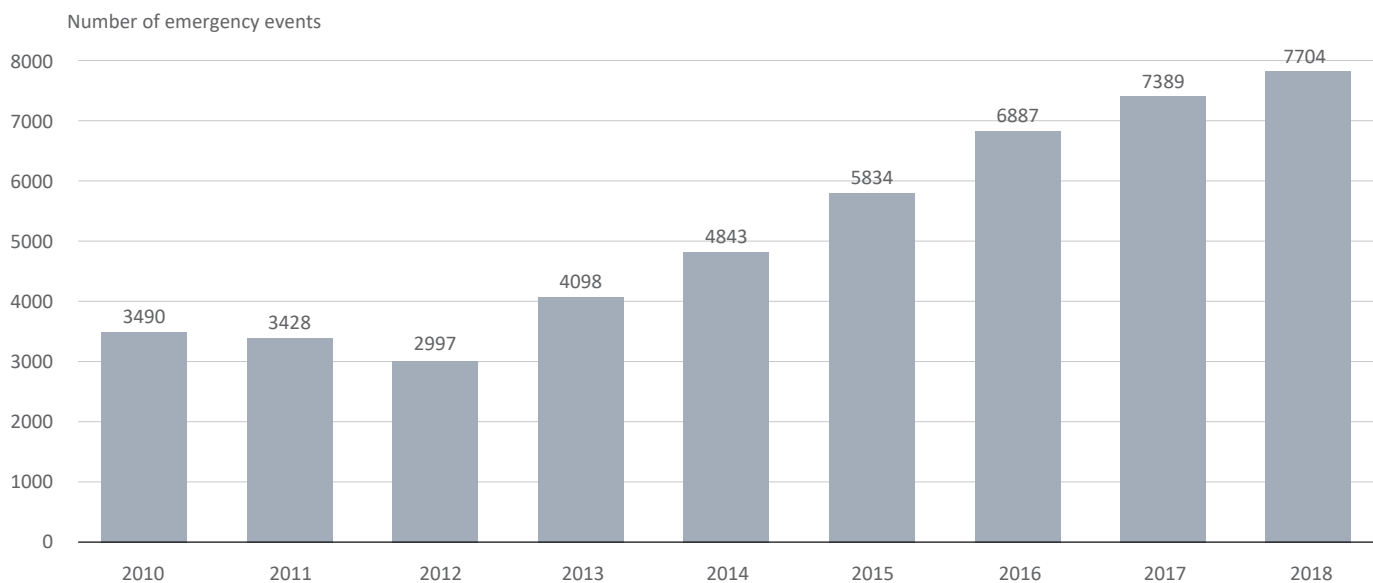
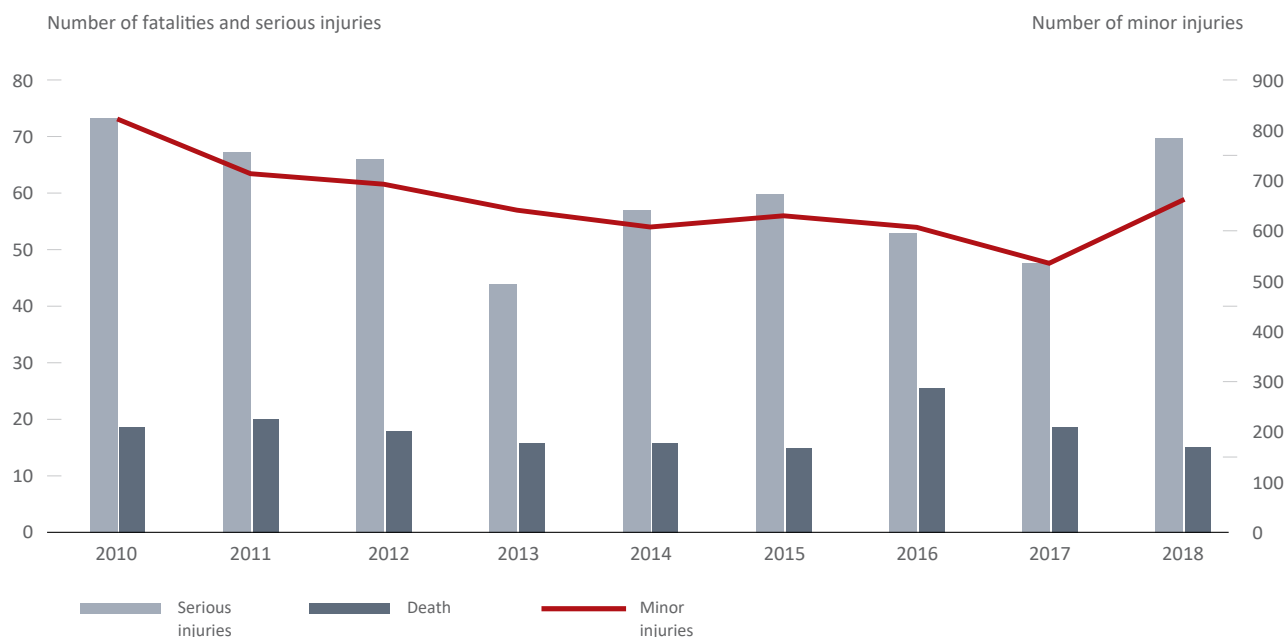


Figure 24: Implications of traffic accidents on MWs and EWs by year



Safety in tunnels

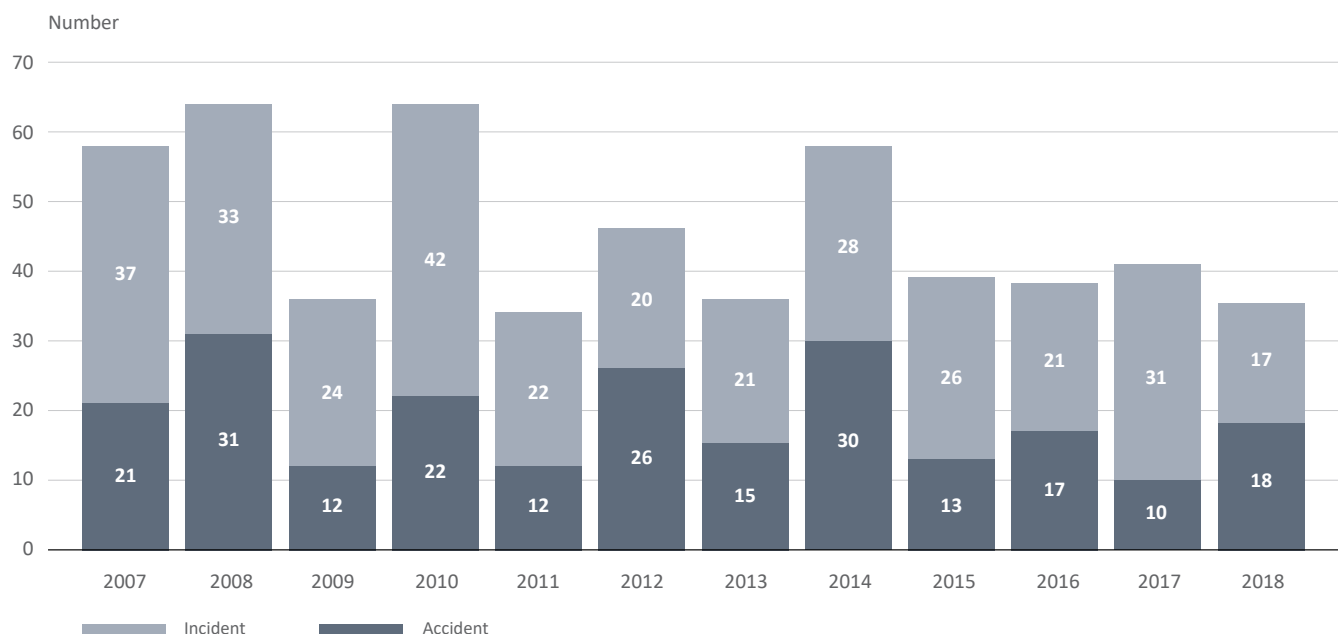
There were a total of 35 accidents and incidents in tunnels longer than 500 metres in 2018, where emergency services were needed along with the temporary closure of the whole tunnel or a part of it. The most common primary causes of the events were category I or II accidents (49%), followed by vehicle breakdowns (14%) and other events, e.g. too high vehicles or a pedestrian in the tunnel (11%).

We find that:

- the number of events is still relatively small and at a level comparable to recent years;
- these events were caused by the actions of users, which is something DARS d.d. has almost no direct influence on;
- no hosting of events was found;
- the response of competent services to emergency events was efficient.

In November and December, prescribed regular inspections were conducted in tunnels longer than 500m that are located on the Trans-European Road Network. The main finding in the inspections is that all the tunnels meet minimum security requirements pursuant to Directive 2004/54/EC. Furthermore, inspectors in most inspections highlighted the fact that DARS was required to establish a detection and monitoring system for the transport of hazardous substances by 2025 based on risk analyses. In individual tunnels, they warned or provided proposals to the competent ministry regarding security documents, lighting, wall paints, curb height, floor markings, mechanical ventilation in tunnels shorter than 1000m, and highlighted the importance that users observe permitted speed limits. The competent services of DARS have been informed of the findings of the inspectors and have already started considering and realising them.

Figure 25: Accidents and incidents in tunnels longer than 500m from 2007 to 2018



I.16.6 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 sound 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.

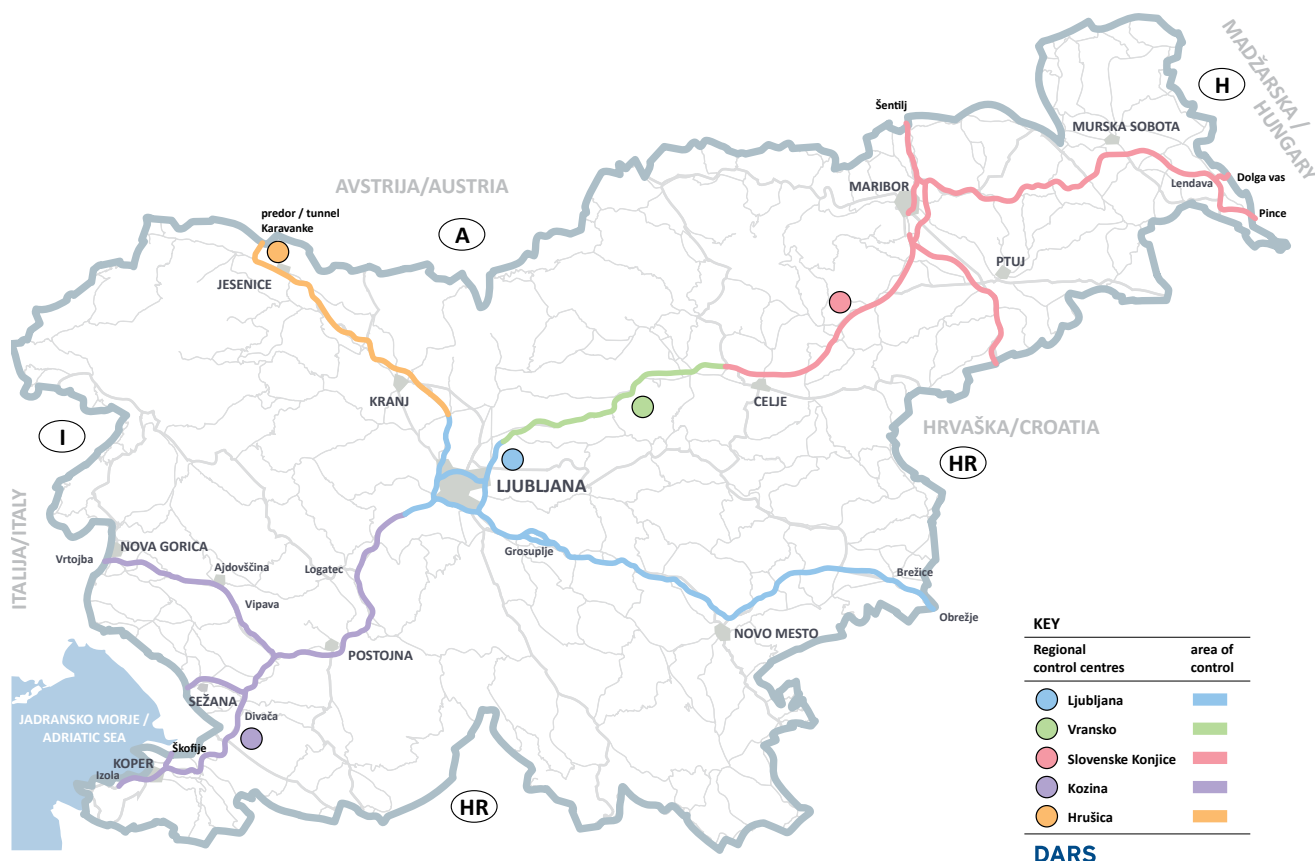
I.16.6.1 Traffic control and management

24/7 traffic control and management

The Kozina, Ljubljana, Vranksko, Slovenske Konjice and Hrušica Control Centres with their teams of traffic supervisors see to uninterrupted traffic control and provide optimum safety and fluidity on Slovenian motorways and expressways.

The figure 26 shows traffic control and management centres at DARS d.d. on Slovenian MW and EW working 24/7.

Figure 26: Traffic Control and Management Centres



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

Lately, a great deal of attention has been placed on traffic safety and fluidity, which is why measures are adjusted to current conditions on the motorway, while traffic condition detection systems are upgraded. That 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

Campaigns: marking, information provision

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

The most common causes of congestion and accidents were summed up in the following major campaigns:

- **Be prepared for winter**
https://www.dars.si/Dokumenti/Medijsko_sredisce/Informativne_kampanje/Zimska_sezona_1047.aspx
- **Safe motorways require renovation**
https://www.dars.si/Dokumenti/Medijsko_sredisce/Obnavljamo_zas_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**

Cooperation with the VOZIM Institute

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

Participation in the Sožitje project

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

Awareness raising: 2 SECONDS

Traffic accidents and congestion are more and more often the result of inadequate safety distance. Hence, the Company launched a major preventive campaign in 2018 called 2 SECONDS or SAFETY DISTANCE. In the preventive campaign, the Company painted chevrons on the Gorenjska motorway indicating the safety distance, including new traffic signs.



Measures in traffic management and concern for user safety

- Arrangement of run-off areas
- Curbing speed and increasing fluidity
- Slowing down traffic on the Ljubljana ring and all radial roads
- Replacement of crash barriers and traffic signs
- Additional signs for safety distance

Management of intelligent transport systems (ITS) or smart motorways

- Traffic control and management system on the Koper - Izola section
- Traffic control and management system on the Celje - Tepanje section
- Arrangement of traffic signs at the Kozarje interchange
- LED signs in case of fog
- Exclusion of traffic at two locations (Torovo and Log)
- Refurbishment of electrical and mechanical equipment in tunnels
- Renovation and centralisation of CC Kozina

Telecommunications

- The Company provides Wi-Fi, Internet access and optical fibre lease and creates easements for the purposes of erecting and putting into operation public mobile phone base stations

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 is in the closing stage (to be completed in 2019) and was based on data collection. The Crocodile III project is underway and is based on the renovation of Control Centres in terms of enhanced data exchange. In 2018, the Crocodile IV project was also submitted.

Within the scope of the European C-Roads project, pilot projects were launched, both with 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 2018, the application for a new project under the auspices of 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.

I.16.6.2 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 work groups in that area.

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

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

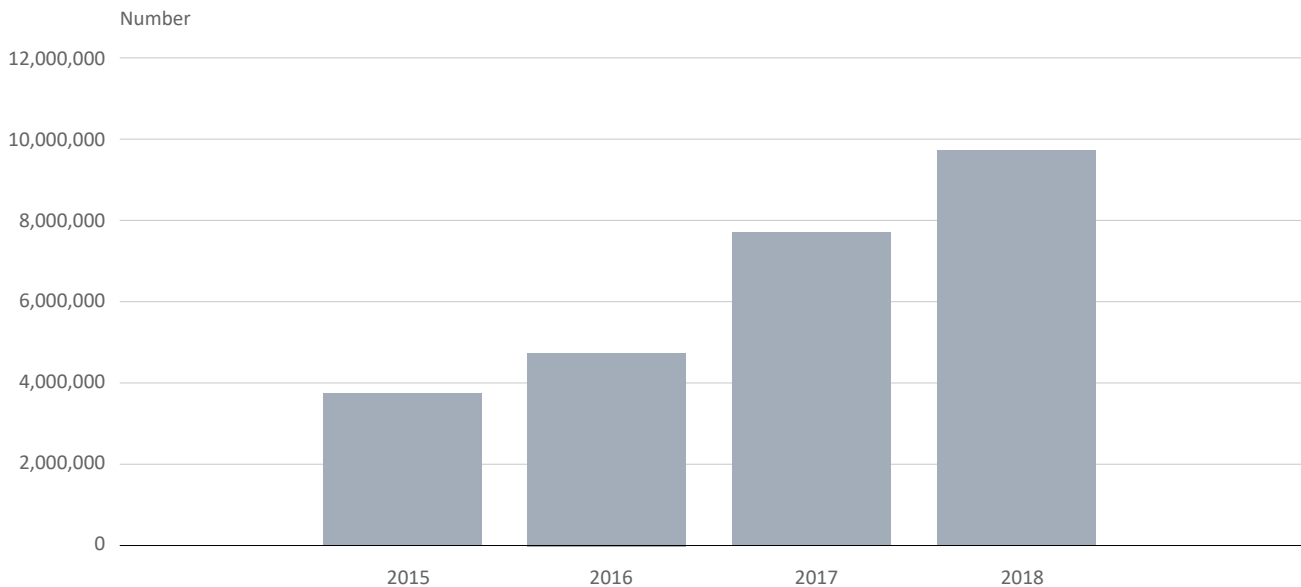
- road cameras,
- foreseen travel times between individual large towns and routes,
- events and traffic conditions on a map as differently coloured road sections indicating traffic density,
- virtual assistant Stane.

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 12 years, the Traffic Information Centre:

- sent over 300,000 pieces of information on events occurring on the national road network: on average, 25,830 a year, 2152 a month and 71 a day,
- received over 1,000,000 calls in the last 8 years, while the website was visited by over 9,000,000 different users in that period.

Figure 27: 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 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. The plans will be created and harmonised with neighbouring countries in 2019, and implemented in the information systems of control centres in all countries. Hence, international information provision and traffic management on main road connections through Slovenia will be faster and internationally harmonised.

I.16.7 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 competences;
- leadership development;
- provision of a creative, safe and stimulating environment.

Employees at DARS d.d.

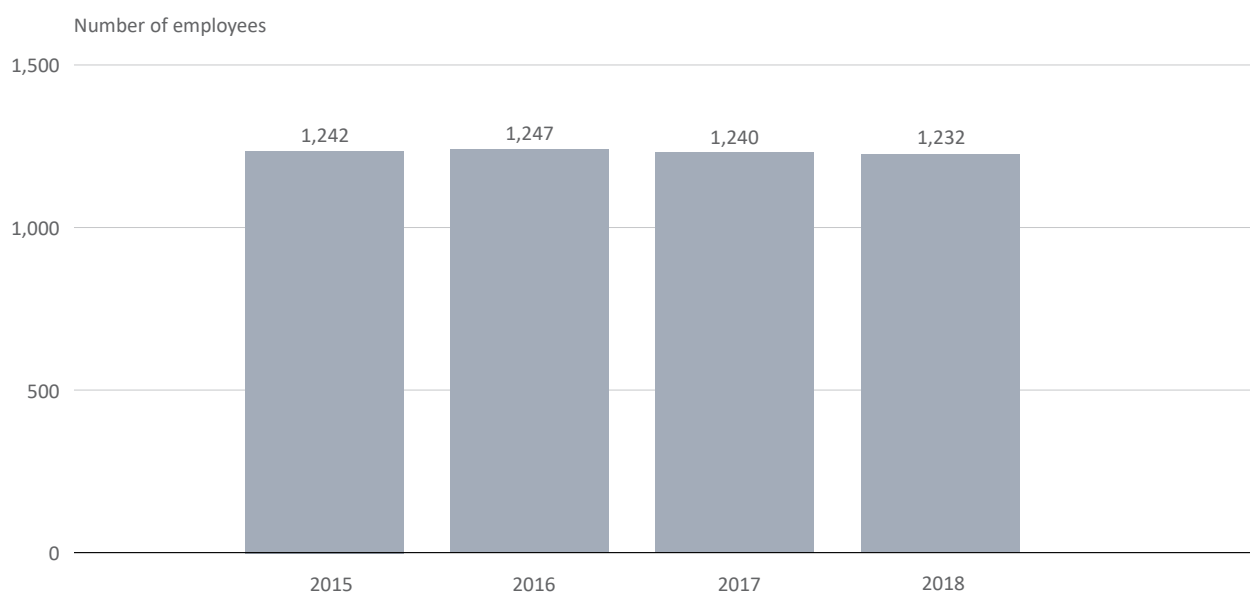
Table 9: Key data on DARS d.d. employees for 2017 and 2018

	2017	2018
Status of employees at DARS d.d.		
Number of employees at DARS d.d. - incl. replacements	1240	1232
Number of employees at DARS d.d. - excl. replacements	1229	1228
Demographic data on employees		
Average age of employees	45.6 years	45.6 years
Percentage of women employed	26%	25.4%
Employee education structure		
Percentage of employees with a level IV education	38.2%	37%
Percentage of employees with level 5 education	33.4%	32.6%
Percentage of employees with level 6 education	17.3%	17.8%
Percentage of employees with level 7 or higher education	11.1%	12.6%
Social security of DARS d.d. employees		
Number of solidarity benefits granted	52	54
Number of employees with disability status	39	40
Number of procedures introduced for disabilities recognition	30	32
Number registered in voluntary pension insurance	45	79
Sick leave rate	5.3%	5.9%
Employee development – education and training		
Scope of education in hours per employee	23	24
Value of education per employee	154	233
Number of participants in education	2353	2550

Employment

In order to achieve the set business objectives for 2018 and uninterrupted operations, the Company recruited new people pursuant to the adopted Operative implementation section of the HR plan for 2018 and Amendment No. 1 to the Operative implementation section of the HR plan for 2018. A total of 136 external and 85 in-house vacancy notices were published in 2018. DARS d.d. employed 85 workers, while 93 workers terminated their employment.

Figure 28: Number of employees at DARS d.d. from 2015 to 2018



Concern for employee social security

In that area, many activities continued in the first half of 2018 that started in 2016 and 2017 and that were related to the reorganisation of the Toll Service and sales at own points of sale. That is mostly due to a change or postponement of the introduction of the DarsGo system as of 1 April 2018 and legislative amendments laying down anew as of 1 January 2018 the period imputed in the pension qualifying period and, hence, the protected employee categories against dismissal for a business reason. Great emphasis was placed on the provision of information and cooperation with employees, particularly in the implementation of activities related to employee transfers to the Slovenian Employment Service pursuant to the Labour Market Regulation Act (17 employees). Upon additional employer's financial incentives for retirement, 15 workers retired in 2018 and contracts were prepared for 37 eligible persons for the performance of temporary or occasional work following the termination of employment due to retirement. The growing trend of disability procedures continued for the second year in a row, with 32 procedures pending in 2018 for the enforcement of rights arising from disability insurance (the 2013-2016 average amounts to 13.7 procedures per year). In 2018, the share of justified absence from work with respect to regular work amounts to 5.91% and accounts for the highest share of justified absence from work in the last ten years, mostly due to medical reasons.

HR development

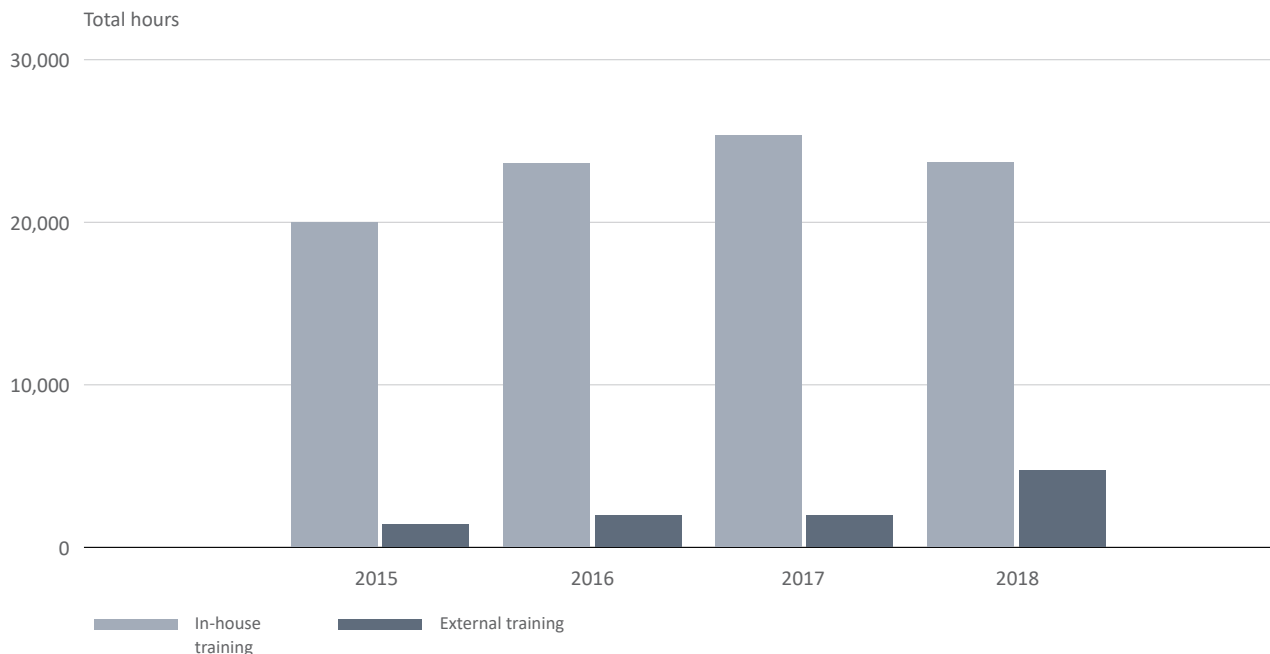
In the first half of 2018, activities to train employees for work within the new DarsGo were still carried out and in the second half of the year, major emphasis was placed on development activities, i.e. the measurements of DARS managers' competencies and the implementation of the ASI DARS project.

In 2018, growth was recorded in external training, amounting to 4,684 training hours, which is 65% more than in 2017. By increasing the volume of external training, employees were given the opportunity to obtain new expertise, manage legislative amendments (toll collection, civil engineering legislation, GDPR, etc.) and technological progress in individual areas of expertise. External training courses were attended by a total of 306 employees.

The volume of in-house training in 2018 amounted to 23,950 training hours and decreased by 8% compared to 2017. In-house training was attended by a total of 2,244 employees.

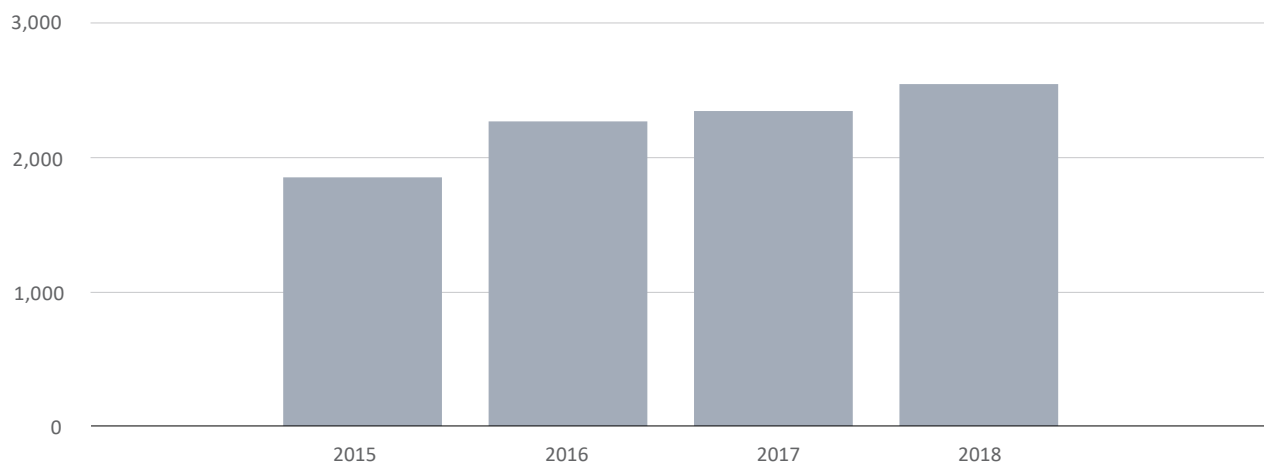
Employee knowledge is the pillar of successful operations for each organisation in the current fast pace of technological development and socioeconomic changes. The fact that DARS is well aware of this and invests in the knowledge of its employees is revealed in the continuously growing trend of employees who are included in training, in the volume of training hours undergone and in the training value per employee.

Figure 29: Overview of training hours for 2015-2018



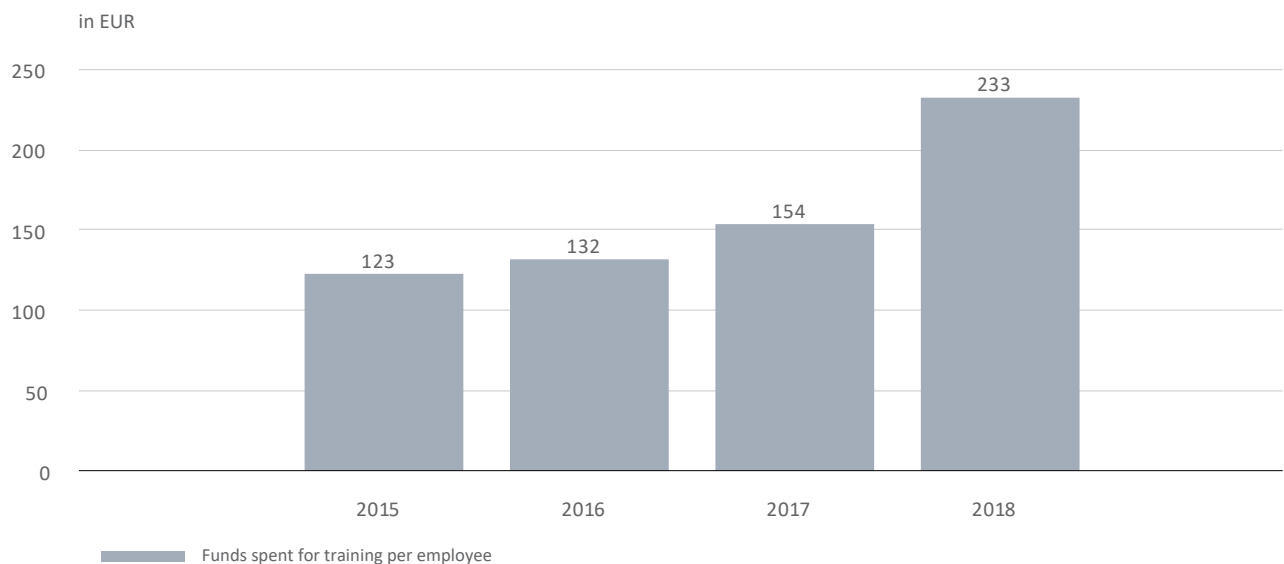
DARS strives to enable its employees to the maximum possible extent to obtain new knowledge and skills that will enable them to perform their work successfully and develop professionally and personally. In order to bring knowledge and skill acquisition closer to employees, the largest share of training is organised in-house. That way, the training process can include the largest number of employees. In 2018, the training process included a total of 2,550 employees, which is an 8% increase compared to 2017.

Figure 30: Number of persons included in training in the 2015-2018 period



In 2018, more external training was provided for the enhancement of expertise and professional competences of employees who require continuous up-skilling in their work, which represents higher investments per employee in terms of value. In 2018, the training value per employee amounted to €233, which is 51% more than in 2017.

Figure 31: Value of funds spent on training per employee in the 2015-2018 period



HRM projects

In addition to training, some other activities in HR management were conducted in 2018:

LOGINS project: DARS joined the partner project of the KoC LOGIN competence logistics centre, within the scope of which it obtained €39,000 from the European Social Fund for employee training, which can be drawn in 2017 and 2018. In 2017, training courses conducted reached €16,620 and those in 2017 reached a total of €22,380. 187 employees were trained within the scope of the project.

ASI DARS project: To preserve the knowledge and availability of elderly employees for work, DARS applied to an open invitation published by the Public Scholarship, Development, Disability and Maintenance Fund of the Republic of Slovenia RS JP ASI 2017, and was successful and obtained €70,000 additional funds. In May 2018, it started activities and managed to prepare a Management strategy for elderly employees, produce personal development plans for 350 employees and conduct several training courses. The project continues intensively in 2019.

Measurement of the competences of DARS managers: Managers at DARS play an important role and hold responsibility for the successful work of all employees, which is why they are included in an assessment of competencies, so that their performance in the management of associates can be improved and enhanced continuously. The first assessment of competences was carried out in December 2015, and in autumn 2018 competencies were remeasured, i.e. for all managerial levels. The competence measurement included a total of 132 managers and assessments showed that DARS managers considered their responsibility to work strong, that they abided by what they had agreed on and that they have good knowledge of the area in which they work. The competence assessment improved compared to 2017.

Organisational climate and employee satisfaction: DARS again measured the organisational climate in 2018, since its results direct the Company to make continuous efforts and improvements to organisational systems and the working environment for the more effective attainment of the goals set. Compared to 2017, results for 2018 show improved scores in innovations and initiative taking, internal affairs and management, as well as improved total score for organisational climate and employee satisfaction. Like last year, challenges are present in the reward scheme, career development and internal communications, where suitable measures are underway.

DARS is a family friendly company: Based on the adopted measures deriving from the acquired full Family Friendly Company certificate, activities continued in 2018 that make it easier for employees to coordinate their job duties and family life. At the start of the year, an external audit of all activities was undertaken and a positive opinion was given. By concluding a new contract, DARS undertook to extend activities in the preservation of the full Family Friendly Company certificate.

1.16.7.1 Development of a safe working environment

DARS d.d. is well aware of the importance of providing safety to employees at work, since many employees perform extremely dangerous work on the roads, where their safety not only depends on themselves, but also on road users' conduct. Hence, safety was included in the 2017-2020 Strategy as one of the most important elements for successful planning of Company development. One major operative strategic goal is also a reduction in the number of persons injured at work by 15% until 2020, which is why the Company has dedicated a great deal of funds for 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. Alongside the implementation of the most significant novelty - the change of the tolling system for vehicles with a maximum permissible weight exceeding 3.5 tonnes, which abolished toll collection at toll booths on the motorway (thus abolishing dangerous lane crossing by employees and their exposure to exhaust gases, noise and draft) - the Company also notes two major acquisitions in maintenance in 2018, i.e. the replacement of tunnel washing machine and the purchase of a machine for the production of horizontal signalling using the hot procedure (thermoplastic).



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

Accidents at work

In 2018, there were 33 workplace accidents resulting in worker injury at the Company, which is one more than the year before. The most accidents with injuries occurred in quarter 1, when 12 employees were injured by falling on a snow-covered or icy surface. None of the employees experienced disability; however, the Company recorded the highest sick leave in recent years. 11 employees were on sick leave of more than 20 days.



Figure 32: Number of injured employees

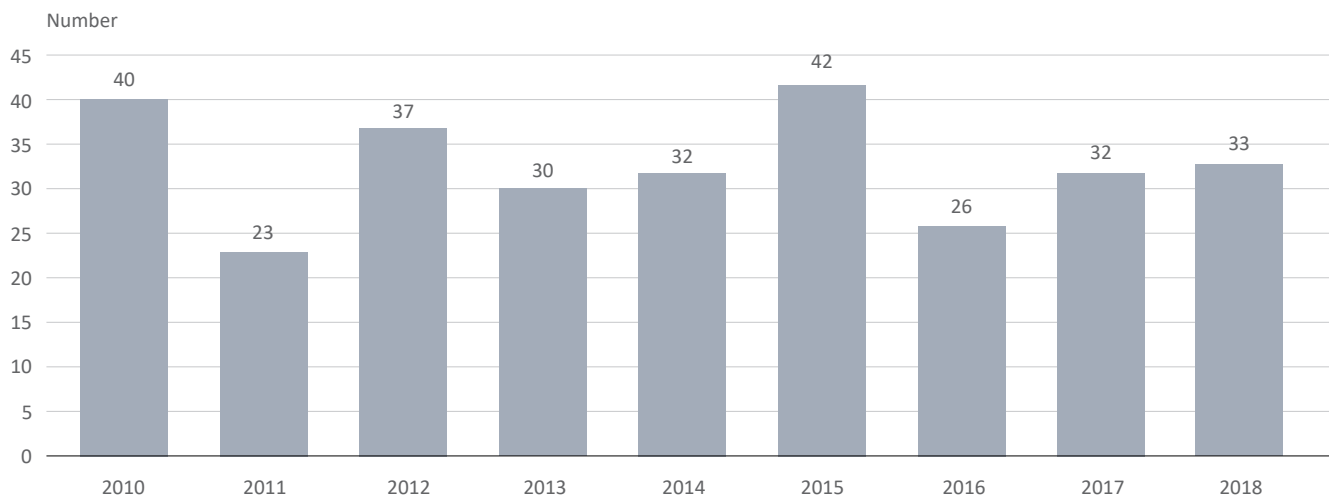
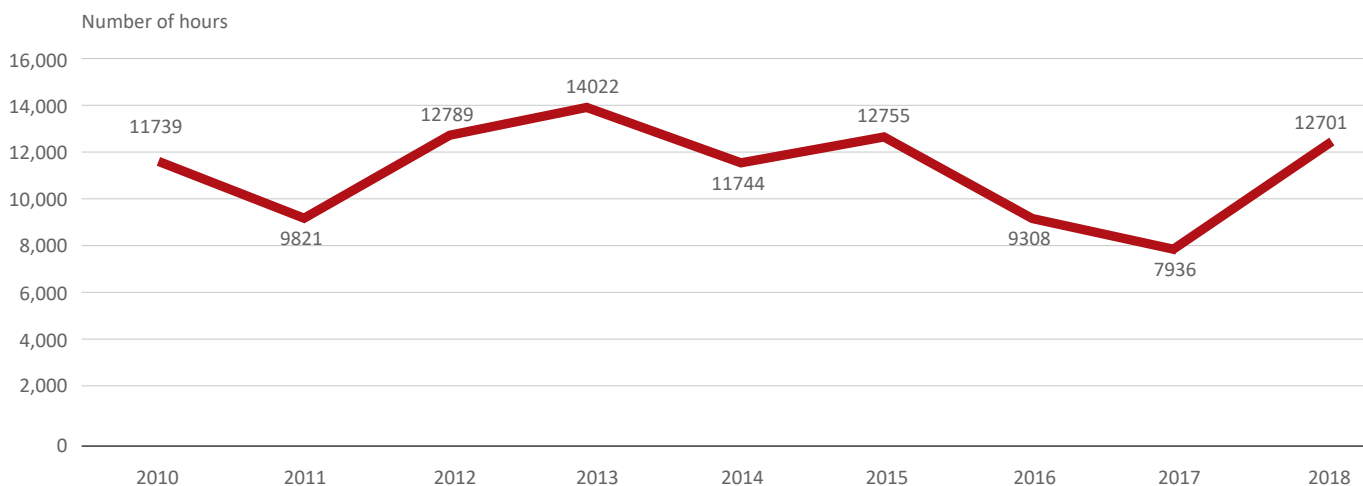


Figure 33: Sick leave in hours as a result of accidents at work



I.16.8 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.

I.16.8.1 Systematic environment and energy management

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

I.16.8.2 Energy management

DARS d.d. ranks among larger energy consumers in Slovenia with an annual energy consumption of 47.4GWh (in 2018). 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 (49.8%), followed by fuel (39.4%). A minor share of energy is used for heating facilities and that area requires 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 5% by 2020 with respect to the existing electricity users.
- To reduce energy consumption for heating by 10% until 2020 with respect to the 2015 baseline year.
- To reduce CO₂ emissions from energy products for heating by 20% until 2020 with respect to the 2015 baseline year.

Total energy consumption

The table 10 shows the 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.

Table 10: Energy consumption

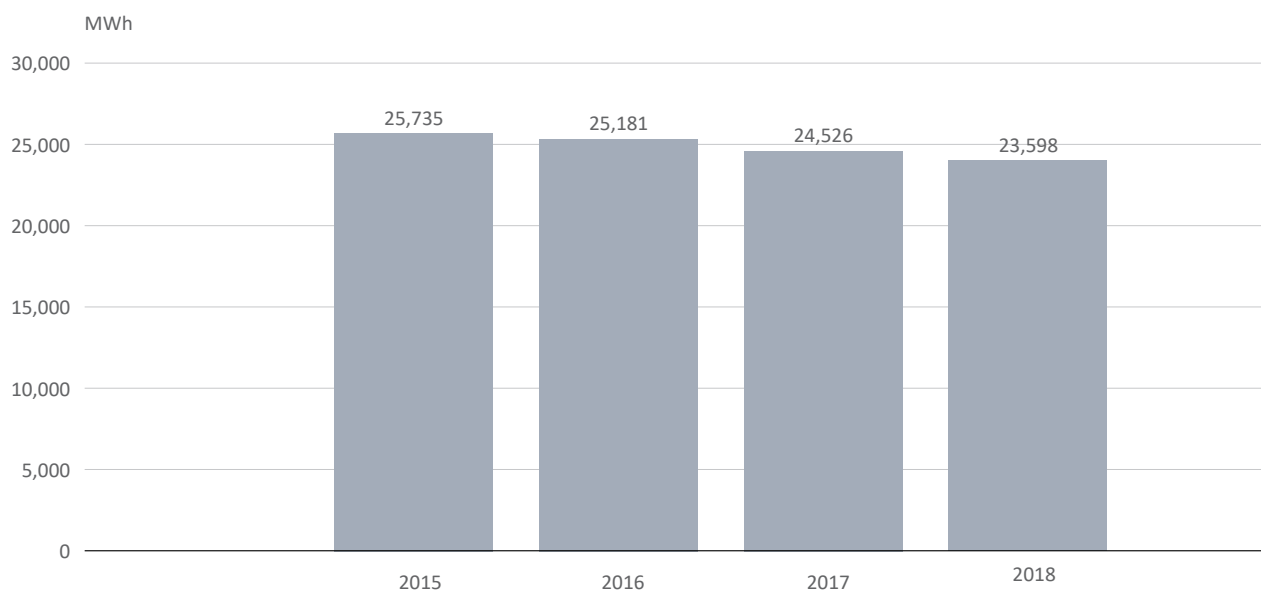
		2015	2016	2017	2018
Electricity	MWh	25,735	25,181	24,526	23,598
Fuel*	MWh	16,384	17,538	16,369	18,662
Natural gas	MWh	1,866	1,524	1,676	1,443
LPG propane	MWh	2,018	2,253	2,123	1,964
LPG propane butane	MWh	1,171	1,225	1,105	852
Heating oil	MWh	238	344	291	238
District heating	MWh	586	810	778	638
Total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

* At the beginning of 2018, all MW branch offices were furnished with mobile filling services and a uniform system of fuel consumption and conversion into MWh was updated, which resulted in changed data in the 2015-2017 period.

Electricity

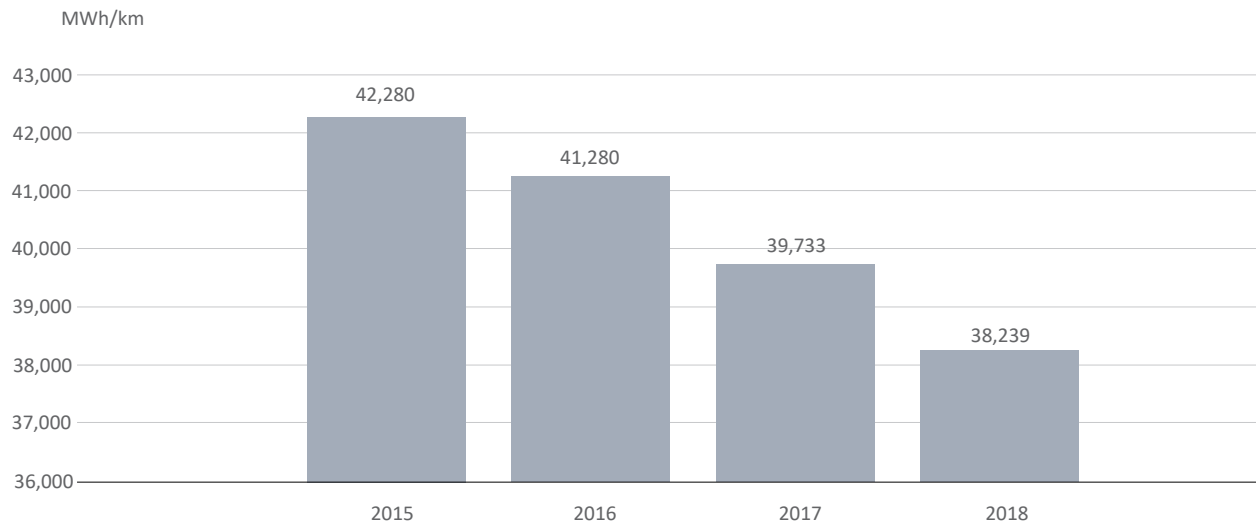
Within the scope of the measures introduced, the Company managed to reduce the total electricity consumption despite expanding the MW network and opening a new MW section (Draženci - Gruškovje) to traffic, as evident from the chart below.

Figure 34: Total electricity consumption (MWh)



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

Figure 35: Total electricity consumption per MW kilometre (MWh)



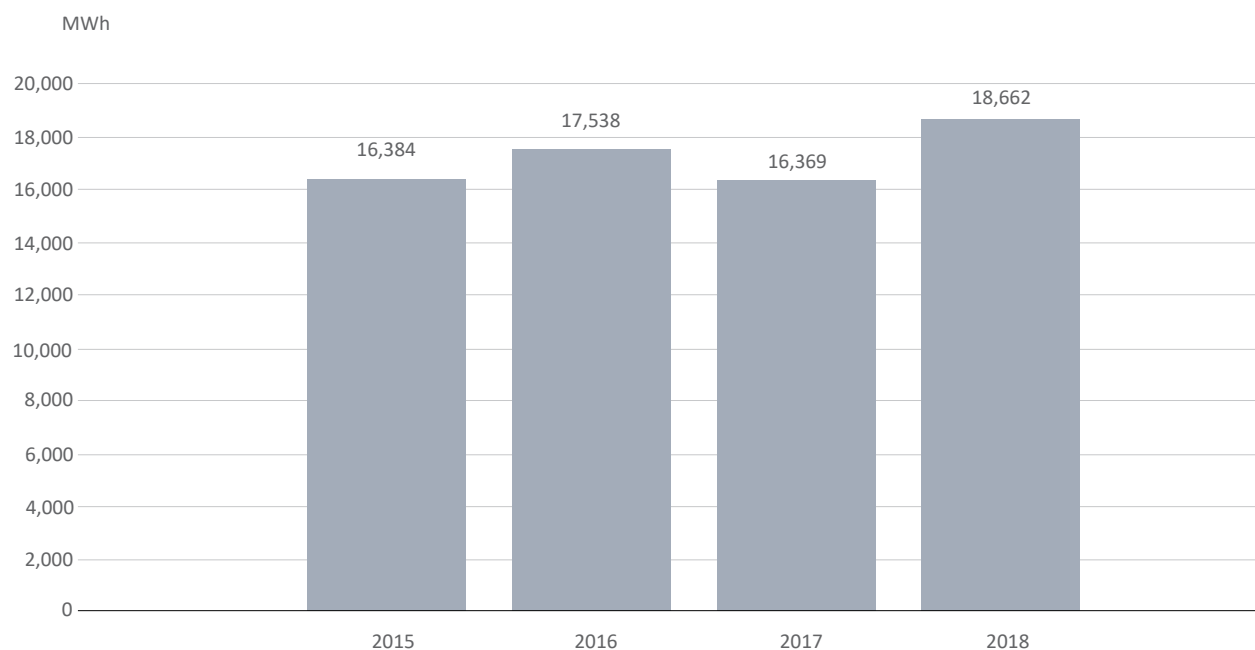
Note: The total electricity consumption per MW kilometre decreased in 2017 from 40,207 kWh/km to 39,733, because the new 7.26 km MW section opened on 21 November 2017 was taken into account.

Fuel consumption

In 2018, the Company had 703 work vehicles, 190 of which were heavy goods vehicles for winter service provision and annual maintenance, 150 were light commercial vehicles that are primarily used for regular inspections and minor maintenance works, 116 were combination vehicles, 43 were special-purpose vehicles used for the special-purpose maintenance of structures and alignment, 43 were all-purpose vehicles for winter, summer and technical maintenance, and there were 161 pieces of various work machinery used for winter and summer maintenance. In 2018, the Company recorded above-average precipitation in the winter, with some 30% more snow days and some 15% more cold days than the average, which reflected in the increased consumption of grit material and, consequently, the increased number of kilometres travelled during ploughing and preventive gritting. That also caused an above-average consumption of DIESEL fuel. To reduce the consumption of fuel and grit material, a wet salting system is being introduced throughout the MW and EW area, where preventive salting is done faster and at larger time intervals, since the solution stays on the pavement. Furthermore, the vehicle fleet is being updated with new environmentally cleaner vehicles.

In addition to the previously indicated work vehicles, the Company also had 157 passenger cars and 27 toll supervision vehicles in 2018.

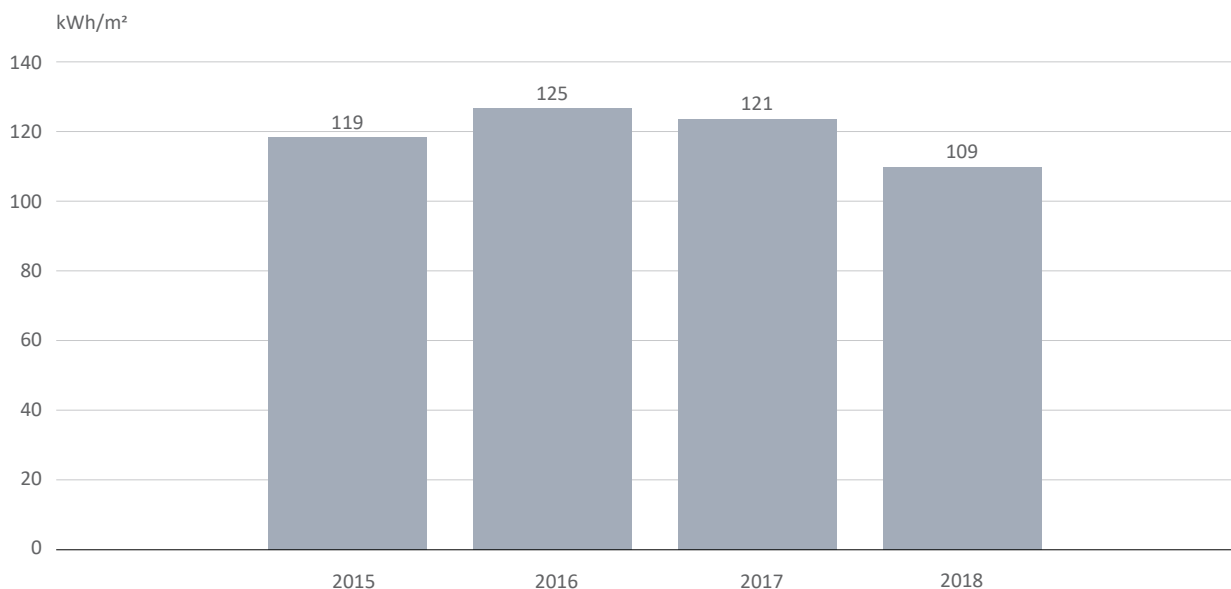
Figure 36: Annual fuel consumption (MWh)



Heating

The largest energy consumers for heating are 9 motorway maintenance centres (MMCs) and 6 branches, followed by the office building in Celje and other facilities. The year 2018 was a breakthrough year in terms of building heating, since conditions changed substantially with the introduction of DarsGo as of 1 April 2018. Energy consumption for toll station heating reduced substantially with the abolition toll booth heating and the heating of office buildings at toll station areas was adjusted to the newly emerged conditions. The reduced energy consumption was the result of relatively favourable outdoor temperatures and the mentioned abolition of some toll structures, the successful implementation of the DARS Energy Information System (hereinafter "EIS") in 6 buildings of the eastern cohesion region, the installation of energy consumption meters at all locations, conducted stage 1 of energy improvement of MMC and TS Hrušica, and partially also successfully implemented training and the provision of information to building managers and their caretakers. The result of the mentioned actions carried out in 2018 is evident in the diagram of energy consumption per m² of heated surface (109kWh/m²). The opportunity to reduce energy consumption lies in the active promotion of efficient energy use among caretakers, EIS implementation to all major users, compliance with the requirements laid down in the Rules on the efficient use of energy in buildings with a technical guideline.

Figure 37: Heat energy consumption per square metre of heated surfaces



I.16.8.3 Light pollution

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

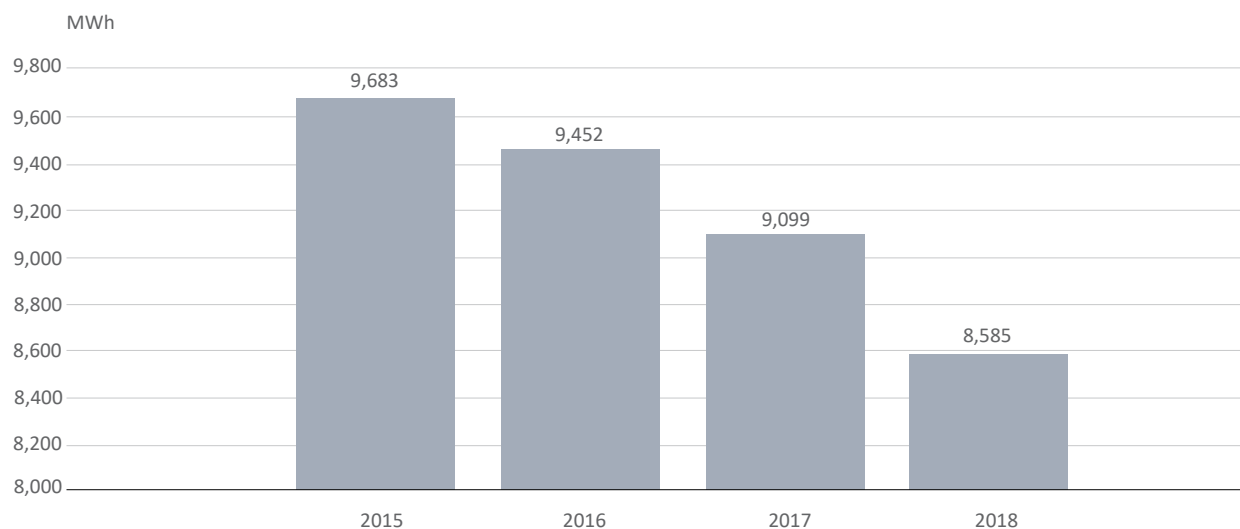
In the past 5 years, 3189 lights were replaced, accounting for 55% of all road lighting. In the next two years, DARS intends to replace the remaining road lighting with LED lights. On 3 August 2018, a contract was signed with the design engineer for Executive Design documents and an extract for all other lamps that are not made using LED technology.

Regarding the replacement of the main lighting in tunnels, the selection of a contractor for the Golovec tunnel and Strmec cut and cover is pending.

The lamp replacement was executed in the following stages:

- the pilot project at the Vransko and Rudnik access points,
- stage 1 of replacement – Dolenjska and Primorska MW legs and the Ljubljana ring,
- stage 2 of replacement – MMCs,
- stages 3 and 4 of replacement – Štajerska and Gorenjska MW legs,
- replacement on the northern bypass.

Figure 38: Electricity consumption - lighting (MWh)



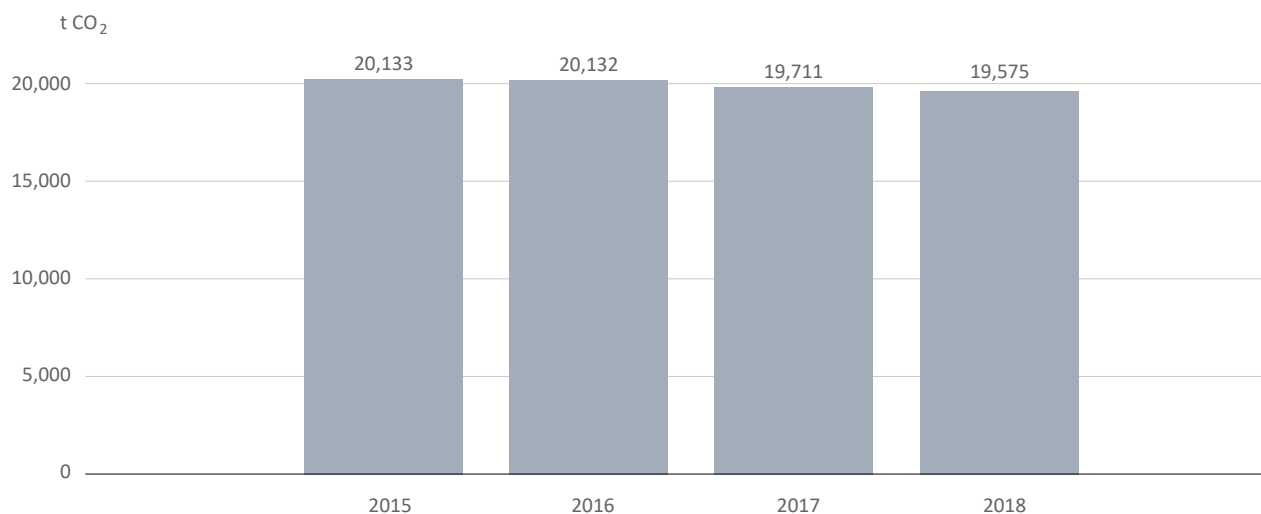
I.16.8.4 Carbon footprint monitoring

Carbon footprint is the total amount of greenhouse gas emissions related to the operations of DARS d.d. The carbon footprint calculation at the Company level took into account all direct greenhouse gas emissions (CO₂ and other) that are incurred at DARS d.d. locations.

These include: fuel consumption for own vehicle fleet, energy consumption for heating (natural gas, LPG propane, LPG propane butane, extra light fuel oil (ELFO) and district heating), loss of coolants, employees' transport to and from work, transport by aircraft (European and overseas flights). The carbon footprint calculation also took into account indirect emissions deriving from the use of purchased energy, i.e. the consumption of electricity, heat, water and auxiliary materials.

Despite the opening of new MW sections in 2017 and 2018, the carbon footprint value has reduced from year to year due to measures to reduce energy consumption, as evident from the figure 39.

Figure 39: Carbon footprint by year for the Company as a whole



Note: At the beginning of 2018, all MW branch offices were furnished with mobile filling services and a uniform system of fuel consumption for diesel and petrol was updated, which resulted in changed data in the 2015-2017 period.

I.16.8.5 Emissions into the air

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

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

We reduce the amount of traffic congestion by optimising traffic flow, thereby minimising gas emissions. This is achieved by forcing freight vehicles off motorways on time, through road diversions, additional variable message signs and the coordination of all closures, as well as through the coordinated operation of control centres.

I.16.8.6 Concern for animals in the MW area of influence

The invasion of wild animals onto the motorway presents a significant risk for:

- the safety of all participants in motorway traffic and animals,
- the safety of motorway maintenance workers who have to remove or catch the animals,
- material damage and severe trauma,
- serious accidents resulting in fatalities or severe bodily injury.

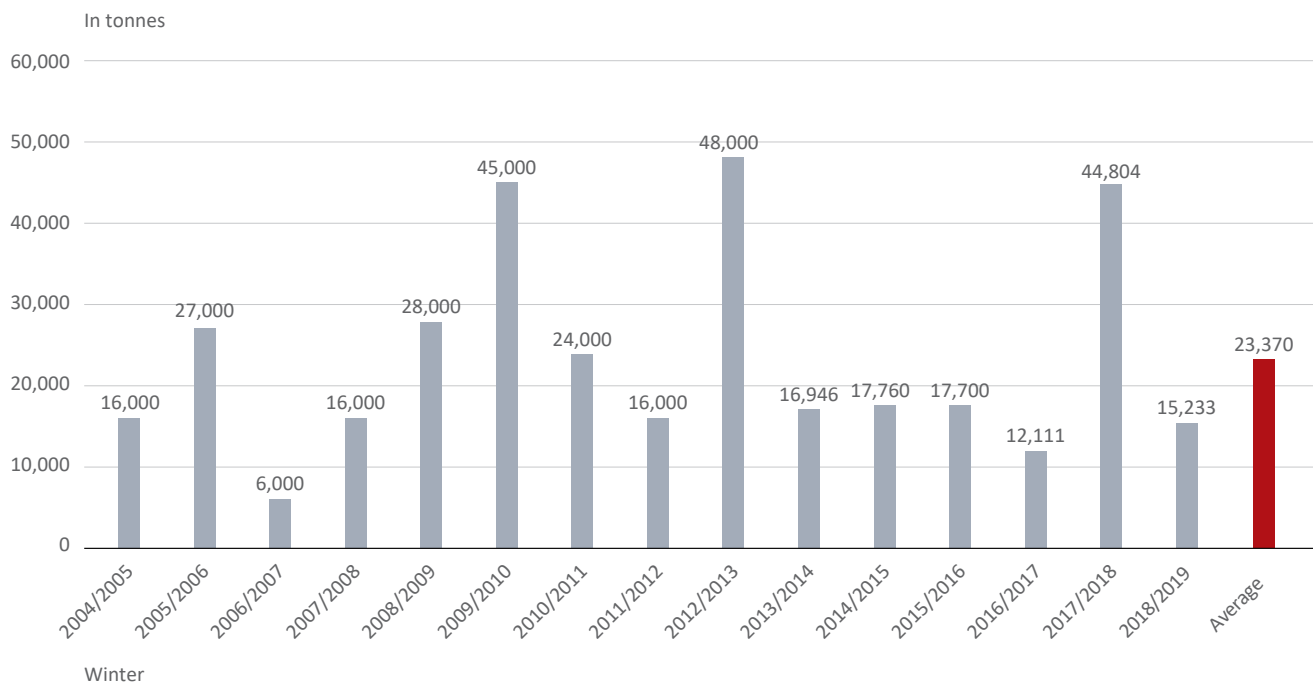
Therefore, DARS has made efforts since the very beginning to minimise such cases by regularly checking the barriers, using deterrent devices and including the issue of animal passages in the procedures to prepare the national spatial plan. We have adapted or expanded all our underpasses, which are located in areas where animal crossings have been recorded, in such a way that they now have an additional, unfortified path for the crossing of animals in addition to the road surface in the underpass. The prevention of animal road kill on all traffic routes (national roads, motorways and railways) is important both in terms of animal mortality rates and traffic safety improvement. To that end, Dars installed electric fences on the Logatec - Postojna section and furnished all MW access points with acoustic deterrent devices for deer, which are installed on indicators. A total of 571 deterrent devices were set up.

1.16.8.7 Environmental impacts of road gritting

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

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

Figure 40: Consumption of grit materials in tonnes



In 2018, the environmental impact of salting was also monitored within the scope of the implementation of the Annual Programme of Operational Monitoring (APOM) of rainwater from retention basins. Analyses of the individual samples taken showed no excess presence of salting elements; in each analysis, the salting elements were within the prescribed limits.

Wet salting

Based on foreign and domestic experiences in wet salting, DARS decided to use a 20% NaCl solution for preventive gritting. Wet salting is when a saline solution is spread over a road lane. So far, the Company has used FS30 wet salting (30% solution and 70% dry salt). Since the effect of wet salting is the same or even better and much cheaper (FS100), the Company expects to furnish all MMCs with the relevant equipment. In 2018, additional silos and devices for the production of sodium chloride solutions were supplied to MMC Hrušica, MMC Ljubljana and MMC Postojna.

I.16.8.8 Protection of waters

Rainwater can be removed from motorways using two methods: dispersed water drainage and controlled water drainage through 744 retention basins on individual MW legs.

In 2018, the Company continued the regular annual cleaning of all of the most burdened oil separators (motorway maintenance centres and branches), for which the Company concluded a contract with an out-sourcer, and the basic maintenance of retention basins (grass mowing, repairing damaged parts and railings and cleaning de-sanding areas and sand traps). Hazardous and non-hazardous waste that was generated was handed over to a contractual recipient of such waste that has a valid environmental permit issued by the Slovenian Environment Agency. Concerning the operation of retention basins in terms of protecting the natural environment, the Company conducted the annual operational monitoring for rainwater from roads in a representative retention basin, which measures the pollutant load of the discharge water from the retention basins. Measurements have shown that the parameters of the discharge water from the retention basins are within the limits prescribed by the Regulation and, as such, can be discharged into nature without further treatment.

I.16.8.9 Noise emissions

DARS has erected noise barriers along the motorway alignment due to traffic since 1988. Since then, until the end of 2018, 217.27 kilometres of noise barriers have been erected.

The Noise Action Programme for the First Phase Major Roads and Major Railways (OP HRUP) requires that operators of road and railway infrastructure implement measures to limit excessive environmental noise loads. It comprises two lots. Lot B was implemented by DARS in 2014 and 2015 within the scope of the Environmental and Road Infrastructure Development Action Programme, i.e. through the Construction of Noise Barriers on Five Motorway Sections in the Republic of Slovenia (Brezovica–Vrhnika, Dramlje–Celje, Celje–Arjvas and Malence–Šmarje–Sap) project, which is co-funded with EU cohesion funds in the amount of 85%. By implementing noise protection measures, the operator will be able to prevent excessive noise pollution of the environment by traffic in the relevant sections. Overall, 31.4 kilometres or nearly 141 thousand square metres of new noise barriers were constructed at five motorway sections within this project.

Based on the adoption of the methodology for noise protection monitoring on motorways and expressways, the Company began recording the condition of noise protection with the assistance of a contract specialist. Based on collected and analysed data, a part of the noise protection was included in the Plan of Measures on Infrastructure for 2018-2021. The data collected was included in the preparation of expert bases for the renovation of noise barriers, which are prepared in cooperation with an outsourcer.

Furthermore, the Company carries out measures imposed by the governmental Noise Action Programme for 2013-2018. The measures included in the Noise Action Programme, lot B, on five motorway sections have

already been implemented, and the protection of the most affected individual residential buildings along the motorway network continues – in 2019, it is planned to implement noise protection measures at 11 locations along the Slovenian motorway network.

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.

In 2019, it is expected that the Noise Action Programme will be revised for the 2018-2023 period. 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 a noise action programme laying down criteria for the restoration of noise protection barriers.

In line with the law, DARS d.d. carries out operational noise monitoring for the motorway and expressway network. Based on the results, noise protection measures will be planned that will be included in the preparation of expert bases for the Noise Action Programme in affected areas. Expert bases for the Noise Action Programme lay down guidelines for protection against the noise produced by road traffic and will also lay down criteria for the assessment of economic viability and proportionality of noise protection measures, guidelines for passive protection design and guidelines for noise barrier design.

I.16.9 Inclusion in broader 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:

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

Commitments to external incentives

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

Membership in international associations

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

Sponsorships and donations

The fundamental mission of DARS d.d. is not only limited to motorway links, but is also focused on the broader social environment with its activities. The Company takes concern and responsibility for people and the environment in which it operates. Donations and sponsorship funds are largely intended for projects involving preventive actions in traffic and for the organisation of expert meetings.

I.16.10 Responsibility to suppliers/contractors

In 2018, DARS d.d. successfully cooperated with suppliers/contractors at home and abroad, although most business cooperation was focused on suppliers/contractors from Slovenia providing services, goods and construction works with respect to the specific nature of operations.

Criteria for the award of a public contract

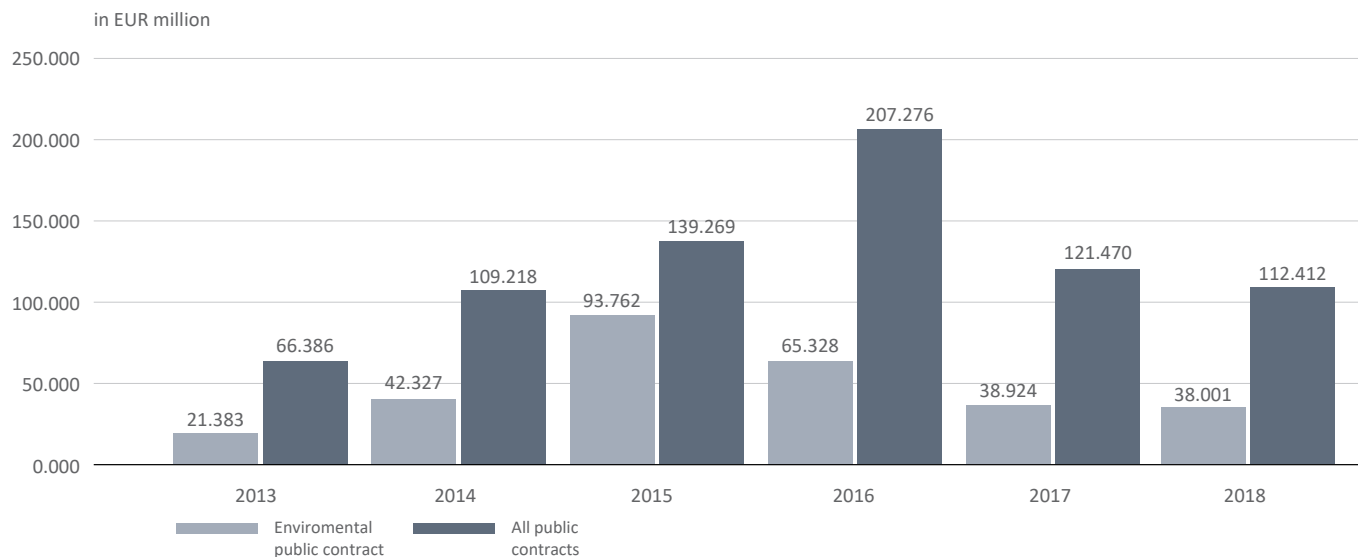
When procuring goods, services and construction works, DARS d.d. is bound to observe the Public Procurement Act. Criteria for the award of a public contract are laid down in detail in Article 84 of the Public Procurement Act and require a contracting entity to award a public contract based on the most economically advantageous tender. 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. The Decree no longer lays down obligatory environmental requirements as in the previous regulation, but lays down in Article 6 what environmental aspects should be considered by the contracting entity in the award of public contracts and the goals that must be achieved in each public procurement procedure for the subjects laid down in Article 4 of the Decree.

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 2018 shows that 1,333 contracting entities awarded public contracts in the total amount of €3,559,552,775 (excluding VAT). The number of published invitations to tender amounted to 14,031 and the public contracts awarded amounted to 52,776. The environmental aspect was taken into account in 21,646 or 41.01% 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 2018 (in € million) is shown in the continuation.

Figure 41: All public contracts and environmental public contract from 2013 to 2018



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

I.16.11 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.

1.17 REPORT OF THE SUPERVISORY BOARD FOR 2018

In 2018, the composition of the Supervisory Board did not change. Supervisory Board Members were Marjan Mačkošek (Chairman), Miha Juhart, PhD (Vice-Chair), Tatjana Colnar, MSc, and Igor Pirnat, MSc, and Darko Kodrič and Rožle Podboršek (both employee representatives).

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. It 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 and its 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 2018 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 2018 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 2018, the Supervisory Board of DARS d.d. met at 11 regular sessions and 7 correspondence sessions, at which it discussed the 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 of DARS d.d. paid special attention to the ETS-FTF project, where it was informed monthly of the progress made on the project. During the establishment of the system, upon its acceptance and after its successful introduction, the Company Director regularly attended meetings, showing that Supervisory Board Members were truly committed to making the project successful. The electronic tolling system in free traffic flow for vehicles with a maximum permissible weight exceeding 3.5 tonnes (DarsGo system) was successfully launched on 1 April 2018. The old tolling system stopped working at midnight and the DarsGo system was put into operation. The introduction of the system was conducted without complications and caused no delay upon introduction on any toll road, including border crossings. Traffic ran smoothly. Despite the successful deployment of the project, the Supervisory Board will continue to monitor the situation in the project on a regular basis.

The Supervisory Board did not perform a self-assessment in 2018. 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 2017 Annual Report, adopted a report on its activities for the previous year,
- discussed and confirmed propositions for adopting resolutions at the General Meeting,
- made decisions on remuneration for the Management Board,
- gave consent for the amended Business Plan for 2018,
- gave consent for the Business Plan for 2019,
- gave consent for transactions in excess of €1.5 million (excluding VAT) as per the Articles of Association until 28 June,
- gave consent for transactions in excess of €2.5 million (excluding VAT) as per the Articles of Association as of 28 June,
- gave consent for public procurement notices until 9 April as per the Rules of Procedure of the Supervisory Board,
- adopted new Rules of Procedure for the Supervisory Board on 9 April, and supplemented it on 9 July and 27 August due to an amendment of the Company's Articles of Association,
- adopted new Rules of Procedure for the Supervisory Board Audit Committee,
- adopted new Rules of Procedure for the Supervisory Board Committee for Remuneration and Management Board Assessments,
- adopted a diversity policy,
- regularly kept track of the status of the ETS in FTF project (DarsGo) and system deployment,
- regularly kept track of the status of public procurement procedures,
- was informed of the Report on the implementation of the national programme for 2017,

- confirmed the Company Sustainability Report for 2017,
- gave consent to the Annual Plan of the Internal Audit Service for 2018 and familiarised with the Report on the Work of the Internal Audit Service for 2017,
- gave consents to the basic document of the Internal Audit Service,
- proposed that the General Meeting grant discharge to the Management and Supervisory Boards for the 2017 financial year and agreed with the proposal for the distribution of available profit according to the balance as at 31 December 2017,
- regularly discussed reports on Company operations,
- acquainted itself with the non-audited semi-annual report,
- regularly acquainted itself with reports of Supervisory Board committees,
- supplemented Rules on Determining the Content of Employment Contracts for the Management Board Chairman and Members regarding Remuneration and Severance Pay,
- monitored the realisation of self-assessment measures using the EFQM excellence model,
- was kept informed of other information (including the execution of the new tube of the Karavanke tunnel, 3rd development axis, 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 to the Supervisory Board. They regularly reported and gave advice to the Supervisory Board, which had full decision-making power. The Audit Committee undertook a self-assessment and adopted an action plan. Both Committees adopted new Rules of Procedure.

In 2018, the Audit Committee met at 5 regular meetings and 2 correspondence meetings. It prepared bases for the confirmation of the Annual Report by the Supervisory Board. It discussed it with auditors from KPMG d.o.o. The Committee discussed the non-audited 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 2017, the plan of work for the Internal Audit Service for 2018, the basic documents on the operation of the Internal Audit Service and put forth a proposal to the Supervisory Board to issue consent to the plan of work for the Internal Audit Service and to the basic document. Furthermore, it regularly monitored and discussed reports and recommendations given by the Internal Audit Service. The Committee also discussed other questions and issues falling within the competence of the Audit Committee.

The Supervisory Board Committee for Remuneration and Management Board Assessments met at two regular sessions in 2018. 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. It was informed by the HR management strategy. It prepared the Company Diversity Policy and put forth a proposal to the Supervisory Board to confirm it. It also prepared amendments to the Rules on Determining the Content of Employment Contracts for the Chairman and Member of the Board regarding Remuneration and Severance Pay.

Pursuant to paragraph 2 of Article 282 of the Companies Act, the Supervisory Board of DARS prepared a written report on the findings of the review of the Company's Annual Report for 2017 and a proposal to 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 2018 Annual Report

Company management submitted the Annual Report for 2018 including the business report and audited financial statements along with the auditor's opinion to the Supervisory Board on 8 April 2019. The Supervisory Board of DARS d.d. discussed the Annual Report of DARS d.d. for 2018 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 2018 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.

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 2018 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 2018 and assessed that it reflected the actual state in Company governance in 2018.

Marjan Mačkošek

Chairman of the Supervisory Board



DARS



||. FINANCIAL REPORT



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II.7 FINANCIAL STATEMENTS OF DARS D.D.

Balance as at 31 December 2018

In EUR (without cents)	Notes	31/12/2018	31/12/2017
ASSETS		5,656,311,816	5,751,989,678
A. LONG-TERM ASSETS		5,213,235,131	5,454,082,184
I. Intangible assets and long-term deferred costs and accrued revenues	II.5.1.1	31,676,063	1,246,400
1. Long-term property rights		31,651,564	1,246,400
5. Other long-term deferred costs and accrued revenues		24,499	0
II. Property, plant and equipment	II.5.1.2	5,114,565,110	5,167,303,904
1. Land and buildings		5,019,835,517	5,043,672,914
a) Land		197,078,544	200,715,444
b) Buildings		4,822,756,972	4,842,957,470
3. Other machinery and equipment		36,652,695	17,329,322
4. Property, plant and equipment being acquired		58,076,899	106,301,668
a) Property, plant and equipment under construction		58,076,899	106,301,668
III. Investment property	II.5.1.3	2,311,621	2,341,315
IV. Long-term financial investments	II.5.1.4	37,000,964	253,000,964
1. Long-term financial investments, excluding loans		37,000,964	253,000,964
c) Other shares and stakes		964	964
d) Other long-term financial investments		37,000,000	253,000,000
V. Long-term operating receivables	II.5.1.5	21,555,604	24,826,591
2. Long-term trade receivables		30,757	30,761
3. Long-term operating receivables due from others		21,524,846	24,795,830
VI. Deferred tax assets	II.5.1.6	6,125,768	5,363,010
B. CURRENT ASSETS		442,138,263	296,988,260
I. Assets (of the disposal group) available for sale	II.5.1.7	169,129	169,129
II. Inventories	II.5.1.8	4,334,186	5,114,895
1. Materials		3,684,322	3,170,408
3. Products and merchandise		649,863	1,944,487
III. Short-term investments	II.5.1.9	331,264,113	210,550,156
1. Short-term investments, excluding loans		264,113	1,050,156
c) Other short-term investments		264,113	1,050,156
2. Short-term loans		331,000,000	209,500,000
b) Short-term loans to others		331,000,000	209,500,000
IV. Short-term operating receivables	II.5.1.10	57,375,976	46,226,877
2. Short-term trade receivables		23,330,975	17,992,452
3. Short-term operating receivables due from others		34,045,001	28,234,426
V. Cash and cash equivalents	II.5.1.11	48,994,859	34,927,203
C. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUE	II.5.1.12	938,423	919,234

In EUR (without cents)	Notes	31/12/2018	31/12/2017
LIABILITIES		5,656,311,816	5,751,989,678
A. EQUITY	II.5.1.13	2,963,264,000	2,811,184,886
I. Called-up capital		2,322,284,140	2,322,284,140
1. Share capital		2,322,284,140	2,322,284,140
II. Capital surplus		26,576,528	26,576,528
III. Profit reserves		566,797,337	417,119,034
1. Legal reserves		32,737,888	25,017,383
4. Statutory reserves		125,588,272	88,915,873
5. Other revenue reserves		408,471,176	303,185,778
V. Fair value reserves		-7,402,605	-5,071,614
VI. Retained net profit or loss		0	0
VII. Net profit or loss for the financial year		55,008,600	50,276,799
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUE	II.5.1.14	198,670,269	202,542,960
1. Provisions for pensions and similar liabilities		3,426,749	3,447,940
2. Other provisions		31,010,303	35,193,069
3. Long-term accrued costs and deferred revenue		164,233,217	163,901,951
C. LONG-TERM LIABILITIES	II.5.1.15	2,176,955,565	2,386,438,717
I. Long-term financial liabilities		2,056,619,825	2,244,468,973
2. Long-term financial liabilities to banks	II.5.1.16	1,739,365,546	1,924,029,739
3. Long-term financial liabilities for bonds	II.5.1.17	160,364,547	160,364,547
4. Other long-term financial liabilities	II.5.1.18	156,889,732	160,074,687
II. Long-term operating liabilities		120,285,559	141,770,215
2. Long-term trade liabilities	II.5.1.19	344,487	623,128
5. Other long-term operating liabilities	II.5.1.20	119,941,072	141,147,087
III. Deferred tax liabilities	II.5.1.21	50,181	199,530
D. SHORT-TERM LIABILITIES		295,438,931	322,726,671
II. Short-term financial liabilities	II.5.1.22	234,731,087	239,059,996
2. Short-term financial liabilities to banks		216,084,171	223,283,256
3. Short-term financial liabilities for bonds		3,416,071	3,414,923
4. Other short-term financial liabilities		15,230,845	12,361,816
III. Short-term operating liabilities	II.5.1.23	60,707,844	83,666,676
2. Short-term trade liabilities		30,743,653	34,744,737
4. Short-term operating liabilities for advances		62,736	634,256
5. Other short-term operating liabilities		29,901,455	48,287,684
E. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUES	II.5.1.24	21,983,051	29,096,443

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 2018 (version I)

In EUR (without cents)	Notes	1/1 - 31/12/2018	1/1 - 31/12/2017
1. Net sales revenue	II.5.2.1	465,605,859	442,244,312
Toll revenue		451,497,703	430,894,988
Revenue from rest stop leases		8,038,859	7,449,857
Revenue from closures and overweight load transports		1,142,321	834,351
Revenue from easements for base stations and others		686,602	676,395
Revenue from performance contracts		300,000	330,295
Revenues from the lease of optical fibres		1,026,446	1,018,613
Other sales revenue		2,913,930	1,039,813
3. Capitalised own products and services	II.5.2.2	898,978	2,079,463
4. Other operating revenue	II.5.2.3	22,875,241	9,331,102
5. Costs of goods, materials and services	II.5.2.4	-47,646,986	-38,635,453
a) Cost of goods and materials sold and cost of materials used		-10,784,758	-9,397,092
b) Costs of services		-36,862,228	-29,238,361
6. Labour costs	II.5.2.5	-40,847,516	-39,730,512
a) Costs of salaries and wages		-30,226,388	-29,026,191
b) Social security costs		-5,913,866	-5,726,422
c) Other labour costs		-4,707,262	-4,977,899
7. Write-downs	II.5.2.6	-175,081,720	-161,140,888
a) Depreciation/amortisation		-171,160,088	-160,302,767
b) Operating expenses from the revaluation of intangible assets and PPE		-3,749,710	-709,825
c) Operating expenses from the revaluation of current assets		-171,922	-128,295
8. Other operating expenses	II.5.2.7	-3,408,916	-3,466,600
10. Financial revenue from loans given	II.5.2.8	806,170	2,132,858
b) Financial income from loans to others		806,170	2,132,858
11. Financial revenue from operating receivables	II.5.2.9	10,968	19,412
b) Financial revenue from operating receivables due from others		10,968	19,412
12. Financial expenses for the impairment and write-down of investments	II.5.2.10	-726,770	0
13. Financial expenses for financial liabilities		-40,084,327	-41,597,306
b) Financial expenses for loans received from banks	II.5.2.11	-25,239,962	-29,869,027
c) Financial expenses for issued bonds	II.5.2.12	-7,340,872	-7,334,285
d) Financial expenses for other financial liabilities	II.5.2.13	-7,503,493	-4,393,994
14. Financial expenses for operating liabilities	II.5.2.14	-280,055	-166,461
b) Financial expenses for trade liabilities and bills payable		-270,363	-161,762
c) Financial expenses for other operating liabilities		-9,692	-4,699
15. Other revenues	II.5.2.15	5,231,151	3,064,261
16. Other expenses	II.5.2.16	-210,665	-309,307
17. Corporate income tax	II.5.2.17	-33,075,718	-32,981,826
18. Deferred tax		356,269	302,088
19. Net profit or loss for the accounting period		154,421,963	141,145,144

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 2018

In EUR (without cents)	2018	2017
19. Net profit or loss for the financial year	154,421,963	141,145,144
Effective part of changes in the fair value of the instrument for hedging against interest rate change risk	-2,925,459	2,766,419
Change in deferred taxes	555,837	-525,620
Other comprehensive income to be recognised in the income statement in the future	-2,369,622	2,240,799
Actuarial gains/losses from severance pay upon retirement	26,772	-71,907
Other comprehensive income not to be recognised in the income statement in the future	26,772	-71,907
23. Other elements of comprehensive income	-2,342,849	2,168,893
24. Total comprehensive income for the accounting period	152,079,114	143,314,037

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 2018

In EUR (without cents)		2018	2017
A. Cash flows from operating activities			
a)	Income statement items		
	Operating revenues (except for revaluation) and financial revenue from operating receivables	493,446,938	454,524,409
	Operating expenses excluding amortisation/depreciation (except for revaluation) and financial expenses for operating liabilities	-91,667,081	-80,357,166
	Corporate income tax and other taxes not included in operating expenses	-33,275,286	-32,154,118
		368,504,571	342,013,125
b)	Changes in net current assets (and deferred and accrued items, provisions and deferred tax assets and liabilities) of balance sheet operating items		
	Opening less closing operating receivables	-7,319,248	-178,600
	Opening less closing deferred costs and accrued revenues	-19,189	-161,113
	Opening less closing deferred tax assets	-762,758	137,743
	Opening less closing assets (of the disposal group) held for sale	0	-8,438
	Opening less closing inventories	780,709	-1,906,852
	Closing less opening operating liabilities	-43,954,784	9,042,325
	Closing less opening accrued costs and deferred revenue and provisions	-10,986,083	19,722,258
	Closing less opening deferred tax liabilities	-149,348	85,788
		-62,410,703	26,733,112
c)	Positive or negative cash flow from operating activities (a + b)	306,093,868	368,746,237
B. Cash flow from investing activities			
a)	Receipts from investing activities		
	Inflows from interest received and shares in profit received relating to investing activities	247,306	2,128,257
	Receipts from the disposal of intangible assets	6,500	0
	Receipts from the disposal of property, plant and equipment	499,913	161,931
	Receipts from the disposal of investments	407,116,127	424,718,059
		407,869,846	427,008,247
b)	Cash disbursements for investing activities		
	Disbursements for the acquisition of intangible assets	-34,021,310	-577,503
	Disbursements for the acquisition of property, plant and equipment	-118,755,297	-108,891,260
	Cash disbursements for the acquisition of investments	-311,264,113	-521,950,156
		-464,040,719	-631,418,919
c)	Positive or negative cash flow from investing activities (a + b)	-56,170,873	-204,410,672
C. Cash flows from financing activities			
a)	Receipts from financing activities		
	Receipts from the increase of financial liabilities	25,000,000	100,000,000
		25,000,000	100,000,000
b)	Disbursements for financing activities		
	Interest paid on financing activities	-41,299,801	-39,823,983
	Disbursements for repayment of financial liabilities	-219,555,539	-203,008,406
		-260,855,340	-242,832,389
c)	Positive or negative cash flow from financing activities (a + b)	-235,855,340	-142,832,389
D. Closing balance of cash and cash equivalents			
x)	Net cash flow in the period (sum of net Ac, Bc and Cc)	14,067,655	21,503,176
y)	Opening balance of cash and cash equivalents	34,927,203	13,424,027

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 EUR (without cents)	I. Called-up capital	II. Capital surplus
	1. Share capital	
A1. Balance as at 31/12/2017	2,322,284,140	26,576,528
B.1 Changes in equity – transactions with owners		
a) Subscription of called-up share capital		
B.2 Total comprehensive income for the reporting period		
a) Entry of net profit or loss for the reporting period		
c) Changes in fair value reserves resulting from fair value measurement		
d) Other elements of comprehensive income for the reporting period		
B.3 Changes in equity		
a) Allocation of the remainder of the net profit of the comparable reporting period to other components of equity		
b) Allocation of a part of the net profit of the reporting period to other components of equity under a decision of the management and supervisory bodies		
f) Other changes in capital		
D. Balance as at 31/12/2018	2,322,284,140	26,576,528
AVAILABLE PROFIT as at 31/12/2018		

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 2017

In EUR (without cents)	I. Called-up capital	II. Capital surplus
	1. Share capital	
A1. Balance as at 31/12/2016	2,319,866,345	26,576,494
B.1 Changes in equity – transactions with owners	2,417,794	35
a) Subscription of called-up share capital	2,417,794	35
B.2 Total comprehensive income for the reporting period		
a) Entry of net profit or loss for the reporting period		
c) Changes in fair value reserves resulting from fair value measurement		
d) Other elements of comprehensive income for the reporting period		
B.3 Changes in equity		
a) Allocation of the remainder of the net profit of the comparable reporting period to other components of equity		
b) Allocation of a part of the net profit of the reporting period to other components of equity under a decision of the management and supervisory bodies		
f) Other changes in capital		
D. Balance as at 31/12/2017	2,322,284,140	26,576,528
AVAILABLE PROFIT as at 31/12/2017		

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

	III. Profit reserves			V. Fair value reserves	VI. Retained earnings	VII. Net profit or loss for the financial year	Total equity
	1. Legal reserves	4. Statutory reserves	5. Other revenue reserves		1. Retained earnings/ losses	1. Net profit for the year	
	25,017,383	88,915,873	303,185,778	-5,071,614	0	50,276,799	2,811,184,886
				-2,342,849		154,421,963	152,079,114
						154,421,963	154,421,963
				-2,369,622			-2,369,622
				26,772			26,772
	7,720,505	36,672,400	105,285,398	11,859	0	-149,690,162	0
			50,276,799			-50,276,799	0
	7,720,505	36,672,400	55,008,600		11,859	-99,413,363	0
				11,859	-11,859		0
	32,737,888	125,588,272	408,471,176	-7,402,605	0	55,008,600	2,963,264,000
					0	55,008,600	55,008,600

	III. Profit reserves			V. Fair value reserves	VI. Retained earnings	VII. Net profit or loss for the financial year	Total equity
	1. Legal reserves	4. Statutory reserves	5. Other revenue reserves		1. Retained earnings/ losses	1. Net profit for the year	
	17,960,990	55,398,007	216,413,340	-7,257,795	0	36,495,640	2,665,453,020
							2,417,829
							2,417,829
				2,168,893		141,145,144	143,314,037
						141,145,144	141,145,144
				2,240,799			2,240,799
				-71,906			-71,906
	7,056,393	33,517,866	86,772,438	17,288		-127,363,985	0
			36,495,640			-36,495,640	0
	7,056,393	33,517,866	50,276,799		17,288	-90,868,345	0
				17,288	-17,288		0
	25,017,383	88,915,873	303,185,778	-5,071,614	0	50,276,799	2,811,184,886
					0	50,276,799	50,276,799

Statement of available profit for 2018

In EUR (without cents)	31/12/2018	31/12/2017
A. Net profit or loss for the financial year	154,421,963	141,145,144
B. Retained earnings/losses	-11,859	-17,288
C. Increase in profit reserves by the decision of the Management Board		
– Legal reserves	7,720,505	7,056,393
– Statutory reserves	36,672,400	33,517,866
– Other profit reserves	55,008,600	50,276,799
AVAILABLE PROFIT as at 31/12/2018	55,008,600	50,276,799

Net profit or loss for 2018 amounted to €154,421,963. Upon the compilation of the Company Annual Report, legal reserves amounting to €7,720,505, statutory reserves amounting to €36,672,400 and other profit reserves were amounting to €55,008,600 were formed pursuant to the Company's Articles of Association and Articles 64 and 230 of the ZGD-1.

The available profit of DARS d.d. as at 31 December 2018 amounted to €55,008,599.59. The General Meeting of DARS d.d. will decide on the distribution of the available profit pursuant to the 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 2018 amounting to €55,008,599.59 be distributed to other profit reserves.

11.2 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 manages 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 25 March 2019.

11.3 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 CA-1 and MCRSA-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 2018 and ended on 31 December 2018, i.e. in accordance with the Slovenian Accounting Standards 2016.

When preparing the financial statements, we took into account two essential accounting assumptions: the creation of trade events and the going concern.

The financial statements are compiled in the euro currency, excluding cents. Transactions denominated in a foreign currency are translated into euro 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.

The management must, in the compilation of the financial statements, give an assessment, appraisal and opinions that impact the use of the accounting policies and disclosed value 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 affects only the period in which the accounting estimate was changed and subsequent periods.

The obligatory financial statements are compiled for the requirements of fulfilling legal demands. In the compilation of the financial statements, the company must guarantee an independent audit of the financial statements. The audit is limited to the audit of the obligatory financial statements for general requirements, where the legal requirement for the audit of obligatory financial statements is fulfilled. The audit considers

the obligatory financial statements as a whole and does not provide assurances on individual items, accounts or trades. Audited financial statements are not intended for the use of any party for the requirements of making decisions in relation to the ownership, financing or any other specific trades referring to the company. Therefore, the users of 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 the 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 the 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 in the course of construction. 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. Fixed assets that can no longer be used because they are defective, obsolete or similar are permanently withdrawn from use.

A tangible fixed asset is, on initial recognition, measured according to its cost. This 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 when it is opened to traffic and the costs that arise after this date and that are connected with the construction of the motorway section increase its purchase value once per year, i.e. as the balance on 31 December of the current year.

The cost of fixed assets comprises the borrowing costs connected 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 this 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 open to traffic.

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

Repairs or maintenance of tangible fixed assets 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.

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 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 reallocated its right of superficies from intangible fixed assets to land.

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 buildings 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. 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 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 this 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 amortisation method.

Depreciation/amortisation

The carrying amount of property, plant and equipment and intangible assets is decreased by depreciation or amortisation, respectively. The basis for the assessment of the depreciation of property, plant and equipment and the amortisation of intangible assets is the total cost of fixed assets. 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:

- the expected physical use,
- the expected technical obsolescence,
- the expected economic obsolescence,
- the 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.

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 are 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 2018
Land	Land used for motorway maintenance bases, business and residential buildings, rest stops and surplus alongside motorways, investment property land	0%
Right of superficies		2%
Motorway substructure	Construction works (preparatory works, groundworks), landscaping costs, archaeological excavation costs, costs of demolition, etc.	0%
Motorway superstructure	a) Superstructure (road surface of motorway alignment, buffer, 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%
	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	12%
	g) Gantries (DarsGo system, Traffic Control and Management System) – building-construction works	6%
Motorway structures (viaducts, bridges, tunnels, overpasses, underpasses, retaining walls, etc.)	a) Construction elements	3%
	b) Tunnel equipment and electromechanical installations	6%
Road infrastructure – other operators	State or municipal roads other than motorways built by DARS d.d. pursuant to NMCP	0%
Buildings	Motorway maintenance bases, toll stations with cabins and overhangs, other constructed facilities alongside motorways (sanitary facilities at rest stops, etc.), the administration building in Celje, holiday facilities and apartments, investment property	4%
Computers and computer equipment - DarsGo system		25%
Computers and computer equipment - other		49%
Other equipment		20%
Software - DarsGo system		10%
Software - other		28%
Easement right		7%

Amortisation allowance does not appear in relation to:

- land,
- property, plant and equipment until depreciation is accounted,
- property, plant and equipment of cultural, historical or artistic significance,
- motorway substructure including construction works (preparatory works, groundworks), landscaping costs, archaeological excavation costs, costs of demolition, etc., and
- other road infrastructure including state or municipal roads other than motorways built by DARS d.d. pursuant to NMCP.

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

Amortisation/depreciation is to be 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 amortisation of assets acquired by 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.

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.

Long-term investments are initially recognised at cost equalling the amount of cash or cash equivalents paid.

In the financial statements, long-term investments in subsidiaries are valued at cost less impairment.

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 on the execution of the contract based on Article 4 of the ZDARS-1, the short-term share of the long-term VAT liability is transferred to short-term liabilities.

Deferred tax assets

Deferred tax receivables 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 to 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 sale in the next 12 months (after the balance sheet date) rather than through further use. The amortisation 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 in the event the Company's Management Board adopted a resolution on the sales plan. The Company checks on an annual basis whether assets still meet the criteria for disclosure as assets held for sale. If an asset fails to meet such criteria, the Company reallocates it back to property, plant and equipment.

Inventories

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

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

Short-term investments are initially recognised at cost complying with the amount of money invested. A revaluation of short-term investments to fair value is carried out during and at the end of a financial year and any difference found is entered under financial revenue or financial expenses.

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 some other account, short-term interest receivables on demand deposits and investments, advances receivable, input VAT receivables, short-term receivables related to European funds and other receivables.

Short-term operating receivables are initially recognised at the amounts indicated in 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.

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

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

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

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

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 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 deposits at the bank. 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 expres-

sed 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 financial revenue or financial expenses.

Equity

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

Equity 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 operation.

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

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 and capital reserves referred to in points 1 through 3 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 using up to 25% of its share capital. Statutory reserves are formed by using 25 percent of the net profit remaining after settling any losses brought forward, forming legal reserves and forming reserves for own shares to form statutory reserves until these reach 25 percent of the share capital. These reserves are not distributable.

Pursuant to the third paragraph 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 the first paragraph 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 earmarked state financial support for the acquisition of fixed assets. This support is earmarked to cover amortisation charges for fixed assets thus acquired and are utilised by transferring to operating revenue.

Government grants are recognised in financial statements as deferred revenue once they are received or when acceptable assurance exists that the company will receive the grants and fulfil relevant requirements. Deferred revenue deriving from government grants received for the acquisition of fixed assets are utilised through transfer to operating revenue pursuant to the amortisation/depreciation accounted. Deferred revenue deriving from government grants received to cover other costs are utilised through transfer to operating receivables 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.

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. The liabilities arising from loans taken out are secured by a guarantee of the Republic of Slovenia.

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 in its name and for its account. The liabilities arising from the issued bonds are secured by a guarantee of the Republic of Slovenia.

Long-term operating liabilities

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

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

Short-term financial liabilities

Short-term financial liabilities for loans for the acquisition of tangible fixed assets comprise:

- the short-term share of long-term liabilities that fall due in the following year,
- accrued interest as at 31 December 2017 and charged interest as at 31 December 2017 for loans 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, and
- liabilities for financial derivatives.

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

Upon the introduction of hedging, the Company keeps official documents on hedging, on the purpose of the Company's risk management, on the strategy of the hedging project, and on the methods used to assess the efficiency of hedging. The Company assesses hedging in the established manner and upon its introduction, whenever highly successful hedging is expected in the attainment of offset changes to fair value or cash flows that are attributed to a hedged risk, and whenever the actual results of each hedged item achieve 80 to 125%. In cash flow hedging, the foreseen transaction subject to hedging must be very likely and exposed to cash flow variability that may have a decisive impact on profit or loss.

Financial derivatives are initially recognised at fair value, while the costs related 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 as a hedge of the exposure to the variability of the cash flow that is attributable to a particular risk associated with a recognised asset or liability or very likely forecast transactions that may affect profit or loss, the successful portion of changes to the fair value of a financial derivative is recognised in other comprehensive income for the period and disclosed under hedging reserves or 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 are liabilities to buyers for the advances and short-term securities received.

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

Short-term 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 deferred costs of commission for vignette sales agents and deferred costs of vignette printing, which are recognised in the relevant share of each recognised revenue amount from the vignettes sold.

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

Short-term deferred revenue arises when the services charged or even paid for have not yet been rendered.

Short-term deferred revenue was formed for:

- toll revenue collected in the form of balances on electronic toll media (ABC tags, DARS cards and DARS Transporter cards, DarsGo units) that were invoiced and paid in 2018, but not fully spent in the same year. Revenues will be deferred until service users make toll crossings. As of 1 April 2018, vehicles with a maximum permissible weight exceeding 3.5 tonnes pay tolls electronically in free traffic flow, i.e. using the DarsGo system. Users of the old tolling system will not be able to transfer their unused credit on ABC and DARS cards to the vehicle account in the DarsGo system because these are two completely separate systems, but may request a refund to their bank account.
- for annual vignettes charged in 2018 that will be valid in 2019 and for one-track half-year vignettes that will be partly or entirely valid in 2019 (a half-year vignette is valid for six months from the date of purchase, and the annual vignette for 2019 is valid from 1 December 2018 to 31 January 2020).

Revenues

Revenue is recognised if increases in economic benefits during the accounting period are associated with an increase in assets or a decrease in liabilities, provided the increases can be reliably measured. Revenue is recognised when it can be reliably expected that cash receipts will flow from them to the entity, unless such receipts were realised on the incurrence of revenue.

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

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

Operating revenue comprises:

- 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.

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

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 with 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.

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 cash penalties.

Corporate income tax and deferred tax

Corporate income tax is calculated in accordance with the Corporate Income Tax Act. Corporate income tax for 2018 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 2017 and 31 December 2018, the Income Statement for 2018 and additional information required for the adjustment of inflows and outflows.

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

11.4 FINANCIAL OPERATIONS AND FINANCIAL RISK MANAGEMENT

DARS d.d. keeps track of the uncertainty and variability of the financial environment, since the latter poses various types of financial risks. Financial risks are risks that may negatively influence the ability to generate financial revenue, control financial expenses, preserve the value of financial resources and control financial liabilities. DARS d.d. thus pays a great deal of attention to those risk categories.

The main goal of financial risk management is to achieve stable operations, increase financial revenue, reduce financial expenses, increase the Company value and reduce the effects of unforeseen loss events. To hedge against such risks, the Company carries out activities in operating, investing and financing operations.

DARS d.d. sees the interest rate, credit and liquidity risks as crucial. By managing such risks, the Company endeavours to attain the maximum stability of operations and reduce the exposure to individual types of risks to an acceptable level. Most importantly, it focuses on maximally stabilising the cash flow for the settlement of liabilities arising from loans for motorway construction.

Item No.	Description of risk	Risk assessment		Rate of risk	Risk management (control)
		Probability of risk occurrence	Consequences of risk occurrence		
1	2	3	4	5 = 3 x 4	6
1	Foreign exchange risk	1	1	1	Use of natural protection by matching cash flow, regular monitoring of currency markets, hedging with appropriate financial instruments
2	Interest rate risk	2	3	6	Monitoring interest rate fluctuations, negotiations with credit institutions, hedging with appropriate financial instruments
3	Credit risk	2	2	4	Monitoring exposure to individual partners and their business 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

Likelihood of risk: low (1), medium (2), high (3)
Consequences: good (1), moderate (2), bad (3)

Foreign exchange risk

The exposure to foreign exchange risk is assessed as low, which is why no hedging instruments are used. A large majority of transactions at DARS d.d. are carried out in euros. Payment at toll stations is also possible in foreign currencies; these are then converted to euros immediately, but such payments have been rare since the introduction of the electronic tolling system. Despite that, the Company regularly monitors the situation on the currency markets.

Interest rate risk

In recent years, a great deal of attention has been paid to interest rate risk, which results in reduced economic benefits for the Company due to variable interest rates on the market. DARS d.d. continuously monitors its exposure to interest rate risk. The goal of interest rate risk management is to achieve a stable cash flow in terms of fulfilling the Company liabilities.

The key interest rate has for some time stood at 0%, and the interest rate on deposits of excess bank liquidity (-0.4%) and on marginal lending (0.25%) remain unchanged. In 2018, the 6-month EURIBOR rate fluctuated between -0.24 and -0.27%. The total interest rate at which DARS borrows (weighted average interest rate) amounted to 1.66% as at 31 December 2018 and equalled that as at 31 December 2017.

Interest rate risk is unpredictable and may have a major impact on the Company's profit or loss with respect to the volume of its debt. Part of the variable interest rate of long-term loans is hedged through the use of adequate derivatives with which the variable interest rate was changed into a fixed interest rate. When considering additional hedging, we take into account interest rate forecasts and decide when to provide additional hedging according to the conditions on the financial market. In 2018, no new interest rate hedging transactions were concluded, since the Company has reduced its exposure to interest rate risk recently, in historically low interest rates in the euro area and postponing interest rate increase, through new borrowing at a fixed interest rate.

In 2018, the Company strengthened the share of loans with a fixed interest rate or insured them with financial derivatives. At the end of 2018, their share accounted for 67% of the Company credit portfolio, while the remaining 32% 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 68% 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 2018, shows that an increase in EURIBOR by one percentage point would cause an increase in financial expenses of around €7.2 million annually. This means that a change in the EURIBOR rate has a major impact on the Company's net profit or loss.

Credit risk

The Company paid special attention to credit risk, which includes all risks causing reduced economic benefits for 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, it has identified a risk in the sale of vignettes through sales representatives. Hedging instruments are required for a certain segment of business partners. Individual procedures for monitoring the credit ratings of business partners have been instituted (at each extension of a contract, as well as regular monitoring of announcements of bankruptcies, liquidations, insolvency proceedings). In the event of unacceptable credit risks, contractually-agreed mechanisms are initiated (e.g. discontinuation of service provision (tolls) and goods supply (vignettes), contract termination); in case of payment delays, debt recovery procedures are activated.

With the introduction of the DarsGo system and the abolition of the possibility to pay tolls at toll stations, a risk of the non-payment of tolls has also occurred in the sense of heavy vehicle drivers not using a DarsGo unit to travel on the motorway or not having adequate financial coverage in the vehicle account. To prevent that from happening or to reduce its scope, the Company has organised the Toll Supervision Service. An additional measure to manage the risk of default is to promote the post-payment of tolls by petrol card, where most of the risk is assumed by the issuer of the petrol card. The risk of default in the post-payment of tolls involving business partners that conclude post-payment contracts directly with DARS d.d. is managed by monitoring their credit ratings. With respect to the credit rating, they are requested to submit financial insurance. In case of late payment, a redemption procedure is activated and DarsGo units for all vehicles of that customer are transferred to the prepayment of tolls.

Liquidity risk

The risk of solvency includes risks that are related to insufficient funds and, consequently, the Company's inability to settle its liabilities in due time. Due to successful operations, effective asset management and the permanent capacity to generate cash flows from operating activities, the risk is assessed as moderate. The basic principle of borrowing and credit portfolio management is the harmonisation of goals to achieve the minimum borrowing cost with a maturity structure that provides the minimum exposure to liquidity risk.

Annual liabilities for debt repayment by 2021 consume a major share 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 Debt Restructuring Framework Act (Act Regulating the Guarantee of the Republic of Slovenia for the 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 adopted Act enables DARS d.d. to actively manage its existing debt and restructure its credit portfolio, and provides it with necessary sources for settling due liabilities arising from the existing debt. For the purposes of refinancing the existing debt, the Company borrows with 100% government guarantee. Due to the liquidity reserve, there was no need for refinancing in 2018 and the Company reduced its debt by €219.6 million.

To fund the deployment of the electronic tolling system, a new contract was concluded with EIB in November 2017 for a loan amounting to €51 million. At the end of June 2018, the Company drew €25 million and the rest will be drawn in 2019. To close the financial structure of the project to deploy the electronic tolling system, the Company started a new borrowing procedure in 2018 without a government guarantee. Borrowing terms are adjusted to the terms of the credit contract concluded with EIB. It is expected that the credit contract will be signed by the end of April 2019.

A great deal of attention is paid to cash flow management, primarily in toll inflow, which constitutes the fundamental source for the settlement of liabilities arising from debt repayment. Toll revenue increased in 2018 with respect to 2017, which has increased the volume of current assets. The acquired long-term credit lines allow the Company to provide a high level of liquidity and the settlement of 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 the toll rates every year in a manner allowing the maintenance of an adequate volume of revenue for covering the 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 of computer software and easement rights.

Intangible assets in 2018

In EUR (without cents)	Intangible fixed assets under construction	Software	Total
Cost			
Balance as at 31/12/2017	249,204	9,583,397	9,832,601
Acquisitions	34,021,310	0	34,021,310
Activation	-33,742,498	33,742,498	0
Eliminations (divestments, write-offs)	-6,500	-27,261	-33,761
Balance as at 31/12/2018	521,515	43,298,635	43,820,150
Allowance			
Balance as at 31/12/2017	0	8,586,201	8,586,201
Depreciation/amortisation	0	3,609,646	3,609,646
Eliminations (divestments, write-offs)	0	-27,261	-27,261
Balance as at 31/12/2018	0	12,168,586	12,168,586
Present value			
Balance as at 31/12/2017	249,204	997,196	1,246,400
Balance as at 31/12/2018	521,515	31,130,049	31,651,564

Intangible assets in 2017

In EUR (without cents)	Intangible fixed assets under construction	Software	Total
Cost			
Balance as at 31/12/2016	21,550	9,261,097	9,282,647
Acquisitions	577,503	0	577,503
Activation	-349,849	349,849	0
Eliminations (divestments, write-offs)	0	-27,549	-27,549
Balance as at 31/12/2017	249,204	9,583,397	9,832,601
Allowance			
Balance as at 31/12/2016	0	8,008,783	8,008,783
Depreciation/amortisation	0	604,967	604,967
Eliminations (divestments, write-offs)	0	-27,549	-27,549
Balance as at 31/12/2017	0	8,586,201	8,586,201
Present value			
Balance as at 31/12/2016	21,550	1,252,314	1,273,864
Balance as at 31/12/2017	249,204	997,196	1,246,400

The following intangible fixed assets were activated in 2018:

- software for the electronic tolling system in free traffic flow amounting to €31,659,616,
- upgrade of the DARS d.d. Project Information System in the amount of €1,621,863,
- upgrade of information support for the KAŽIPOT II traffic information and monitoring system in the amount of €126,280,
- upgrade of the NAVISION software in the amount of €89,708,
- upgrade of the GIS application in the amount of €70,730,
- upgrade of the software for the road database in the amount of €60,480,
- upgrade of the system for the electronic management and archiving of documents in the amount of €58,088,
- upgrade of the system support software for the TIS infrastructure in the amount of €51,350,
- an easement right in the amount of €4,383.

As at 31 December 2018, 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 €47,647 as at 31 December 2018 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 €24,499 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.

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 buildings 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. 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 MCRSA-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.

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

Buildings comprise motorways (substructure, superstructure, 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 on board 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.

If the cost of an item of property, plant and equipment is important, the Company breaks it down into significant components of such an item of property, plant and equipment pursuant to SAS. If such components

Property, plant and equipment in 2018

In EUR (without cents)	Land	
	Land	Right of superficies
Cost		
Balance as at 31 December 2017	31,882,153	190,760,000
Acquisitions in 2018	0	0
Transfer between items	0	0
Activation	483,021	0
Eliminations in 2018 (divestments, write-offs)	-193,566	0
Balance as at 31 December 2018	32,171,608	190,760,000
Allowance		
Balance as at 31 December 2017	0	21,926,709
Depreciation in 2018	0	3,926,356
Impairment in 2018	0	0
Transfer between items	0	0
Eliminations in 2018 (divestments, write-offs)	0	0
Balance as at 31 December 2018	0	25,853,065
Present value		
Balance as at 31 December 2017	31,882,153	168,833,291
Balance as at 31 December 2018	32,171,609	164,906,935

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 2018:

- investments in motorways and other buildings in the amount of €135,373,617,
- investments in equipment for the electronic tolling system in free traffic flow amounting to €12,815,856,
- acquisition of machinery, devices and connections in the amount of €4,040,676,
- acquisition of work, cargo and trailer vehicles in the amount of €3,733,755,
- investments in equipment for the Traffic Control and Management System amounting to €2,950,670,
- acquisition of computer equipment in the amount of €929,704,
- acquisition of office and other supplies in the amount of €146,883,
- acquisition of passenger and combination vehicles in the amount of €108,058,
- investments in foreign-owned property, plant and equipment amounting to €33,190,
- investments in video surveillance equipment in the amount of €2,468.

No property, plant or equipment of DARS d.d. were pledged as security for liabilities as at 31 December 2018. Loans and bonds issued for financing property, plant and equipment belonging to DARS d.d. are secured by a guarantee of the Republic of Slovenia.

Motorways (substructures, superstructures, structures, other road infrastructure, other operators)	Land (motorway maintenance cen- tres, toll stations, office buildings, holiday units, apartments, etc.)	Equipment and small tools	Property, plant and equipment under construction	DarsGo units	DarsGo units under preparation	Total
5,744,437,905	74,120,464	124,551,305	106,219,127	0	82,541	6,272,053,495
0	0	0	115,666,870	0	3,088,427	118,755,297
-270,164	0	270,164	0	0	0	0
133,438,625	1,934,992	24,761,260	-160,617,898	3,170,968	-3,170,968	0
0	-677,995	-5,131,059	-3,191,200	-32,894	0	-9,226,714
5,877,606,366	75,377,461	144,451,670	58,076,899	3,138,074	0	6,381,582,078
959,815,649	15,785,250	107,221,983	0	0	0	1,104,749,591
152,655,828	2,266,328	8,329,527	0	342,710	0	167,520,749
0	0	0	0	5,411	0	5,411
-123,152	0	123,152	0	0	0	0
0	-173,049	-5,081,595	0	-4,139	0	-5,258,783
1,112,348,325	17,878,529	110,593,067	0	343,982	0	1,267,016,968
4,784,622,257	58,335,214	17,329,322	106,219,127	0	82,541	5,167,303,904
4,765,258,041	57,498,932	33,858,603	58,076,899	2,794,092	0	5,114,565,110

Property, plant and equipment in 2017

In EUR (without cents)	Land	Land Right of superficies	Motorways (substructures, superstructures, structures, other road infrastruc- ture, other ope- rators)	Land (motor- way mainte- nance centres, toll stations, office buildin- gs, holiday units, apart- ments, etc.)	Equipment and small tools	Property, plant and equipment under con- struction	Total
Cost							
Balance as at 31 December 2016	31,862,967	190,760,000	5,563,213,472	77,265,999	122,002,272	181,178,457	6,166,283,167
Acquisitions in 2017	0	0	0	0	0	108,955,402	108,955,402
Transfer between items	0	0	3,334,694	-3,334,694	0	0	0
Activation	64,142	0	177,889,739	956,429	4,905,916	-183,816,226	0
Eliminations in 2017 (divestments, write-offs)	-44,956	0	0	-767,270	-2,356,883	-15,965	-3,185,074
Balance as at 31 December 2017	31,882,153	190,760,000	5,744,437,905	74,120,464	124,551,305	106,301,668	6,272,053,495
Allowance							
Balance as at 31 December 2016	0	18,000,353	811,239,061	14,282,745	103,989,999	0	947,512,159
Depreciation in 2017	0	3,926,356	147,911,439	2,318,964	5,528,669	0	159,685,428
Transfer between items	0	0	665,148	-665,148	0	0	0
Eliminations in 2017 (divestments, write-offs)	0	0	0	-151,311	-2,296,685	0	-2,447,997
Balance as at 31 December 2017	0	21,926,709	959,815,648	15,785,250	107,221,983	0	1,104,749,591
Present value							
Balance as at 31 December 2016	31,862,967	172,759,647	4,751,974,411	62,983,254	18,012,273	181,178,457	5,218,771,008
Balance as at 31 December 2017	31,882,153	168,833,291	4,784,622,257	58,335,214	17,329,322	106,301,668	5,167,303,904

II.5.1.3 Investment property

In EUR (without cents)	Land	Buildings	Total
Cost			
Balance as at 31/12/2017	1,363,906	989,781	2,353,687
Increases			
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/amortisation	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

In EUR (without cents)	Land	Buildings	Total
Cost			
Balance as at 31/12/2016	0	0	0
Increases	1,363,906	989,781	2,353,687
Balance as at 31/12/2017	1,363,906	989,781	2,353,687
Allowance			
Balance as at 31/12/2016	0	0	0
Depreciation/amortisation	0	12,372	12,372
Balance as at 31/12/2017	0	12,372	12,372
Present value			
Balance as at 31/12/2016	0	0	0
Balance as at 31/12/2017	1,363,906	977,408	2,341,315

The purpose of acquired investment property is to generate revenue from rent. Revenue from the rent of investment property amounted to €26,162 in 2018. 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 Long-term investments

As at 31 December 2018, long-term loans to others amounted to €37,000,000 and include:

- long-term bank deposits in the amount of €37,000,000, with maturity between 368 and 441 days and a weighted average interest rate of 0.29%.

Long-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 the long-term investments in others corresponds to their fair value.

II.5.1.5 Long-term operating receivables

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

Long-term operating receivables due from others in the amount of:

- €21,504,152 refer to the long-term share of input VAT receivables for the creation of the right of superfi-cies and
- €20,694 refers to the interest accrued on long-term bank deposits.

II.5.1.6 Deferred tax assets

Deferred tax assets in 2018

In EUR (without 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 related to interest 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 in 2017

In EUR (without cents)	31/12/2016	Recognised in the Income Statement	Recognised in the Statement of Other Comprehensive Income	31/12/2017
Provisions for severance pay and jubilee benefits	321,173	-26,455	0	294,718
Provisions for redundancies	34,486	8,475	0	42,960
Provisions for legal claims	3,604	-3,604	0	0
Provisions for electronic tags	3,831	-3,831	0	0
Cash flow hedging related to interest swaps	1,760,484	0	-439,832	1,320,652
Allowance for receivables	3,062,711	-23,743	0	3,038,968
Fixed assets	314,466	351,246	0	665,712
	5,500,753	302,088	-439,832	5,363,010

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

II.5.1.7 Assets held for sale

Short-term assets include real estate in the value of €169,129 (€169,129 in 2017) 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.5.1.8 Inventories

Material inventories include inventories of materials, spare parts, small tools and packaging. In comparison with the balance as at 31 December 2017, material inventories increased by 13%. Inventories of materials account for the largest, 66% share of inventories, within the scope of which inventories of gritting materials account for 40%, inventories of barriers account for 14%, inventories of 2019 vignettes account for 15% and inventories of fuel account for 14% of the inventories of materials.

In EUR (without cents)	31/12/2018	Share	31/12/2017	Index
Materials	2,864,501	66%	2,545,049	113
Spare parts	431,303	10%	344,380	125
Small tools and packaging	388,518	9%	280,979	138
Merchandise	649,863	15%	1,944,487	33
Total	4,334,186	100%	5,114,895	85

The sale of vignettes for 2018 for passenger and motor vehicles concluded on 30 November 2018. In accordance with SAS 4.41, the inventory of 2018 vignettes was written-off to the debit of operating expenses for revaluation in the amount of €82,366, which represents the cost of vignettes.

During the annual materials stocktaking and the stocktaking of small tools, the Company discovered a deficit amounting to €10,022 and a surplus of €38,803.

Inventories of merchandise, among other things, include:

- inventories of DarsGo units in the amount of €644,098 and
- inventories of DarsGo unit racks in the amount of €5,687.

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 2018. 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.5.1.9 Short-term investments

Other short-term investments in the amount of €264,113 refer to receivables due from financial derivatives as at 31 December 2018.

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

As at 31 December 2018, short-term loans to others amount to €331,000,000 and include:

- short-term bank deposits in the amount of €331,000,000 with maturity between 70 and 364 days and a weighted average interest rate of 0.21%.

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 the short-term investments in others corresponds to their fair value.

II.5.1.10 Short-term operating receivables

In EUR (without cents)	31/12/2018	Share in %	31/12/2017	Index
Short-term trade receivables:	23,330,975	41%	17,992,452	130
- toll receivables	22,898,065	40%	16,825,427	136
- receivables from the use of motorway service areas	107,734	0%	416,267	26
- receivables from motorway closures	177,113	0%	262,578	67
- other short-term receivables	1,281,246	2%	1,759,863	73
- allowance for short-term trade receivables	-1,133,183	-2%	-1,271,683	89
Short-term operating receivables due from others:	34,045,001	59%	28,234,426	121
- for advances given for current assets	10,588	0%	12,951	82
- short-term receivables from operations for foreign accounting	43,355,523	76%	38,519,786	113
- allowance for short-term receivables for foreign accounting	-14,434,530	-25%	-14,434,530	100
- short-term receivables related to financial revenue	670,788	1%	111,967	599
- input VAT receivables	3,219,031	6%	3,717,973	87
- other short-term receivables due from state institutions	79,130	0%	57,766	137
- other short-term receivables	2,869,253	5%	2,371,743	121
- allowance for other short-term receivables	-1,724,781	-3%	-2,123,230	81
Total	57,375,976	100%	46,226,877	124

The majority share of short-term operating receivables are receivables due from the Republic of Slovenia totalling €21,597,584, which are related to operations for foreign accounting for the transactions referred to in Article 4 of the ZDARS-1 amounting to €20,708,661, to the fee from the performance contract in the amount of €888,918, and receivables due from domestic commission agents and foreign sales agents in the amount of €22,544,180. An allowance for a share of receivables due from the RS was made as disclosed below.

DARS d.d. performs business operations on behalf of and for the account of the state based on Article 4 of the ZDARS-1. These transactions are disclosed in books of account as transactions for foreign accounting. They refer to tasks related to the spatial planning and siting of motorways and with the acquisition of the real estate required for the construction of motorways, which the Company performs pursuant to the performance contract. DARS d.d. records receivables due from the Republic of Slovenia for the transactions completed. The funds for such transactions are guaranteed from the budget of the Republic of Slovenia in accordance with Article 10 of the ZDARS-1.

As at 31 December 2018, the Company had set aside an allowance for short-term receivables due from the Republic of Slovenia in the following amount:

- €14,434,530 deriving from receivables due from the Republic of Slovenia and linked to operations for foreign accounting for the transactions referred to in Article 4 of the ZDARS-1 and conducted in 2010, and
- €801,718 deriving from receivables for the fee under the performance contract for 2010.

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

As at 31 December 2018, the Company still believes that it is entitled to those receivables, but because the State does not acknowledge the receivables and based on their maturity, the Company nevertheless made, as a precaution, an allowance for the total amount of receivables in 2011.

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

In EUR (without cents)	Non-past-due	Up to 60 days	Over 60 days	Total
Short-term operating receivables for foreign accounting	24,260,362	4,660,521	14,434,640	43,355,523
Allowances for operating receivables for foreign accounting	0	0	-14,434,530	-14,434,530
Short-term trade receivables	19,416,830	3,752,835	1,294,493	24,464,158
Allowances for trade receivables	0	0	-1,133,183	-1,133,183

In 2018, the Company formed no allowance for short-term operating receivables. The assessment method for making an allowance for receivables in 2018 remained unchanged.

In EUR (without cents)	31/12/2018	31/12/2017
Balance as at 1/1	17,829,444	16,119,532
Write-downs	85,923	84,286
Reversal of allowances	451,026	53,706
Formation	0	1,847,905
Balance as at 31/12	17,292,494	17,829,444

No receivables of DARS d.d. were pledged as security for liabilities as at 31 December 2018. 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 €14,457,744.

II.5.1.11 Cash and cash equivalents

In EUR (without cents)	31/12/2018	Share	31/12/2017	Index
Cash at bank	6,247,203	13%	1,387,254	450
Deposit redeemable at notice	40,000,000	82%	32,500,000	123
Overnight deposit at the bank	1,971,467	4%	122,387	1611
Cash on hand and cheques received	865	0%	1,122	77
Cash at toll booths	297,360	1%	366,390	81
Cash in transit	477,965	1%	550,050	87
Total cash and cash equivalents	48,994,859	100%	34,927,203	140

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 0.004%. Overnight bank deposits are short-term bank deposits tied overnight in the amount of €1,971,467 at a 0.01% interest rate.

Following the annual inventory listing of cash in transit from the toll collected on 30 November 2018, the Company reconciled the balance disclosed in the books of account with the actual balance.

II.5.1.12 Short-term deferred costs and accrued revenue

In EUR (without cents)	31/12/2018	Share	31/12/2017	Index
Short-term deferred costs - other	479,013	51%	410,727	117
Short-term deferred costs - sales commission from vignettes sold for 2019	399,581	43%	381,823	105
Short-term deferred costs - cost of vignettes sold for 2019	14,835	2%	12,027	123
Short-term accrued revenues	44,993	5%	1,868	2408
VAT on advances received	0	0%	112,788	-
Total	938,423	100%	919,234	102

II.5.1.13 Equity

The movement in equity is shown in the Statement of Changes in Equity for the period from 1 January 2018 to 31 December 2018 in which the reasons for changes in equity items are evident.

Share capital

The Company's share capital amounts to €2,322,284,140 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 2018 was €53.25. It is calculated as a ratio between the total value of the capital and the number of shares.

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

Capital surplus

The capital surplus amounting to €26,576,528 comprises the amount of transferred real assets for the pursuit of motorway operation and maintenance tasks as provided by the Republic of Slovenia to the company upon its reorganisation (equalling €26,202,240), a general capital revaluation allowance, which was transferred to capital surplus (€225,817) on 1 January 2006 (upon transition to SAS 2006), surplus assets representing the difference between the in-kind contribution of the Republic of Slovenia and the value of the newly issued shares of the Company (€27), the difference in the merger of the DELKOM d.o.o. subsidiary in 2015 in the amount of €148,410, and surplus assets representing the difference between the in-kind contribution of the Republic of Slovenia from 2017 and the value of newly issued shares of the Company (€34.53).

Fair value reserves

Fair value reserves amounting to €7,402,605 refer to:

- a change in the revaluation surplus for actuarial gains and losses.
Actuarial deficits and surpluses include changes in the present value of liabilities to employees due to changes in actuarial assumptions. At the end of 2018, the revaluation surplus amounted to €253,462;
- 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 €7,149,143 at the end of 2018 (less deferred tax).
Financial derivatives are disclosed in detail in the policies and notes on short-term financial liabilities.

In 2018, the reserves made due to valuation at fair value decreased by €2,342,849. Changes in individual surplus components in 2018 are shown in the statement of other comprehensive income for 2018.

Retained earnings

At the 13th General Meeting of DARS d.d., shareholders adopted a resolution on the use of 2017 available profit in the amount of €50,276,799, which was distributed to other profit reserves according to the resolution.

Other changes in retaining earnings in the amount of €11,859 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 2018 amounted to €154,421,963. Upon the compilation of the Company's Annual Report, legal reserves amounting to €7,720,505, statutory reserves amounting to €36,672,400 and other profit reserves amounting to €55,008,600 were formed pursuant to the Company's Articles of Association and Articles 64 and 230 of the ZGD-1.

Earnings per share

In EUR (without cents)	31/12/2018	31/12/2017
Net profit or loss for the period	154,421,963	141,145,144
Total No. of shares	55,650,231	55,650,231
No. of ordinary shares	55,650,231	55,650,231
Diluted earnings per share	2.77	2.54

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 registered shares, which is why the diluted earnings per share equal the basic earnings per share.

11.5.1.14 Provisions and long-term accrued costs and deferred revenue

Provisions and long-term accrued costs and deferred revenue in 2018

In EUR (without cents)	Balance as at 31/12/2017	Utilisation in 2018	Reversal in 2018	Additional creation in 2018	Balance as at 31/12/2018
Provisions for retirement benefits	2,177,164	143,558	26,772	173,724	2,180,558
Provisions for employee jubilee premiums	1,244,671	108,998	17,894	106,658	1,224,436
Provisions for voluntary pension insurance	26,105	4,351	0	0	21,754
Provisions for employment-related legal claims	548,472	140,000	408,472	20,379	20,379
Provisions for legal claims related to construction and reconstruction	34,192,384	920,566	4,879,754	2,597,861	30,989,925
Provisions for severance pay related to toll-system change	452,212	433,356	18,856	0	0
Free-of-charge acquisition of fixed assets	235,951	23,026	0	52,072	264,998
Lease of optical fibres	548,225	76,596	0	28,080	499,710
Cashed-in guarantees	7,260,701	2,493,291	0	272,228	5,039,637
Government grants received	155,857,074	9,371,349	0	11,943,148	158,428,872
Total	202,542,960	13,715,091	5,351,749	15,194,149	198,670,269

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 severances 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 2018 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 severances 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 1 percent with respect to the average maturity at the Company, i.e. 15.5 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% annually;
- 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 2.5% annually.

Based on an actuarial calculation, provisions were set aside as at 31 December 2018 for jubilee premiums in the amount of €1,224,436 along with provisions for retirement benefits in the amount of €2,180,558.

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 to these employees a lump sum equal to the interest-free premiums it would have to pay on their behalf had they been included in the pension scheme. The company thus set aside long-term provisions, which amounted to €21,754 as at 31 December 2018.

Based on the legal opinions obtained and the management's assessment, the Company discloses provisions amounting to €30,989,925 for lawsuits related to construction and reconstruction and €20,379 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 stage 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 2018, free-of-charge acquisitions of fixed assets amounted to €264,998.

The company also shows long-term deferred revenue from advance payments for optical fibre leases by users in the amount of €499,710 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 2018, the bond amounts drawn amounted to €5,039,637.

The company formed long-term deferred revenue for funds from the EU and other co-financing providers received for the preparation of spatial and project documentation and motorway construction or tasks related to them (improving traffic safety – construction of traffic control and management systems). The company received funds within the framework of the EU Cohesion Fund, the TEN-T and CROCODILE projects and the EasyWay and TEMPO-CONNECT programmes and others. As at 31 December 2018, the Company disclosed long-term accrued costs and deferred revenue for acquired governments grants for the purchase of fixed assets in the total amount of €158,428,872. The increase in 2018 is associated with the funds received:

- from the EU Cohesion Fund for the "A4 Motorway": Slivnica - Gruškovje: Draženci - international border crossing Gruškovje" in the amount of €7,646,179,
- for the CROCODILE II project in the amount of €579,364,
- from the Connecting Europe Facility (CEF) instrument for the preparation of Building Permit Design / Executive Design documents for the additional construction of the second tube of the Karavanke motorway tunnel in the amount of €231,029, and
- for the C-Roads Slovenia project in the amount of €144,848.

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.

II.5.1.15 Long-term financial liabilities

The Company obtains loans on the international and domestic financial markets for its operational needs. The purpose of the loans is to finance motorway construction and reconstruction and to refinance the existing debt. The credit from the European Investment Bank for financing the electronic tolling system in the amount of €51 million, which was taken out in 2017 and was partly drawn in June 2018 in the amount of €25 million, has been secured with funds from the European Fund for Strategic Investments (EFSI). All other loans are secured by means of a guarantee of the Republic of Slovenia. There was no new borrowing in 2018.

The interest rates and manner of calculating interest for received loans are contractually defined and represent a business secret, and the weighted annual interest rate on the total Company debt amounted to 1.66% as at 31 December 2018. The interest rate on the total Company debt as at 31 December 2018 ranged from 0 to 4.96%.

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

In EUR (without cents)	31/12/2018	Share
Long-term loans acquired from domestic banks	818,923,517	40%
Long-term loans acquired from foreign banks	920,442,029	45%
Long-term loans acquired from foreign entities	19,109,732	1%
Loan on the basis of a Schuldschein promissory note	37,780,000	2%
Issued NSV registered notes	100,000,000	5%
Long-term bonds issued	160,364,547	7%
Total	2,056,619,825	100%

Long-term financial liabilities by maturity

In EUR (without cents)	31/12/2018	Share
Long-term financial liabilities with a maturity of up to 5 years	707,021,293	34%
Long-term financial liabilities with a maturity longer than 5 years	1,349,598,532	66%
Total	2,056,619,825	100%

Long-term financial liabilities in 2018

Long-term financial liabilities	Balance as at 31/12/2017	Increase in 2018	Decrease in 2018	Balance as at 31/12/2018
European Investment Bank	723,569,595	25,000,000	59,431,882	689,137,713
Nova Ljubljanska banka	362,019,231	0	0	362,019,231
Kreditanstalt für Wiederaufbau	196,546,875	0	37,718,750	158,828,125
Consortium of Slovenian banks	134,955,593	0	57,365,362	77,590,231
Deutsche Pfandbriefbank	89,285,714	0	23,809,524	65,476,191
UniCredit Banka Slovenija	28,345,852	0	8,335,837	20,010,015
KA FINANZ	21,000,000	0	14,000,000	7,000,000
Addiko Bank	32,306,878	0	6,669,505	25,637,373
Regione Autonoma Friuli Venezia	22,294,687	0	3,184,955	19,109,732
Intesa Sanpaolo	87,000,000	0	2,333,333	84,666,667
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	0	160,364,547
Total	2,244,468,972	25,000,000	212,849,149	2,056,619,825

II.5.1.16 Long-term financial liabilities to banks

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

Lender	in EUR (without cents)	
	Balance as at 31/12/2018	Share
Consortium of Slovenian banks	77,590,231	4%
Addiko Bank	25,637,373	1%
UniCredit Banka Slovenija	20,010,015	1%
Intesa Sanpaolo	84,666,667	5%
Unicredit + Intesa Sanpaolo	99,000,000	6%
NLB	362,019,231	21%
Abanka	50,000,000	3%
SKB banka	50,000,000	3%
SID	50,000,000	3%
European Investment Bank	689,137,714	40%
Kreditanstalt für Wiederaufbau	158,828,125	9%
Deutsche Pfandbriefbank	65,476,191	3%
KA FINANZ	7,000,000	1%
Total	1,739,365,546	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 2018 in the total amount of €56,536,665.

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

Type	Repayment period	In EUR (without cents)
II	from 2004 to 2019	0
III	from 2007 to 2019	0
IV	from 2008 to 2020	10,332,489
V	from 2007 to 2020	17,865,485
VI	from 2009 to 2021	26,368,041
VII	from 2012 to 2024	23,024,216
Total		77,590,231

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 2018 in the total amount of €6,669,505.

Long-term liabilities to the Addiko Bank and loan repayment periods

Type	Repayment period	In EUR (without cents)
I	from 2011 to 2023	11,662,587
II	from 2012 to 2024	5,628,934
III	from 2014 to 2023	8,345,852
Total		25,637,373

c) Loans from UniCredit Banka Slovenija

The company took out three loans from UniCredit Banka Slovenija in 2005 and 2009. The loans from UniCredit Banka Slovenija were paid off in 2018 in the total amount of €8,335,837.

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

Type	Repayment period	In EUR (without cents)
I	from 2011 to 2023	6,676,682
II	from 2007 to 2021	13,333,333
Total		20,010,015

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 full in 2016.

The Company took out an €80 million loan from Intesa Sanpaolo in 2016 that was intended for the refinancing of loans.

These loans were repaid in 2018 in the total amount of €2,333,333.

Long-term liability to Intesa Sanpaolo and loan repayment periods

Type	Repayment period	In EUR (without cents)
I	from 2007 to 2021	4,666,667
II	from 2021 to 2036	80,000,000
Total		84,666,667

e) Loans from NLB

In 2007, 2008 and 2013, DARS d.d. raised 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 EUR (without cents)
I	from 2020 to 2027	183,750,000
II	from 2020 to 2025	128,269,231
III	2028	50,000,000
Total		362,019,231

f) Loan from Abanka

In 2015, the Company took out a €50 million loan with 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 EUR (without 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 EUR (without cents)
I	from 2021 to 2028	50,000,000
Total		50,000,000

h) Loans from UniCredit Banka Slovenija and Intesa Sanpaolo

In 2016, the Company took out a €99 million loan 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 EUR (without cents)
I	from 2021 to 2036	99,000,000
Total		99,000,000

i) Loan from SID

In 2016, the Company took out a €50 million loan with SID bank that was intended for the refinancing and early repayment of loans.

Long-term liability to SID Bank and loan repayment periods

Type	Repayment period	In EUR (without 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 2018 in the amount of €66,966,970. The final maturity of the loans is between 2019 and 2041.

In 2017, the Company took out a €51 million loan from the European Investment Bank that was intended for the financing of the electronic tolling system project. The loan was partly drawn in 2018.

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

Type	Repayment period	In EUR (without cents)
III	from 2004 to 2019	0
IV	from 2005 to 2019	0
V	from 2007 to 2027	45,000,000
VI	from 2012 to 2029	59,840,000
VII	from 2014 to 2037	194,318,182
VIII	from 2015 to 2034	222,611,111
IX	from 2022 to 2041	145,000,000
X	from 2019 to 2028	22,368,421
Total		689,137,714

k) Loans from Kreditanstalt für Wiederaufbau (KfW)

DARS d.d. took out three loans from Kreditanstalt für Wiederaufbau in 2008 and 2009 that were earmarked for financing motorway construction. These loans were paid off in 2018 in the amount of €37,718,750.

Long-term liabilities to Kreditanstalt für Wiederaufbau and loan repayment periods

Type	Repayment period	In EUR (without cents)
II	from 2013 to 2029	158,828,125
III	from 2014 to 2019	0
IV	from 2014 to 2019	0
Total		158,828,125

l) Loans from Deutsche Pfandbriefbank

In 2006, DARS d.d. obtained two loans from Deutsche Pfandbriefbank totalling €225,000,000. The two Deutsche Pfandbriefbank loans were repaid in 2018 in the amount of €23,809,523.

Long-term liabilities to Deutsche Pfandbriefbank and loan repayment periods

Type	Repayment period	In EUR (without cents)
I	from 2014 to 2024	32,142,857
II	from 2013 to 2021	33,333,334
Total		65,476,191

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 obtained at a fixed interest rate. The principal of this loan was paid off in 2018 in the amount of €14,000,000.

Long-term liabilities to KA FINANZ AG and loan repayment periods

Type	Repayment period	In EUR (without cents)
I	from 2015 to 2020	7,000,000
Total		7,000,000

II.5.1.17 Long-term financial liabilities for bonds

DARS d.d. issued three series of bonds in 2004 and 2005 for the financing of motorway construction and reconstruction. The liabilities arising from the issued bonds are secured by means of a guarantee of the Republic of Slovenia.

Issue	Maturity	Issue size in EUR (without cents)
DRS1	2024	56,042,047
DRS2	2025	61,758,920
DRS3	2020	42,563,580
Total		160,364,547

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. The bonds are traded 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. The annual coupon rate is 4.5 percent. The bonds are traded 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. The annual coupon rate is 4 percent. The bonds are traded on the Ljubljana Stock Exchange.

II.5.1.18 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 consent 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 obtained in 2000. In 2018, 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 EUR (without cents)
I	from 2011 to 2025	19,109,732
Total		19,109,732

b) Loan on the basis of a Schuldschein promissory note

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

Long-term liabilities from the Schuldschein promissory note and loan repayment period

Type	Repayment period	In EUR (without 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 its total amount in 2037. The instrument is not subject to trading on the stock market.

Long-term liabilities from the Schuldschein promissory note and loan repayment period

Type	Repayment period	In EUR (without cents)
I	2037	100,000,000
Total		100,000,000

II.5.1.19 Long-term trade liabilities

As at 31 December 2018, the Company discloses long-term trade liabilities in the amount of €344,487, which comprise withheld assets due to motorway contractors due to received subcontractor claims.

II.5.1.20 Other long-term operating liabilities

Other long-term operating liabilities include the liability for the right of superficies compensation in the amount of €119,250,298. Based on the annual implementation contract (on the execution of contracts on the basis of Article 4 of the ZDARS-1 for 2018), 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 buildings 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. Compensation is paid for the right of superficies in accordance with the Fiscal Balance Act.

The value of compensation for the right of superficies was determined on the basis of the authorised real property appraiser's opinion provided on 7 June 2012, i.e. in the amount of €190,810,787 without VAT. At the request of the Ministry of Infrastructure, a certified real estate appraiser reappraised the right of superficies on 29 February 2016, 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.

Other long-term operating liabilities include liabilities in the amount of €690,774 from the co-financing of accompanying infrastructure (predominantly municipal) constructed within the scope of the motorway infrastructure that does not include motorways and that the company, following their construction, must hand over to the co-financiers.

II.5.1.21 Deferred tax liabilities

Deferred tax assets in 2018

In EUR (without cents)	31/12/2017	Recognised in the Income Statement	Recognised in the Statement of Other Comprehensive Income	31/12/2018
Cash flow hedging related to interest swaps	199,530	0	-149,348	50,181
Total	199,530	0	-149,348	50,181

II.5.1.22 Short-term financial liabilities

Short-term financial liabilities totalling €234,731,087 comprise the short-term share of long-term financial liabilities that falls due in the following year and accrued interest on loans, bonds issued and liabilities for financial derivatives.

Short-term financial liabilities to banks in the total amount of €216,084,171 comprise:

- a. a share of the principal of short-term bank loans for the acquisition of property, plant and equipment that falls due in 2019;

Lender	31/12/2018	In EUR (without cents) 31/12/2017
European Investment Bank II	0	4,333,334
European Investment Bank III	5,833,333	11,666,667
European Investment Bank IV	10,666,667	10,666,667
European Investment Bank V	6,000,000	6,000,000
European Investment Bank VI	6,270,000	6,270,000
European Investment Bank VII	11,363,636	11,363,636
European Investment Bank VIII	16,666,667	16,666,667
European Investment Bank IX	0	0
European Investment Bank X	2,631,579	0
Kreditanstalt für Wiederaufbau 267.5	16,718,750	16,718,750
Kreditanstalt für Wiederaufbau 55	11,000,000	11,000,000
Kreditanstalt für Wiederaufbau 50	10,000,000	10,000,000
KA FINANZ	14,000,000	14,000,000
Deutsche Pfandsbriefsbank I	7,142,857	7,142,857
Deutsche Pfandsbriefsbank II	16,666,667	16,666,667
Intesa Sanpaolo I	2,333,333	2,333,333
Consortium of banks II	9,112,629	13,445,072
Consortium of banks III	21,028,249	21,028,249
Consortium of banks IV	10,332,489	10,332,489
Consortium of banks V	11,116,302	5,955,162
Consortium of banks VI	659,201	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
Total principals	209,664,195	216,370,584

- b. interest accrued on long-term bank loans as at 31 December 2018 equalled €6,419,979.

Short-term financial liabilities for interest refer to interest accrued until 31 December 2018. Interest rates and the interest calculation method for concluded transactions are contractually determined and on 31 December 2018 amounted to between 0 and 4.96 percent annually.

Short-term financial liabilities from bonds equalling €3,416,071 are related to interest accrued up to 31 December 2018.

Other short-term financial liabilities in the amount of €15,230,845 refer to:

In EUR (without cents)	31/12/2018	31/12/2017
Short-term share of loan principal from Regione Autonoma Friuli Venezia	3,184,955	3,184,955
Short-term financial liabilities for accrued interest from others	1,553,468	1,557,950
Interest on financial derivatives	564,563	557,240
Liabilities for financial derivatives	9,927,858	7,061,672
Total	15,230,845	15,503,699

In previous years, the company, in accordance with its active risk management policy in the financial area, decided to decrease its exposure to the risk of changed interest rates on the market to protect itself against interest rate risk. On 31 December 2018, 32% of the company's debt portfolio value was exposed to a variable interest rate, while 67% was exposed to a fixed interest rate. An interest-free loan makes up the remaining percent.

Liabilities from financial derivatives in the amount of €9,927,858 refer to liabilities deriving from the valuation of financial derivatives as at 31 December 2018.

A detailed description of the financial derivatives concluded by the Company as at 31 December 2018 follows.

Interest rate hedging in the amount of €40 million

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

Interest rate hedging in the total amount of €150 million

In the second half of 2014, DARS d.d. concluded three interest rate hedging transactions with a total value of €150,000,000 with 10-year maturity. With individual €50 million transactions, DARS d.d. partially insured the loans from KfW (KfW 267.5 loan) and NLB (loans for €245 million and €145 million). The loans were insured for ten years and with 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 with a total value 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 ten years and with 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 with a total value 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 ten years and with a fixed interest rate.

II.5.1.23 Short-term operating liabilities

In EUR (without cents)	31/12/2018	Share in %	31/12/2017	Index
Short-term trade liabilities	30,743,653	51%	34,744,737	88
Short-term receivables for advances	62,736	0%	634,256	10
Short-term employee payables	4,260,901	7%	3,739,243	114
Short-term liabilities to the state	23,747,959	39%	38,294,527	62
- corporate income tax liability	2,842,378	5%	13,307,675	21
- VAT liability	8,237,602	14%	8,272,719	100
- liabilities for payer's taxes and contributions arising from salary and other remuneration	2,010,734	3%	1,809,942	111
- short-term liability for the right of superficies	9,868,988	16%	14,700,000	67
- other liabilities to the state	788,257	1%	204,190	386
Short-term liabilities to others	854,993	1%	2,988,356	29
Short-term liabilities to subcontractors	1,037,602	2%	3,265,558	32
Total	60,707,844	100%	83,666,676	73

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 management and maintenance of motorways and other short-term operating liabilities.

Contractually retained funds are funds retained as a performance guarantee and until the fulfilment of all contractual obligations by the contractor (work acceptance, remedying of all deficiencies and handover of guarantees for the remedy of defects during the warranty period) are retained in the amount of a maximum of five percent of the contractual value. The funds withheld pursuant to contracts concluded with contractors belong to the contractors and are remitted once they fulfil their contractual obligations and furnish the investor with the required documents. As at 31 December 2018, short-term trade liabilities based on withheld funds amounted to €13,123,488 and accounted for 43% of the 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 2019 amounts to €9,868,988 in accordance with the annual performance contract based on Article 4 of the ZDARS-1.

Short-Term trade liabilities by maturity as at 31 December 2018

In EUR (without cents)	Non-past-due	up to 60 days	over 60 days	Total
Short-term trade liabilities (current liabilities)	17,286,038	333,624	502	17,620,164
Short-term trade liabilities (withheld amounts)	13,123,488	0	0	13,123,488

Trade liabilities as at 31 December 2018

In EUR (without cents)	31/12/2018	Share
KOLEKTOR CPG d.o.o.	2,477,188	8%
ALPINE BAU GMBH, Salzburg – Celje subsidiary - in bankruptcy	1,888,452	6%
GORENJSKA GRADBENA DRUŽBA d.d.	1,744,041	6%
TELEKOM SLOVENIJE d.d.	1,508,433	5%
Q-Free ASA	1,392,999	5%
CPK d.d.	1,329,454	4%
CPM, d.d. – in bankruptcy	1,034,602	3%
POMGRAD d.d.	978,182	3%
PETROL d.d., Ljubljana	947,302	3%
DRI upravljanje investicij d.o.o.	824,943	3%
Other suppliers	16,618,056	54%
Total	30,743,653	100%

Employee payables predominantly comprise accounted December salaries and salary compensation and reimbursement of job-related costs to employees disbursed in January 2019.

Debts to Members of the Management and Supervisory Boards as at 31 December 2018 comprise the accounted December salaries and attendance fees and reimbursement of job-related costs disbursed in January 2019.

II.5.1.24 Short-term accrued costs and deferred revenue

In EUR (without cents)	31/12/2018	Share	31/12/2017	Index
Short-term accrued costs	435,505	2%	590,670	74
Short-term deferred revenue	21,547,546	98%	28,505,773	76
Total	21,983,051	100%	29,096,443	76

The Company's liabilities comprise accrued costs or expenses referring to accrued costs for the auditing of 2018 financial statements in the amount of €39,024, costs for the actuarial calculation of the provisions for jubilee benefits and severance pay as at 31 December 2018 in the amount of €460, accrued costs for the supervising engineer for completed investments projects in the amount of €20,821, accrued cost for the variable remuneration of the Management Board in the amount of €247,747 and the variable share of the salaries paid to employees under executive contracts in the amount of €127,453.

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:

- toll revenue collected in the form of balances on electronic toll media (ABC tags, DARS cards and DARS Transporter cards, DarsGo units) that were invoiced and paid in 2018, but not fully spent in the same year. Revenues will be deferred until the service users make toll crossings. As of 1 April 2018, vehicles with a maximum permissible weight exceeding 3.5 tonnes pay toll electronically in free traffic flow, i.e. in the DarsGo system. Users of the old tolling system will not be able to transfer their unused credit on ABC and DARS cards to the vehicle account in the DarsGo system because these are two completely separate systems, but may request a refund to their bank account.

- for annual vignettes charged in 2018 that will be valid in 2019 and for one-track half-year vignettes that will be partly or entirely valid in 2019 (a half-year vignette is valid for six months from the date of purchase, and the annual vignette for 2019 is valid from 1 December 2018 to 31 January 2020).

Short-term deferred revenue comprises:

- revenue from annual vignettes charged that will be valid in 2019 and from half-year vignettes that will be partly or entirely valid in 2019 in the total amount of €16,019,139 (a half-year vignette is valid for six months from the date of purchase, and the annual vignette for 2019 is valid from 1 December 2018 until 31 January 2020);
- the credit from the old tolling system transferred to the prepay toll media (DARS cards AC tags) amounting to €2,000,000 (users of the old tolling system cannot transfer their unused credit in ABC tags and DARS cards to the vehicle account in the DarsGo system, because these are two completely separate systems; however, a refund to the bank account may be claimed);
- the credit in DARS units amounting to €3,437,496, charged and paid in 2018, 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 €90,910.

II.5.1.25 Off-balance-sheet items

As at 31 December 2018, the Company discloses the following items in off-balance-sheet records:

1. The amount of €111,542,123 refers to potential cash or receivables due from obtained bonds or other security instruments covering indemnification and risks related to a public contract, fulfilment of contractual obligations (the sound and timely execution of works, the risk of default and in line with the agreed contractual obligations) and the elimination of defects in the warranty period.

In EUR (without cents)	31/12/2018	31/12/2017
Performance bonds	47,049,134	48,210,321
Warranty bonds	38,994,545	51,996,392
Payment bonds	14,457,744	23,026,744
Tender bonds	11,040,700	592,200.00
Total	111,542,123	123,825,657

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 €1,063,454.
3. As at the reporting date, lawsuits worth €75,315,224 (principal amounts) were filed against the Company, 99% of which derive from motorway construction and reconstruction. Within the scope of the mentioned lawsuits, the Company set aside provisions for lawsuits in the amount of €31,010,303 (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). As at 31 December 2018, potential liabilities for lawsuits amount to €56,797,478. 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 €3,753,423 comprises receivables that are estimated to be settled to the benefit of ordinary creditors in a minimum amount from the bankruptcy estate.

5. On 16 November 2017, the Company concluded a new credit contract with EIB in the amount of €51 million to finance the deployment of the DarsGo system. In 2018, the credit was partly drawn in the amount of €25 million. The remaining €26 million is the non-drawn credit amount. The final date for drawing the credit is 36 months following the signing of the contract.

As at 31 December 2018, 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 revenue

In EUR (without cents)	2018	Share	2017	Index 2018/2017
Toll revenue	451,497,703	97%	430,894,988	105
- revenues from vignette sales	188,408,769	42%	180,421,374	104
- revenues from freight traffic tolls	263,088,934	58%	250,473,614	105
Revenue from rest stop leases	8,038,859	2%	7,449,857	108
Revenue from closures and overweight load transports	1,142,321	0%	834,351	137
Revenue from easements for base stations and others	686,602	0%	676,395	102
Revenues from the lease of optical fibres	1,026,446	0%	1,018,613	101
Revenue under the performance contract	300,000	0%	330,295	91
Other sales revenue	2,913,930	1%	1,039,813	280
Total net sales revenue	465,605,859	100%	442,244,312	105

Revenue from tolls collected in 2018 amounts to €451,497,703 and accounts for 97% of the total sales revenue, which is 5% more than in 2017. Revenue from the tolling of vehicles weighing under 3.5 tonnes (vignette system) amounted to €188,408,769 and accounts for 42% of toll revenue, while revenue from the tolling of vehicles with a maximum weight exceeding 3.5 tonnes amounted to €263,088,934 or 58%. Toll revenue is explained in detail in chapters I.9.2, I.9.2.1 and I.10.

Toll revenue is followed by revenue from leases for rest stops, which amounted to €8,038,859 in 2018. Revenue is earned from the leasing of land alongside motorways for the provision of catering services and the construction of petrol service stations. Revenue from leases increased by 8% compared to 2017.

Sales revenues also includes revenues from road closures and overweight road transports in the amount of €1,142,321, revenues from optical fibre leases in the amount of €1,026,446 and revenues from easements in the amount of €686,602.

Revenue from performance contracts in 2018 amounted to €300,000. The revenue refers to the performance of tasks by DARS d.d. under the annual performance contract on behalf of and for the account of the Republic of Slovenia pursuant to Article 4 of the ZDARS-1. These tasks include spatial planning and integrating motorways into the environment, as well as the acquisition of real property for necessary motorway construction.

Other sales revenue in the amount of €2,913,930 includes revenue from the commission from the sale of Austrian vignettes, revenue from the sale of DarsGo units, revenue from towing, snow ploughing and clearing road accidents, revenue from rentals for holiday facilities and apartments, revenue from the sale of waste materials and other sales revenue.

The net sales revenue was generated entirely on the domestic market.

II.5.2.2 Capitalised own products and services

In 2018, the Company capitalised its own investment services in relation to motorways that were not charged to external contractors who provide motorway reconstruction services. In 2018, revenue from capitalised own services amounted to €898,978.

II.5.2.3 Other operating revenue

In EUR (without cents)	2018	Share	2017	Index
Reversal of long-term provisions	10,882,212	48%	1,137,941	956
Insurance benefits	1,755,102	8%	1,942,774	90
Revenues from the consumption of long-term deferred revenue	9,455,839	41%	6,009,598	157
Revenue from equipment and real estate sales	640,979	3%	167,531	383
Other operating revenue	141,107	1%	73,259	193
Total other operating revenue	22,875,241	100%	9,331,102	245

The reversal of long-term provisions amounting to €10,882,212 also includes the reversal of provisions for lawsuits amounting to €5,364,482, the reversal of long-term deferred revenue for unused balances in ABC tags and DARS cards due to the transfer from the old tolling system to electronic toll collection in the amount of €5,191,371, and the reversal of provisions for unused annual leave in 2017 amounting to €157,030.

Insurance benefits include revenue from received insurance benefits for the repair of damage on motorway sections and facilities along motorways. In 2018, that revenue amounted to €1,755,102.

Revenues from the consumption of long-term deferred revenues in the amount of €9,455,839 refer to the consumption of funds from the EU and other co-financing providers received for the preparation of spatial and design documents and motorway construction or tasks related to them (improving traffic safety – construction of traffic control and management systems) and other projects. The amount of the long-term deferred revenues is reduced in line with the occurrence of costs (by the calculated amount of depreciation of fixed assets and by the amount of any other types of costs for which funds have been received) and transferred to revenue. In 2018, the company transferred to revenue €7,577,154 of long-term deferred revenues it received within the framework of the EU Cohesion Fund, the TEN-T and CROCODILE projects and the EasyWay and TEMPO-CONNECT programmes. The company transferred to revenue €1,878,685 of long-term deferred revenues it received from the municipalities (City of Ljubljana), ELES and other project funders.

II.5.2.4 Costs and operating expenses

Overview of costs and expenses

In EUR (without cents)	2018	Share	2017	Index
Costs of materials	10,784,758	4%	9,397,092	115
Costs of services	36,862,228	14%	29,238,361	126
Labour costs	40,847,516	15%	39,730,512	103
Depreciation/amortisation	171,160,088	64%	160,302,767	107
Operating expenses for the revaluation of intangible fixed assets and property, plant and equipment	3,749,710	1%	709,825	528
Operating expenses for the revaluation of current assets	171,922	0%	128,295	134
Other operating expenses	3,408,916	1%	3,466,600	98
Total operating expenses	266,985,138	100%	242,973,453	110

Breakdown of the costs of materials

In EUR (without cents)	2018	Share	2017	Index
Costs of materials	4,318,443	40%	3,464,690	125
Energy costs	4,604,820	43%	4,077,919	113
Costs of spare parts	588,474	5%	571,966	103
Write-off of small tools	1,077,972	10%	1,060,951	102
Other costs of materials	195,050	2%	221,566	88
Total	10,784,758	100%	9,397,092	115

The cost of materials represents a 4% share of the total operating expenses and increased by 15% compared to 2017.

Breakdown of the costs of services

In EUR (without cents)	2018	Share	2017	Index
Costs of the supervising engineer	869,548	2%	547,697	159
Services related to recruitment agencies	535,375	1%	557,646	96
Cost of fixed asset maintenance	10,732,123	29%	5,937,561	181
Rents	1,652,824	4%	1,481,659	112
Cost of payment transactions and insurance premiums	2,984,544	8%	2,939,141	102
Commissions for sold vignettes	7,391,375	20%	7,036,489	105
Costs of other services	12,696,438	34%	10,738,168	118
Total	36,862,228	100%	29,238,361	126

The costs of services represent a 14% share of the total operating expenses. Major services in 2018 included the cost of fixed asset maintenance (29%), commissions on vignettes sold (20%) and the cost of payment transactions and insurance premiums (8%).

Due to a phase of parallel operation of both tolling systems and the replacements for employees already referred to various training courses related to the deployment of the new DarsGo system, which was launched in April 2018, the Company had workers hired through a recruitment agency until 31 March 2018. Until that date, the Company employed an average of 70 agency workers (computed on the basis of working hours).

Due to the nature of Company operations, costs are not disclosed by the functional group.

11.5.2.5 Labour costs

Labour costs account for a 15% share in the total operating expenses of DARS d.d. In 2018, they increased by 3% compared to 2017.

Type of labour costs	2018	Share	2017	Index
Costs of salaries and wages	30,226,388	74%	29,026,191	104
Pension insurance costs	3,374,030	8%	3,285,132	103
Other social security costs	2,539,836	6%	2,441,290	104
Other labour costs	4,707,262	12%	4,977,899	95
Total	40,847,516	100%	39,730,512	103

Labour costs include the cost of supplementary pension insurance premiums in the amount of €862,494.

As at 31 December 2018, there were 1,232 workers employed by the Company. The average staff count in 2018 was 1,191 (computed on the basis of working hours).

In 2018, 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 Regulating the Incomes of Managers of Companies owned by the Republic of Slovenia and Municipalities (Official Gazette of the Republic of Slovenia, No. 21/2010).

Average salary at DARS d.d. in 2018 (in EUR)

Average gross salary	2018	2017
DARS d.d.	2,104	1,989
Republic of Slovenia	1,682	1,627

The number of employees and the employee educational structure as at 31 December 2018 are presented in the Business Report of the Annual Report, under the chapter Human resource management (chapter I.16.7).

The total gross remuneration received by Members of the Management Board of DARS d.d. in 2018 amounted to €530,669. 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 un- til 13 January 2016	Tine Svoljšak, Member of the Board un- til 9 January 2015	Franc Skok, Member of the Board until 13 Janu- ary 2016	Gašper Marc, Member of the Board since 15 May 2015	Marjan Sisinger, Member of the Board/ Labour Ma- nager since 9 May 2014	Tomaž Vidic, PhD, Chair- man of the Board since 13 January 2016	Vili Žavrlan, Member of the Board since 7 Octo- ber 2016	TOTAL
Gross salary	0	0	0	110,397	89,915	118,748	109,494	428,555
Payment of variable income	13,115	325	12,074	14,496	16,758	8,445	7,580	72,793
Benefits	0	0	0	9,580	6,745	3,013	4,271	23,608
Reimbursement of costs	0	0	0	917	624	944	948	3,434
Supplementary pensi- on insurance	0	0	0	456	581	606	636	2,279
TOTAL	13,115	325	12,074	135,846	114,623	131,757	122,930	530,669

The gross remuneration received by employees under executive employment contracts that is not subject to the Tariff Section of the Collective Agreement amounted to €275,184 in 2018.

The remuneration received by Members of the Supervisory Board in 2018 is shown below.

In EUR (without cents)	Remune- ration for being a Superviso- ry Board Member	Superviso- ry Board meeting fees	Remune- ration for being a member of the Audit Committee	Audit Committee meeting fees	Remune- ration for being a member of the Remu- neration Committee	Remu- neration Committee meeting fees	Travel expenses	Benefits	Total
Rožle Podboršek	13,000	4,290	0	0	3,250	440	0	277	21,257
Marjan Mačkošek	19,500	4,565	0	0	0	0	1,748	277	26,090
Miha Juhart, PhD	14,300	3,740	2,437	1,232	4,063	440	0	277	26,489
Tatjana Colnar, MSc	13,000	4,290	4,063	1,452	2,437	220	105	277	25,844
Igor Pirnat, MSc	13,000	4,290	3,250	1,232	0	0	230	149	22,151
Darko Kodrič	13,000	4,290	0	0	0	0	1,219	277	18,786
Mojca Lahajner	0	0	3,250	1,452	0	0	68	0	4,770
Total	85,800	25,465	13,000	5,368	9,750	1,100	3,370	1,534	145,387

The claims of employees under labour disputes contested by the Management Board of DARS d.d. are disclosed in the notes on long-term provisions.

II.5.2.6 Write-downs

In EUR (without cents)	2018	Share	2017	Index
Amortisation of intangible fixed assets	3,609,646	2%	604,967	597
Depreciation of property, plant and equipment	167,520,749	96%	159,685,428	105
Depreciation of investment property	29,693	0%	12,372	240
Operating expenses for the revaluation of intangible fixed assets and PPE	3,749,710	2%	709,825	528
Operating expenses for the revaluation of current assets	171,922	0%	128,295	134
Total	175,081,720	100%	161,140,888	109

The depreciation of property, plant and equipment in 2018, 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 for the benefit of DARS d.d. on land owned by the Republic of Slovenia, where motorways are considered buildings 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 the period of 50 years.

Depreciation/amortisation increased in 2018 compared to 2017 as a result of the acquisition of fixed assets related to the electronic tolling system in free traffic flow (61% of the cost refers to intangible fixed assets), which was introduced on 1 April 2018, and the opening of the Draženci - Gruškovje motorway section for traffic, i.e. stage I on 22 November 2017 and stage II on 30 November 2018.

Operating expenses for the revaluation of intangible fixed assets and PPE also refer to:

- the elimination of toll stations that were demolished in 2018 in the amount of €475,219 and
- write-downs of pending investments referring to investments in other state non-toll roads that will not fall within the scope of the motorway and expressway network operated by DARS after construction and it is not likely that DARS will receive economic benefits in relation to them, in the amount of €3,187,628.

Operating expenses for the revaluation of current assets mostly comprise write-offs of receivables in the amount of €83,871 and the revaluation of 2018 vignette inventories, the sale of which ended on 30 November 2018, i.e. in the amount of €82,366.

II.5.2.7 Other operating expenses

Other operating expenses of €3,408,916 (€3,466,600 in 2017) include:

- long-term accrued costs for expected losses related to tort claims for motorway construction and reconstruction in the amount of €2,597,861 (€3,008,484 in 2017) and for lawsuits related to labour disputes in the amount of €20,379 (€35,032 in 2017),
- costs amounting to €356,545 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 €434,131 (€423,084 in 2017).

II.5.2.8 Financial revenue from loans given

Financial revenue from loans given in the amount of €806,170 (€2,132,858 in 2017) also includes revenue from short-term surplus liquid funds deposited with banks in the amount of €805,551.

II.5.2.9 Financial revenue from operating receivables due from others

Financial revenue from operating receivables due from others in the amount of €10,968 (€19,412 in 2017) refers to financial revenue from operating receivables, charged default interest and exchange rate gains.

II.5.2.10 Financial expenses for the impairment and write-down of investments

Financial expenses for the impairment of investments in the amount of €726,770 refer to the revaluation of financial derivatives.

II.5.2.11 Financial expenses for loans received from banks

Financial expenses in the amount of €25,239,962 (€29,869,027 in 2017) include interest charged on long-term loans. The weighted average interest rate on long-term loans as at 31 December 2018 was 1.45%.

II.5.2.12 Financial expenses for bonds issued

Financial expenses in the amount of €7,340,872 (€7,334,285 in 2017) include interest charged on long-term securities issued. The weighted average interest rate on long-term securities as at 31 December 2018 was 4.35%.

II.5.2.13 Financial expenses for other financial liabilities

Financial expenses for other financial liabilities in the amount of €7,503,493 (€4,393,994 in 2017) also refer to:

- negative interest on financial derivatives amounting to €3,798,986, which represents the difference between the variable interest rate of an insured loan and the fixed interest rate on a financial derivative,
- interest charged on long-term loans received from others in the amount of €3,677,765 and
- net interest on provisions for jubilee benefits and severance pay in the amount of €23,770.

II.5.2.14 Financial expenses for operating liabilities

Financial expenses for operating liabilities amounting to €280,055 (€166,461 in 2017) include, among other things, charged default interest amounting to €270,363 arising from liabilities that were settled late (99% of which refers to default interest under court decisions).

II.5.2.15 Other revenue

Other revenue in the amount of €5,231,151 (€3,064,261 in 2017) 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 €210,665 (€309,307 in 2017) 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 2018 is accounted at the 19% rate on the taxable profit generated by the Company in a tax year.

In EUR (without cents)	2018	2017
1 Revenues	495,428,367	458,871,408
2 Expenses	308,286,955	285,046,526
3 Total profit (1 - 2)	187,141,412	173,824,881
4 Revenue decrease	54,275	76,076
5 Revenue increase	0	0
6 Expense decrease for provisions and receivable revaluation	142,858	384,158
7 Expense decrease, other non-recognised expenses	7,476,368	3,154,523
8 Increase in recognised expenses	740,442	161,262
9 Difference between revenue and expenses recognised for tax purposes (1 - 2 - 4 + 5 + 6 + 7 - 8)	193,965,920	177,126,225
10 Tax base (9)	193,965,920	177,126,225
11 Change of tax base due to a change of accounting policies and error corrections	7,428	-402,293
12 Increase in the tax base by the amount of tax relief used	43,710	32,517
13 Tax relief for investments	18,629,091	1,847,663
14 Relief for the employment of disabled persons	331,701	314,879
15 Relief for practical work in professional training	3,835	2,107
16 Tax relief for supplementary pension insurance	862,494	881,236
17 Tax relief for donations	107,210	122,009
18 Tax base (10 + 11 + 12 - 13 - 14 - 15 - 16 - 17)	174,082,727	173,588,556
19 Corporate income tax	33,075,718	32,981,826

Net profit for the period is the amount of the total profit determined in the income statement decreased by the income tax liability in the accounting period and decreased by deferred taxes.

In EUR (without cents)	2018	2017
Calculated corporate income tax	-33,075,718	-32,981,826
Deferred taxes	356,269	302,088
Taxes	-32,719,449	-32,679,737

In EUR (without cents)	2018	2017
Profit or loss before tax	174,082,727	173,824,881
Taxes	-32,719,449	-32,679,737
Effective tax rate	18.80%	18.80%

Deferred tax receivables are the amounts of income tax recoverable in future periods.

The effective tax rate calculated as a quotient between total tax and total profit or loss for 2018 amounted to 18.80%.

II.6 BUSINESS RISKS

Business risks are presented in the Business Report 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 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 2018, DARS d.d. made transactions worth €214,065,624 with companies in which the State has a direct or indirect dominant influence, i.e. from sales to such undertakings in the amount of €166,301,573 and from purchasing in the amount of €47,764,051. Most sales referred to services related to toll collection, while the largest purchases referred to the cost of a supervising engineer for motorway construction and reconstruction, energy, commission on vignettes sold and insurance. As at 31 December 2018, the Company disclosed receivables due from such undertakings in the amount of €17,418,995 and liabilities amounting €3,810,778.

All transactions between related parties are made at market prices.

Transactions between DARS d.d. and the Republic of Slovenia are disclosed within the scope of other notes.

11.8 EVENTS AFTER THE BALANCE SHEET DATE

A list of key business events that occurred after the Balance Sheet was compiled:

March

According to the ZDARS-1, DARS d.d. records the real estate of other operators in its books of account. On 4 March 2019, the Company signed with the Republic of Slovenia an Agreement on the transfer of assets managed by government bodies from DARS d.d. to the Republic of Slovenia at the existing book value, i.e. in the amount of €235,724,995.56. On 25 March 2019, the General Meeting was held, where a resolution was adopted to decrease the Company share capital by €235,724,995.56. Due to the share capital decrease, the sole shareholder, Republic of Slovenia, will receive assets rather than money, i.e. assets with a book value amounting to €235,724,995.56 as at 31 December 2018. The disbursement to the Republic of Slovenia will be made by handover pursuant to Article 375 of the Companies Act.

Events that emerged after the balance sheet date did not impact the financial statements of DARS d.d. for 2018.

11.9 AUDIT OF THE ANNUAL REPORT FOR 2018

The contractual price of the audit of the 2018 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.

11.10 AUDITOR'S REPORT



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Independent Auditor's Report

To the owner of DARS d.d.

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of DARS d.d. (»the Company«), which comprise the balance sheet as at 31 December 2018, 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 2018, 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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Recognition of revenue

Revenue from vignette sales and toll revenue from freight traffic in 2018: EUR 451.497.703 (2017: EUR 430.894.988); short-term deferred revenue as at 31 December 2018 EUR 21.547.546 (31 December 2017: EUR 28.505.773)

We refer to the financial statements: Note II.3. Significant accounting policies, Revenue, Short-term deferred and accrued items (accounting policies), Note II.5.2.1. Revenue and Note II.5.1.24. Short-term deferred revenue (notes to the financial statements).

Key audit matter	Our response
<p>The Company's revenue is generated primarily from the distribution of time-based (weekly, monthly and annual) vignettes, and user charges associated with freight transport. 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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In view of the above-mentioned factors, revenue recognition was an area of our increased audit risk and attention, and as such was considered by us to be a key audit matter.

- For a sample of accounts receivable balances, obtaining independent confirmations as at 31 December 2018, 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

The carrying amount of property, plant and equipment (PPE) as at 31 December 2018: EUR 5.114.565.110 (31 December 2017: EUR 5.167.303.904); depreciation of PPE recognized in 2018: EUR 163.591.784 (2017: EUR 159.685.428).

We refer to the financial statements: Note II.3 Significant Accounting Policies – PPE and Depreciation/amortisation (accounting policies), Note II.5.1.2. PPE and Note II.5.2.6. Depreciation of PPE (financial disclosure).

Key audit matter	Our response
<p>Property, plant and equipment includes primarily motorways and related assets (structures, facilities and road infrastructure), and represents the most significant element of the total assets in the Company's balance sheet as at 31 December 2018 (90% of the amount of total assets). 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 related assets, and which should be recognized as an increase in the utility and consequently in the carrying amount of the motorway-related assets.</p> <p>Further, as motorway traffic has increased significantly in the recent years, one of the key aspects of accounting in the area is the determination of the useful lives of these assets, and consequently the depreciation rates applied. If an item of property, plant and equipment belonging to a significant asset category, such as motorways, comprises individual components for which different depreciation methods or rates are appropriate, then each such component is depreciated separately based on the Management Board's assessment of its individual useful life. The identification of such components and determination of their respective expected useful lives requires significant management judgement. To that end, the Company closely monitors and regularly reassesses the main drivers behind the life span of the major components of the motorway-related assets.</p>	<p>Our procedures in the area included, among others:</p> <ul style="list-style-type: none">• Testing the design, implementation and operating effectiveness of controls over the accuracy and existence of additions to the carrying amount of PPE, including controls over the determination of whether the additions meet the relevant criteria for accounting as separate components, and over the appropriateness of the assets'/components' assessed useful lives;• Challenging the Management Board's assessment of which expenditure represents regular maintenance of motorways and which contributes towards the given asset's utility, and as such should increase the carrying amount of the motorways or related assets. The procedure included, among other things, inspecting of a sample of recognised maintenance expense items and a sample additions to the carrying amounts of the motorways and related assets, and, by reference to our knowledge of the Company's business, assessing those against the relevant capitalization / expensing criteria of the relevant financial reporting standards.• On a sample basis, assessing the reasonableness of the allocation of property, plant and equipment-related expenditure capitalized in 2018 to significant components;

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Due to the above factors, this area required our increased attention in the audit, and as such we considered it to be our key audit matter.	<ul style="list-style-type: none">• 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 prepared in accordance with the applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment in which it operates, obtained in the course of our audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this respect.

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Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Slovenian Accounting Standards (2016), and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using of the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences.

Report on Other Legal and Regulatory Requirements

We were appointed by the shareholder of DARS d.d. at the shareholders meeting dated on 11 October 2017 to audit the financial statements of DARS d.d., for the year ended 31 December 2018. Our total uninterrupted period of engagement is three years, covering the periods ending from 31 December 2016 to 31 December 2018.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 5 April 2019;
- we have not provided any prohibited non-audit services (NASs) referred in Article 5 of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

For the period to which our statutory audit relates, in addition to the audit, we have not provided any other services to the Company.

On behalf of the audit company

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Helena Kobal
Certified Auditor

Danilo Bukovec
Certified Auditor
Director

KPMG Slovenija, d.o.o.

Ljubljana, 5 April 2019

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DARS

ANNUAL REPORT 2018

DARS d.d.

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