

DARS

Annual Report **2016**

Ljubljana, April 2017







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II. Financial Report

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Acronyms and Abbreviations

ABC	Automatic non-cash toll collection
MW	Motorway
TS	Toll station
DARS, d.d.	Družba za avtoceste v Republiki Sloveniji d. d. (Motorway Company in the Republic of Slovenia)
DLN	National Site Plan
EBITDA	Earnings before interest, tax depreciation and amortisation
ETC	Electronic Toll Collection
PD	Preliminary Design
EW	Expressway
ITS	Intelligent Transport Systems
Concession agreement	Concession contract for the management and maintenance of motorways in the Republic of Slovenia
IBCP	International Border Crossing
MInf	Ministry of Infrastructure
NMCP	National Motorway Construction Programme
CC	Control Centre
DBP	Project Design for a Building Permit
TIC	Traffic Information Centre for public roads
AADT	Average Annual Daily Traffic
FTF	Free Traffic Flow
ED	Executive design
R3	Motor vehicles having two or three axles whose maximum permissible weight exceeds 3,500 kg and groups of motor vehicles having two or three axles whose maximum permissible weight exceeds 3,500 kg.
R4	Motor vehicles having more than three axles whose maximum permissible weight exceeds 3,500 kg and groups of motor vehicles having more than three axles whose maximum permissible weight exceeds 3,500 kg.
RS	Republic of Slovenia
RCC	Regional Control Centre
SSH	Slovenian Sovereign Holding (Slovenski državni holding, d. d.)
TCMS	Traffic control and management system
SAS	Slovenian Accounting Standards 2006
MCRSA	Motorway Company in the Republic of Slovenia Act (MCRSA-UPB 1) (Official Gazette of the Republic of Slovenia, No. 20/2004)
MCRSA-1	Motorway Company in the Republic of Slovenia Act (Official Gazette of the Republic of Slovenia, No. 97/2010-MCRSA-1)
CA-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. and 82/13)
PPA	Public Procurement Act
FBA	Fiscal Balance Act (Official Gazette of RS, No. 40/2012)

Statement of management responsibility

We, the members of the Management Board of DARS d.d., in charge of the preparation of the annual report of DARS d.d. for 2016, ensure that the present annual report with all of its integral parts, including the corporate governance statement, has been created and published to the best of our knowledge and is in accordance with the Companies Act, the Financial Instruments Market Act, and the Slovenian Accounting Standards.

The annual report of DARS d.d with financial statements and explanations provides a true and fair presentation of assets and liabilities, financial situation, and profit or loss of the company DARS d. d.

The Management Board also declares that the financial statements of the company have been prepared under the presump-

tion of a continuation of operations, that the selected accounting guidelines have been strictly applied, and that eventual changes to the latter have been disclosed.

Celje, 14 April 2017



Tomaž Vidic, PhD
Chairman of the Board

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Gašper Marc, MSc
Member of the Board

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Vili Žavrlan
Member of the Board

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Marjan Sisinger
Labour Director/
Member of the Board

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DARS



I. Business Report



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: +386 (3) 426 40 71 Fax: +386 (3) 544 20 01
BRANCH	Dunajska 7, 1000 Ljubljana Phone: +386 (1) 300 99 00 Fax: +386 (1) 300 99 01
WEBSITES	www.dars.si www.promet.si
YEAR OF INCORPORATION	1993
REGISTRATION STAKE	1/06158/00, District Court of Celje
FOUNDER	Republic of Slovenia
SHAREHOLDER	Republic of Slovenia
REGISTRATION NUMBER	5814251000
VAT NUMBER	SI92473717
SHARE CAPITAL	EUR 2,319,866,345.16
SHARES ISSUED	55,592,292 no par value shares

DARS d. d. was established in 1993 under The MCRSA and began to operate on 1 January 1994. Until 31 December 2003, it had the status of a publicly-owned company in the form of a public limited company. From 1 January 2004, it had the status of a public limited company functioning as a commercial company. The sole founder and shareholder of DARS d. d. is the Republic of Slovenia, which, in accordance with the Slovenian Sovereign Holding Act (SSHA-1/Official Gazette of the Republic of Slovenia, No. 25/2014), is represented by the Slovenian Sovereign Holding (SSH). DARS d. d. operates in compliance with both the Corporate Governance Code for Companies with Capital Assets of the State adopted by the SSH as well as 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 MCRSA-1 entered into force, in accordance with which DARS d. d.:

- Performs special tasks in relation to spatial planning and integrating motorways with the environment as well as performs tasks in relation to acquiring real property for the requirements of motorway construction in the name of the Republic of Slovenia and for the state's account;
- implements the construction of motorways in its own name and for its own account;
- manages and maintains motorway sections based on granted construction concessions.

By enforcing developmental documents, the State maintains the strategic supervision of the development of motorways by determining new sections and deadlines for the opening of newly-built sections.

The MCRSA-1 determines the status, tasks, and obligations of DARS d. d. and regulates real right relations in connection to motorways. Under this Act, DARS d. d. was transformed into a concessionaire that was awarded the right of superficies for the duration of the concession relating to land where it builds and takes over all financial obligations related to the construction of new motorway sections. The MCRSA-1 also stipulates that DARS d. d., in the name of the Republic of Slovenia and for its account, performs individual tasks in relation

to spatial planning and integrating motorways with the environment, as well as tasks in relation to acquiring real property for the requirements of motorway construction. The Act also stipulates that DARS d. d. will continue with the construction of motorways and expressways that were initiated prior to the MCRSA-1 entering into force, and that it will continue to manage and maintain the existing motorways and expressways in the Republic of Slovenia.

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

Table 1: Key performance data by year

Key performance data by year	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	Index 2016/2015
Revenue	317,316,358	327,666,309	365,358,022	373,067,610	399,300,535	107
Expenditure	286,629,433	271,187,458	280,937,651	300,621,245	276,830,211	92
Net sales revenues	305,817,390	315,640,478	354,455,753	360,880,094	372,161,638	103
Operating revenues	312,333,910	323,741,607	361,316,158	370,468,252	397,249,272	107
Operating expense	216,782,091	220,741,765	222,867,533	250,917,003	233,666,223	93
Operating profit/loss	95,551,818	102,999,842	138,448,626	119,551,249	163,583,049	137
EBITDA	240,989,883	251,088,123	285,679,869	269,429,961	318,288,799	118
Net profit or loss for the period	24,406,263	47,143,874	70,354,171	60,456,694	102,448,010	169
Share capital	2,319,866,345	2,319,866,345	2,319,866,345	2,319,866,345	2,319,866,345	100
Equity as of 31 December	2,425,789,223	2,472,933,097	2,531,278,379	2,566,206,940	2,665,453,020	104
Total value of assets as at 31 December	5,626,879,758	5,644,936,606	5,556,644,000	5,510,535,999	5,680,666,379	103
Balance of debt as at 31 December	2,828,280,071	2,795,662,158	2,633,687,915	2,502,668,888	2,567,032,918	103
Repayment of debt – principal	103,550,701	142,617,913	161,974,243	228,478,238	349,956,759	153
Payment of interest*	74,434,649	51,491,774	54,768,729	50,020,548	41,234,923	82
Number of employees	1,226	1,237	1,251	1,242	1,247	100
Operating margin	31.2%	32.6%	39.1%	33.1%	44.0%	133
EBITDA margin	78.8%	79.5%	80.6%	74.7%	85.5%	115
Net margin	8.0%	14.9%	19.8%	16.8%	27.5%	164
Return on equity (ROE)	1.0%	1.9%	2.8%	2.4%	3.9%	165

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

Figure 1: Movement in DARS d. d. Total Revenue, Expenses and Net Profit or Loss for 2012–2016

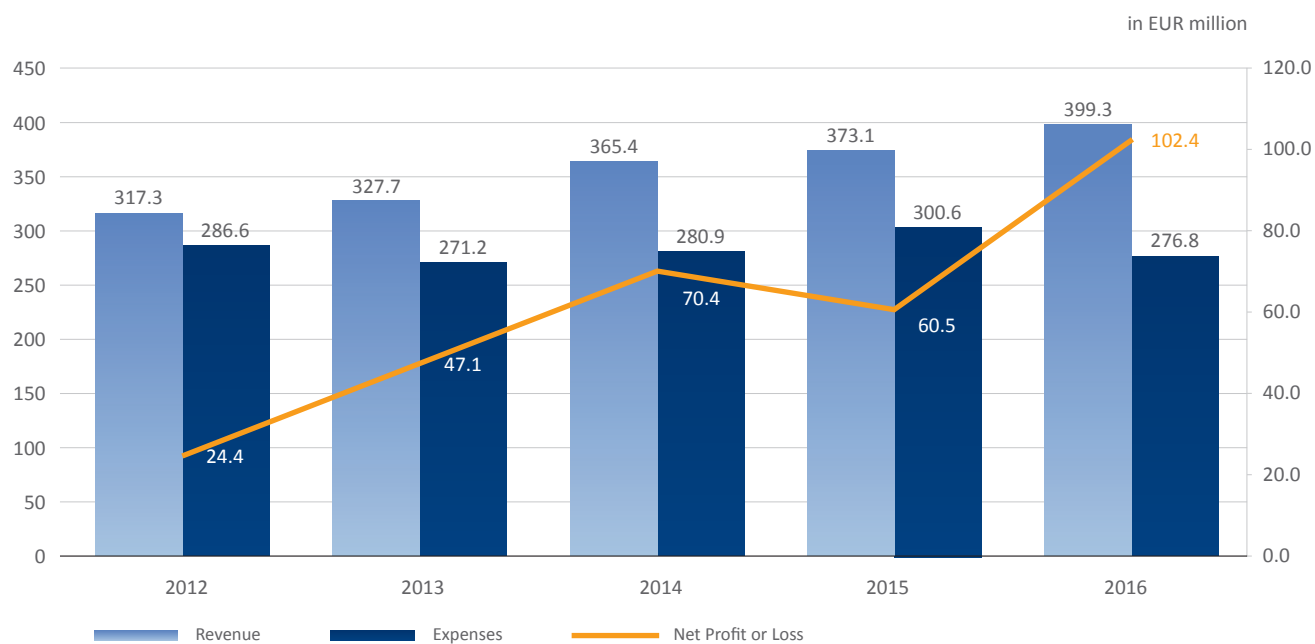


Figure 2: Net Sales Revenue and Operating Cash Flow (EBITDA) for 2012–2016

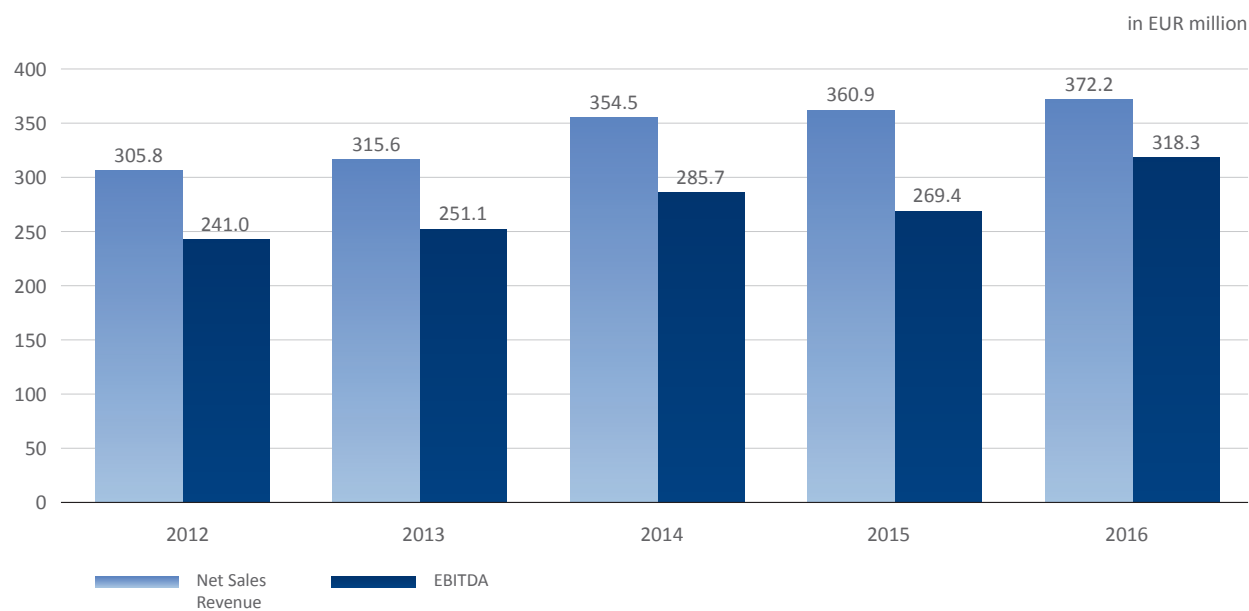


Figure 3: Debt balance (31 December), principal repayment and interest payment in the 2012–2016 period

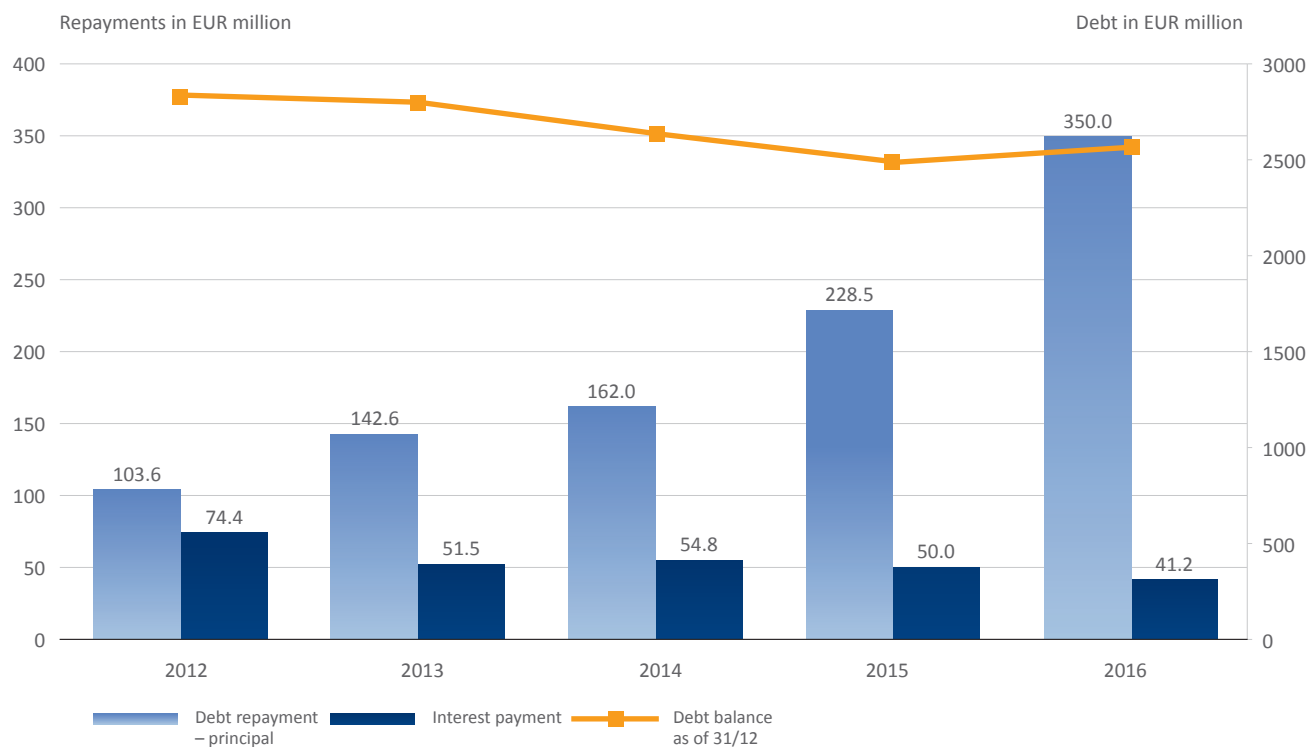


Figure 4: Structure of Revenue of DARS d.d. in 2015

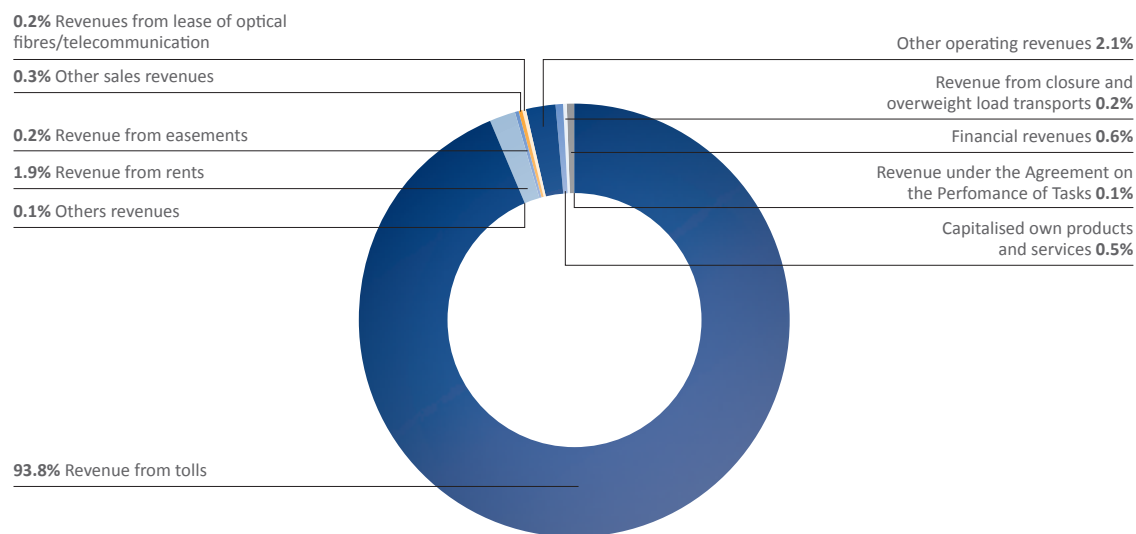


Figure 5: Structure of Revenue of DARS d. d. in 2016

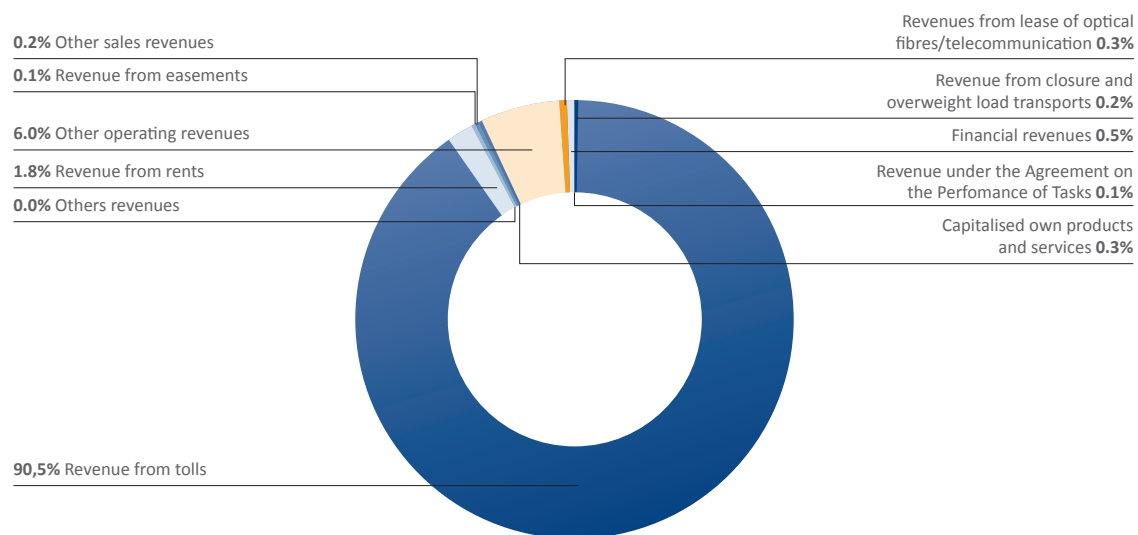


Figure 6: Structure of Revenue of DARS d. d. Without Tolls in 2016

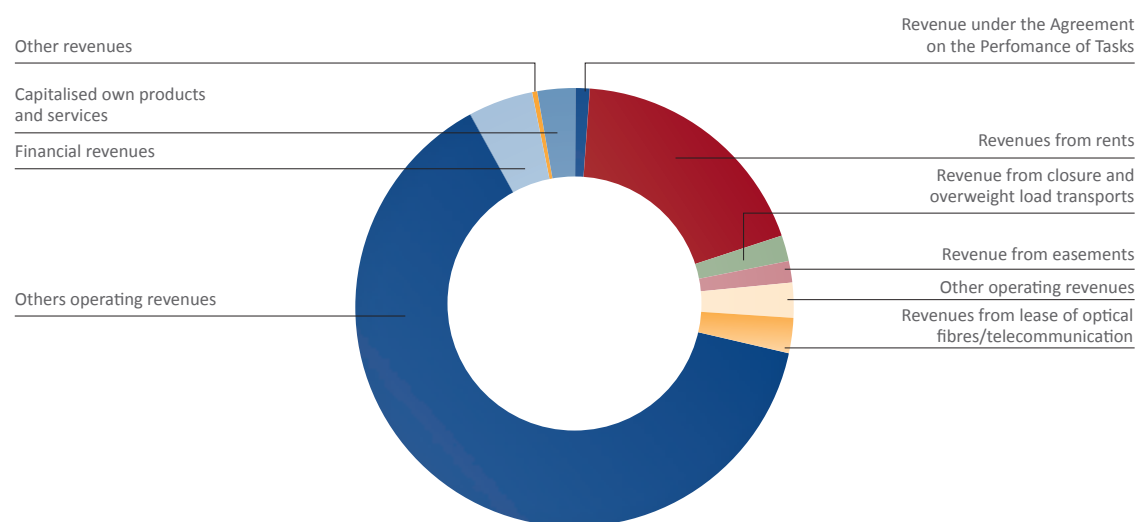


Figure 7: Structure of Expenses of DARS d. d. in 2015

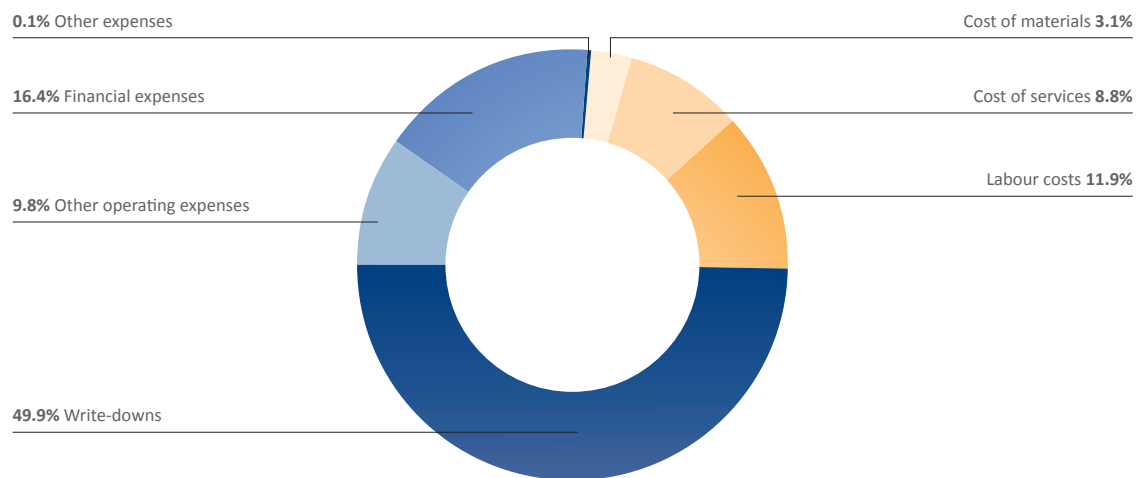
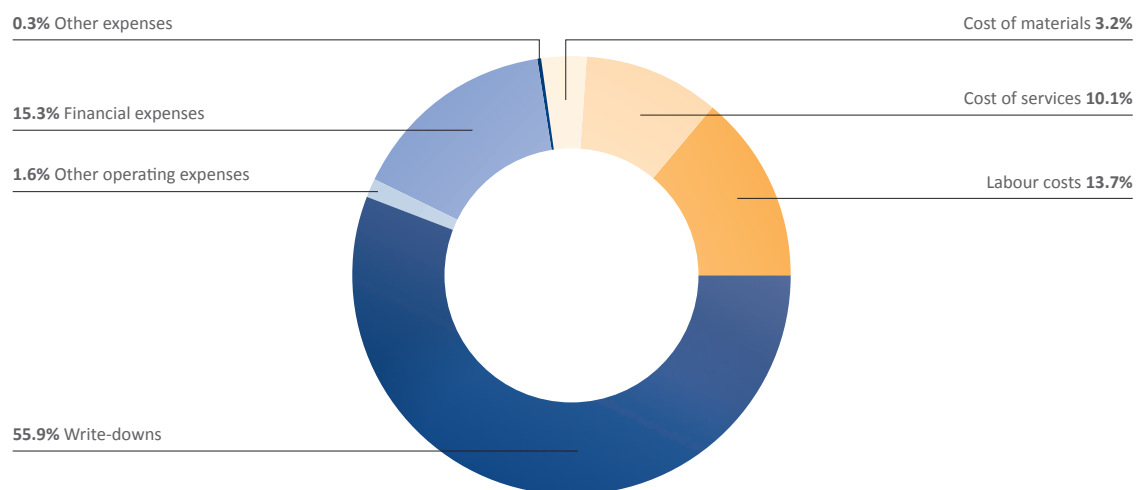


Figure 8: Structure of Expenses of DARS d. d. in 2016



I.2. Letter from the Management Board

Dear Sir/Madam,

The traffic sector is one of the most important activities a part of which is within the jurisdiction and management of the company DARS d. d., which manages the most traffic burdened road system in the country, a road system which is tightly intertwined with the central European transit connections. Regarding transit traffic, Slovenia rates at the top of the European countries. Our efforts are aimed at ensuring the best possible solutions for both the population's mobility and the supply of the economy; while achieving the highest possible degree of success in the sector of environmental protection and in the rational use of traffic infrastructure, and as a priority, in implementing measures to increase traffic safety.

By successfully realising our business plan, in 2016, we have—despite the unchanged pricing policy in the field of tolls regulated by the country—improved all key business indicators.

In 2016, DARS d. d. has created EUR 372.2 million of net sales revenue, EUR 318.3 million of EBITDA, and EUR 102.5 million of net profit.

In 2016, we were also faced with increased traffic on motorways and express-

ways under our management and maintenance, especially on the A1 motorway. Also continuing is the trend of increased traffic of goods vehicles, as in 2016, our motorway system was on average used by 8000 goods vehicles per day. This is why we have invested our efforts into reducing the effects of both necessary regular maintenance works and larger investment maintenance works (renovations) on traffic jams in the motorway and expressway network. The works were adjusted to the morning and afternoon rush hours, and were performed in the opposite direction of the increased traffic flow. Furthermore, we have performed a large portion of works during the weekends, when the traffic is not as dense.

In accordance with the investment part of the business plan, in 2016, DARS d. d. organised and managed projects involving the construction and reconstruction of various motorway sections. Siting activities were carried out at 15 projects in 2016 in the field of spatial planning and integration of motorways and expressways into the environment. The majority of these works were at the following sections: additional construction in the Karavanke motorway tunnel, the state road from the Šentrupert Slip Road on the A1 motorway Šentilj–Kop-

er to Velenje, and the Koper-Dragonja expressway. In the category of new constructions, there was intensified works for the additional construction of the missing part of the A4 Podravska motorway between Draženci and Gruškovje at the border with Croatia. During the Summer, works for the extension of the slip road Šmarje-Sap on the A2 Dolenjska motorway were initiated. In 2016, we comprehensively renovated 33 kilometres of motorways.

After the conclusion of a contract regarding the establishment of the electronic toll collection system in a free traffic flow for vehicles with the maximum permissible weight over 3,500 kg in September of 2016, one of the most important projects in the company's history is now being realised. We expect that the new system, which is to become fully operational at the end of 2017, will lead to increasingly higher income from the tolling of heavy vehicles.

DARS d. d. invests in infrastructural improvements, road equipment, and devices, thereby improving traffic safety. The funds are, within the framework of preventive actions, also assigned to raising the awareness of drivers of how to properly drive on motorways and expressways. For instance,



in 2016, we have, within the framework of measures for preventing driving in the wrong direction, equipped certain connections with additional detection systems for vehicles driving in the wrong direction, upgraded 20 traffic counters with detectors for driving in the wrong direction, and installed separating kerbs on certain motorway connections where lanes were previously only separated by a continuous line. Furthermore, within the framework of traffic safety, we have replaced almost 18,000 meters of existing fences with new ones, which have a higher containment level. We renovated approximately 355,000 metres of road markings. We purchased

20 new crash cushions and blinds for protecting accident sites from onlookers. Upgrades of tunnels and investments in tunnel equipment in accordance with the latest standards, have in 2016 amounted to approximately EUR 3.5 million.

At DARS d. d., we will, among other, continue to invest in upgrades of the existing network and in raising the quality of carriageways and facilities, mainly viaducts and tunnels.

With modern approaches and a sense of environmental responsibility, we will, as defined in the medium term strategic plan,

optimise traffic flow and ensure safety and comfort on the Slovenian motorway network.

We thank you for your trust in our ability at implementing activities for further development and for the growth of the company DARS d. d. and assure you that together with more than 1200 employees in the field of motorway maintenance and management, tolling, investment, and support expert services, we will strive to focus our vision on the users, with whom we share concern for their safety, reliability, and comfort on motorways.

Tomaž Vidic, PhD
Chairman of the Board

Gašper Marc, MSc
Member of the Board

Vili Žavrlan
Member of the Board

Marjan Sisinger
Labour Director/
Member of the Board

I.3. The Mission, Vision, Values and Strategic Directions, Integrated Management System Policy



Mission

With modern approaches and a sense of environmental responsibility, we optimise traffic flow and ensure safety and comfort on the Slovenian motorway network.

Vision

Connected in the future

Our motto for current and future operation is based on connectivity in all forms possible. This means that our vision is focused on the following:

- the users, with whom we share concern for their safety, reliability, and comfort on road;
- the sustainable development of the company and the environment, through which we are connected for the sake of more efficient and successful operations, as well as a responsible attitude to all our stakeholders: the owner, the business partners, the local community, the wider European space, the natural environment, etc., and connections to related institutions;
- the needs of employees, who share our efforts in establishing a safe, creative, and interesting work environment.

Fundamental values

Safety

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

Responsibility

We perform our work tasks responsibly and ensure the successful realisation of the set goals by thinking of our users, our environment (the harmony of our activities with ability and the needs of the natural environ-



ment), and all other stakeholders with whom we are operating (suppliers, operators, other business partners, the owner, the local community – we are a reliable business partner).

Development

We are constantly encouraging innovative and modern approaches, and we are developing new services of our company or improving the existing ones. We are also striving to increase energy efficiency. We think creatively and innovatively because we know this is the only way to shape innovative services with a high level of added value for our users, employees, the company, and the owner.

Respect

Our day-to-day operation includes a high level of respect for and trust in all of our stakeholders, which is reflected in the interactions between employees and our attitude towards the users, the owner, and business partners.

Strategic Directions of DARS d.d.

The strategic directions are based on the following:

- business trends and the needs of the external and internal environment of the company with an emphasis on sustainable development;
- the owner's guidelines;
- the guidelines of the European institutions;
- best practices of other similar institutions;
- strategic and other business risks;
- performed analyses of employee satisfaction (measurement of organisational climate);
- user satisfaction; and
- measures in the field of business excellence.



Key strategic policies of DARS d. d. are the following:

Ensuring safety, traffic flow, and comfort for the users of the motorway network

- Ensuring traffic safety;
- Ensuring traffic flow;
- Ensuring user-friendly services.

Long-term operating stability

- Ensuring long-term operating stability;
- Introducing lean operation;
- Implementation of business excellence.

Dedicated and competent employees

- Constant reinforcement of competence;
- Development of leadership within the company;
- Establishment of a creative, safe, and interesting working environment.

Integrated management system policy

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



We aim for a high-quality, environmentally- and energy-efficient operation, and comprehensive service, which preserves the safety of our employees.

The management system policy is realised in the following manner:

- by making responsible decisions based on concrete information and facts;
- by creating favourable conditions and relationships within and outside the company;
- by promoting proactive operation focused on innovative employees;
- through consistent compliance with legislation, other mandatory requirements and development guidelines;
- through mutually-beneficial collaboration with partners and other external contractors;
- by supporting professional development and the obtaining of new skills and knowledge;
- through active communication inside the company and with the outside public;
- through the commitment to preventing health risks to and injuries of employees;
- by implementing and achieving measurable improvements in all fields of operation;
- when supplying products and services and planning new solutions, we consider all aspects of operation (environment, energy, quality, safety, economic).

Company management sets out to lead by example and pursue the set objectives to the best of their abilities.

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



Pursuant to the fifth paragraph of Article 70 of the Companies Act (Official Gazette of the Republic of Slovenia, No. 42/2006 and sub.), the Articles of Association of DARS d. d. adopted on 29 August 2016, 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 as part of the Annual report, the company DARS d. d. issues the following

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement is an integral part of the Annual Report for 2016 and is accessible on the company's website www.dars.si.

1. Reference to the Corporate Governance Code and the Recommendations

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

- the Corporate Governance Code for Joint Stock Companies, 8 December 2009, available at <http://www.ljse.si>;
- the Corporate Governance Code for Companies with Capital Assets of the State, March 2016, accessible at the website of the Slovenian Sovereign Holding (SSH) <http://www.sdh.si> and
- the Recommendations and Expectations of the SSH, February 2016, accessible at 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 stockholder, exercises its rights through Slovenian Sovereign Holding, which, in turn, exercises its voting rights at the General Meeting by appearing before courts and other authorities and by assembling the General Meeting.

There were no major discrepancies in the implementation of the above codes and recommendations in 2016. The 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.

Since 1 January 2017, when it entered into force, the code referenced by the company is the Slovenian Corporate Governance Code for Joint Stock Companies, which is content-wise an upgraded version of the



Corporate Governance Code for Joint Stock Companies which was valid in 2016. It was prepared and, on 27 October 2016, adopted by Ljubljanska borza, d. d. Ljubljana, and the Association of Supervisory Board Members of Slovenia. The code can be accessed at the website of Ljubljanska borza. In February 2017, the Supervisory Board of DARS d. d. has adopted a Corporate Governance Policy of DARS d. d., which already includes compliance with the recommendations of the new Slovenian Corporate Governance Code for Joint Stock Companies.

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 the applicable reasoning.

a) Corporate Governance Code for Joint Stock Companies

Corporate governance framework

Item 1: The company operates in keeping with its key objective – to maximise the company's value – and other objectives as the operator of the motorway network which 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 objectives in documents published on its website or in publications. DARS d. d. management is based on legal provisions, internal acts, and rules. All operational business decisions for achieving the objectives are implemented within the annual business plan.

Relationship between the company and its shareholders

Item 5.7: In defining the amount of remuneration to members of the Management Board, the Supervisory Board acts in accordance with the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-governing Local Communities (Official Gazette of the Republic of Slovenia, No. 21/10 and 8/11). It adopted the Rules on Determining the Content of Employment Contracts for the Management Board Chairman and Members regarding Remuneration and Severance Pay, which prescribe the criteria for evaluating the performance-linked variable component of the remuneration to managers and relayed this to the General Meeting.

Item 5.9: The certified auditor is summoned to the meeting of the Supervisory Board's Audit Committee.

Supervisory Board

Item 6 and 7: 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 the shareholders, and one member of the Supervisory Board, representing the workers. External experts are included as needed.

Transparency of operations

Item 22.5 and 22.6: The company does not disclose in the Annual Report the membership of the bodies of management or supervision of non-related companies that are taken up by the members of the Management Board and Supervisory Board as the members of the Management Board or the Supervisory Board inform the Supervisory Board of potential violations of competition rules and potential dependencies.

Item 22.7: The company discloses the gross remuneration of each member of the Management Board and of the Supervisory Board in accordance with the legal requirements, with the exception of the net remuneration.

Item 22.8: 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) and in accordance with the provisions of the CA-1 and the MCRSA-1.

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

Supervisory Board

Item 6.9.5: The company partially deviates from the recommendation in concluding directors and officers liability insurance contracts for Supervisory Board members. The D&O insurance is concluded and bonuses are paid to the persons included.

Item 6.12.2: The company partially deviates from the recommendation. Due to the current situation and the challenges posed by individual subjects, the Audit Committee of the Supervisory Board had more sessions than recommended, more precisely ten.

Management Board

Item 7.3: In defining the amount of remuneration to members of the Management Board, the Supervisory Board acts in accordance with the Act Governing the Remuneration of Managers of Companies with Majority Ownership Held by the Republic of Slovenia or Self-governing Local Communities (Official Gazette of the Republic of Slovenia, No. 21/10 and 8/11). Until now, the company did not confirm a special remuneration policy for members of the Management Board at the General Meeting, but it has informed the assembly on the Rules on Determining the Content of Employment Contracts for the Management Board Chairman and Members regarding Remuneration and Severance Pay.

Audit and Internal Control System

Item 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.

c) Recommendations and Expectations of the SSH

Labour cost optimisation in 2016

Item 4.3: The company partially deviates from the recommendation, as it discloses information on work costs in annual reports. Payments are performed in accordance with the binding collective agreement and the agreements with social partners, published on the company's internal website.

Item 4.4: The company partially deviates from the recommendation. The company publishes the binding collective agreement and the agreements with social partners on its internal website.

General Meeting of companies

Convening a General Meeting – Point 6.2: 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 Slovenian Sovereign Holding (SSH). Since the General Meeting is universal, the provisions of the CA-1 regarding the deadline of convening and the publication of the agenda of the General Meeting do not apply.

DARS d. d. shall continue following the 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 SSH and thereby comply with its corporate governance system.

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

The Management Board of the company is in charge of establishing and ensuring the operation of internal control and internal accounting controls, collecting and implementing accounting guidelines, and protecting the company's assets.

The system of internal controls is a set of various guidelines and policies established and adopted by management for the purpose of optimally managing the risks related to financial reporting. The purpose of internal controls is to ensure efficient and successful operation, reliable financial reporting, and compliance with applicable laws and other external and internal regulations.

The company has established a system for managing risk in relation to financial reporting.

The company ensures the accuracy, completeness and truthfulness of financial reporting by implementing the following internal controls:

- control of the accuracy of accounting information, which is ensured through various ways, e.g. by reconciling items with buyers and suppliers;
- control of the completeness of entered data (e.g. sequencing of documents, enumeration of documents);
- control of the allocation of duties and responsibilities (e.g. separate performance of recording and payment);
- control of access limitations (right of access to accounting records is selectively granted);
- supervision control.

The accounting process is IT-supported, so all the aforementioned internal controls are integrated with controls incorporated within the framework of information technology which encompasses controls of limited access to the network, information, and applications; as well as controls of the accuracy and completeness of entered and processed information.

The chapter Risk management of the business report presents in detail risk management and control mechanisms related to the assessment of individual types of risk. We believe that the current control system at DARS d. d. in 2016 ensures efficient and successful achievement of business goals, operation in accordance with legal regulations, and fair and transparent reporting in all important aspects.

4. The functioning of the Company's General Meeting and its key competences, description of shareholder rights and the manner of exercising such rights

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

The functioning of the General Meeting and its key competences as well as the rights of shareholders and the manner of exercising such rights are defined in more 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 referred to as: RS), which is following in accordance with the Slovenian Sovereign Holding Act after its entry into force; the RS is represented by the Slovenian Sovereign Holding d. d. The Republic of Slovenia exercises its shareholder's rights, as defined in the CA-1 and the Articles of Association, at general meetings.

General meetings are convened by the Management Board of DARS d. d. at its own initiative, at the request of the Supervisory Board or the company's shareholder.

A General Meeting must be convened in legally-defined cases, however no less than once per year.

5. The composition and activities of the Company's managerial and supervisory bodies and their committees

Management Board

The composition and activities of the Management Board are defined in more detail in the Articles of Association of DARS d. d. Pursuant to the Articles of Association of DARS d. d., the Management Board may have up to five members. A person can be appointed to the position of board member if they fulfil the conditions of Article 255 of the CA-1 and point 7.2.2 of the Articles of Association. All members of the Management Board are appointed by the Supervisory Board for a period of five (5) years. All members of the Management Board are employees of the company.

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

The Management Board manages the company in the best interests of the company, independently and at its own responsibility. At the same time, it must act as a diligent and honest manager and protect the business secrets of the company. In realising its tasks, the Management Board adopts measures and carries out the procedures defined by law and the Articles of Association of the company.

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

The Management Board adopts resolutions within the scope of its competences with a majority vote of all members of the Board. Each member of the Management Board is entitled to one vote. In the case of a tied vote, the vote of the Chairperson of the Management Board is decisive. The Labour Director participates in decision-making whenever the Management Board decides on staff and social issues.

The Management Board adopts rules of procedure for its work, in which it grants consent to the Supervisory Board.

Company Supervisory Board

In accordance with point 7.3.1 of the Articles of Association of DARS d. d., the Supervisory Board consists of six members. Two members of the Supervisory Board shall be 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 Chairman and Deputy Chairman.

The Supervisory Board must be convened at least once every quarter. The Supervisory Board constitutes a quorum if at least two thirds of the members are present at a meeting, including the Chairman or Deputy Chairman 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 EUR 1.5 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 decision 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(s) about its positions and proposals; and considers and decides on all other matters within its competence as delineated 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 examination for the General Meeting.

The more detailed composition and activities of the Supervisory Board of the company and its committees in 2016 are presented in the Report of the Supervisory Board.

Decisions related to the General Meeting, Management Board and Supervisory Board, and company securities are summarised in compliance with the Articles of Association adopted by the General Meeting on 29 August 2016.

The company's Corporate Governance Policy includes a commitment to preventing unauthorised interventions in the personality and dignity of employees and preventing discrimination. For now, the company has not adopted an independent policy which would additionally regulate the diversity of the structure of the bodies of management and control (as defined in the CA-1).

Ljubljana, 21 April 2017

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Supervisory Board of DARS d. d.

Management Board of DARS, d. d.

Marjan Mačkošek
Chairman of the
Supervisory Board

Tomaž Vidic, PhD
Chairman of the
Management Board

Mag. Gašper Marc
Board Member

Vili Žavrlan
Board Member

Marjan Sisinger
Employee's Director/
Board Member



I.5. Analysis of Business Performance

Revenue of DARS d.d.

Table 2: Overview of DARS d. d. Revenue

Categories of Revenues	2014 (in EUR)	2015 (in EUR)	2016 (in EUR)	Index 2016/2015	Structural share for 2016
Revenue under the Agreement on the Performance of Tasks	418,721	407,016	383,902	94	0.1
Revenue from tolls	344,163,641	349,925,047	361,269,595	103	90.5
– Vignettes	155,560,318	161,834,841	170,262,417	105	42.6
– Freight traffic	188,603,323	188,090,206	191,007,178	102	47.8
Revenue from leases	6,914,136	7,071,880	7,296,256	103	1.8
Revenue from closure and overweight load transports	897,712	908,124	652,445	72	0.2
Revenue from easements for base stations and others	578,738	856,090	594,426	69	0.1
Revenues from lease of optical fibres	743,165	771,393	1,021,585	132	0.3
Other sales revenues	739,639	940,544	943,430	100	0.2
Other operating revenues	5,610,915	7,892,818	24,065,320	305	6.0
Financial revenues	3,940,611	2,387,815	1,952,141	82	0.5
Other revenue	101,252	211,543	99,123	47	0.0
Capitalised own products and services	1,249,490	1,695,339	1,022,313	60	0.3
Total revenue	365,358,022	373,067,610	399,300,535	107	100.0

In the 2016 financial year, the revenues of DARS d. d. amounted to EUR 399.3 million, which is seven percentage points more than in 2015. The 2016 tolling revenue, which represents 90.5 per cent of all revenues generated by the company, was three per cent higher than in 2015. The tolling revenue increased due to improved vignette sales (over five per cent) and increased freight traffic (nearly two per cent), which partially offset the negative impact of the changes in freight traffic structure regarding the EURO emission standards. Other operating revenues are higher in 2016 due to the elimination of provisions from potential actions.

Expenses of DARS d.d.

Table 3: Overview of DARS d. d. Expenses

Categories of Expenses	2014 (in EUR)	2015 (in EUR)	2016 (in EUR)	Index 2016/2015	Structural share for 2016
Cost of materials	9,363,390	9,283,845	8,838,553	95	3.2
Costs of services	25,085,583	26,588,563	27,901,879	105	10.1
Labour costs	35,658,179	35,832,067	37,910,486	106	13.7
Write-offs	147,231,244	149,878,711	154,705,750	103	55.9
Other operating expenses	5,529,137	29,333,817	4,309,555	15	1.6
Financial expenses	55,236,102	49,393,456	42,429,255	86	15.3
Other expenditure	2,834,017	310,786	734,733	236	0.3
Total expenses	280,937,651	300,621,245	276,830,211	92	100.0

The expenses of DARS d. d. in 2016 amounted to EUR 276.8 million and were down by eight per cent in comparison to 2015. The decreased expenses are primarily the result of lower other expenditures and financial expenses. With a 56 per cent share, write-downs represent the greatest part of the expenses.

DARS d.d. Profit or Loss

The net profit of DARS d. d. for the period from 1 January to 31 December 2016 amounted to EUR 102.5 million and was 69 per cent higher in comparison to the net profit in 2015.

Table 4: Performance ratios

		31 December 2014	31 December 2015	31 December 2016
Financing ratios				
Equity financing ratio in %	$\frac{\text{Equity}}{\text{Liabilities}}$	45.55	46.57	46.92
Long-term financing ratio in %	$\frac{\text{Equity} + \text{provisions} + \text{long-term liabilities}}{\text{Liabilities}}$	93.54	91.28	94.41
Short-term financing ratio in %	$\frac{\text{Short-term liabilities (including short-term AEDR)}}{\text{Liabilities}}$	6.46	8.72	5.59
Investment ratios				
Fixed asset investments ratio in %	$\frac{\text{Fixed assets (at carrying amount)}}{\text{Calculated depreciation}}$	96.11	95.64	91.89
Long-term investments ratio in %	$\frac{\text{Fixed assets} + \text{long-term inv.} + \text{long-term op. rec.}}{\text{Calculated depreciation}}$	96.11	96.16	92.35
Horizontal financial structure ratios				
Quick ratio in %	$\frac{\text{Liquid assets} + \text{short-term receivables}}{\text{Short-term liabilities}}$	11.68	11.36	18.34
Quick ratio in %	$\frac{\text{Short-term assets} + \text{short-term deferred costs and accrued revenues}}{\text{Short-term assets} + \text{short-term accrued costs and deferred revenues}}$	58.63	42.86	135.17
Operating ratios				
Operating efficiency ratio in %	$\frac{\text{Operating revenues}}{\text{Operating expenditure}}$	162.12	147.65	170.01
Operating profit rate in %	$\frac{\text{Operating profit}}{\text{Operating revenues}}$	38.32	32.27	41.18
Net profit margin in %	$\frac{\text{Net profit}}{\text{Revenues}}$	19.26	16.21	25.66
Profitability ratio				
Net return on equity	$\frac{\text{Net profit for the period}}{\text{Average equity (without net profit for the period)}}$	0.03	0.02	0.04

I.6. Key Business Events in the 2016 Financial Year

January

The Supervisory Board recalled Matjaž Knez, MSc, Chairman of the Management Board,, and Mr Franc Skok, a member of the Management Board, by reason of serious breach of obligations.

On 13 January 2016, the Supervisory Board of DARS d. d., appointed Tomaž Vidic, PhD, Chairman of the Management Board for a period of three months.

February

At its 5th regular session, the Supervisory Board of DARS d. d. adopted the Business Plan of DARS d. d. For 2016.

March

In accordance with the Articles of Association of DARS d. d., the Supervisory Board granted prior consent for the conclusion of a transaction for the public contract entitled "Establishment and Operation of a Multi-Lane Electronic Toll Collection System in Free Traffic Flow on Motorways and Expressways".

The public contract "Establishment and Operation of a Multi-Lane Electronic Toll Collection System in Free Traffic Flow on Motorways and Expressways" was awarded to the consortium of Telekom Slovenije d. d. and Q-FREE ASA.

April

The European Commission adopted the Implementing Decision for the approval of the financial contribution in the amount of EUR 63.5 million for the project "A4 Motorway: Slivnica–Gruškovje: Draženci–International Border Crossing (IBC) Gruškovje", selected within the framework of the "Operational Programme for the Implementation of the EU Cohesion Policy in the period 2014 – 2020" in Slovenia.

At its 7th session, the Supervisory Board appointed Tomaž Vidic, PhD, Chairman of the Management Board with a five-year mandate. The public tender for the position of Management Board member was repeated.

On 20 April 2016, the Supervisory Board reviewed and approved the audited annual report for 2015.

Pursuant to the provisions of the Ljubljana Stock Exchange Rules and the applicable law, DARS d. d. published the audited 2015 Annual Report of DARS d. d., of which the Corporate Governance Statement forms an integral part, as well as the Annual Document.

May

Member of the Management Board of DARS d. d. was not appointed, as none of the candidates fulfilled the expectations of the role.

July

The Supervisory Board of DARS d. d. granted consent to the amendment of the Business Plan of DARS d. d. for 2016, which does not change key business goals.

August

The National Review Commission confirmed the correctness of the decision of the company DARS d. d. to select consortium of Telekom Slovenije d. d. and Q-Free ASA, Norway, as the most favourable provider for "Establishment and Operation of a Multi-Lane Electronic Toll Collection System in Free Traffic Flow on Motorways and Expressways".

September

DARS d. d. and the consortium of Telekom Slovenije d. d. and Q-Free ASA, Norway, have signed a contract on the establishment and operation of a multi-lane electronic toll collection system in free traffic flow on mo-



torways and expressways for vehicles with the maximum permissible weight over 3,500 kg (heavy vehicles). The value of contractual works amounts to EUR 90,566,754.08 excluding VAT or EUR 110,491,439.98 including VAT, and encompasses the establishment of the system and execution of agreed services in the ten-year period of the operation of the system.

On 29 August 2016, at the 10th session of the DARS d. d. General Meeting, the owner was acquainted with the following:

- the audited Annual Report of DARS d. d. for 2015, the Auditor's Report, and the Report of the Supervisory Board on reviewing the Annual Report of DARS d. d. for 2015 containing the Auditor's Report, including the receipts of the Management Board and the Supervisory Board in 2015;
- the new Rules on Determining the Content of Employment Contracts for the Management Board Chairman and Members of the Management Board of DARS d. d. regarding Remuneration and Severance Pay.

He adopted decisions on the following:

- the appointment of the certified auditor for 2016 (KPMG Slovenija d. o. o.);
- payment of members of the Supervisory Board;
- changes and amendments to the Articles of Association of DARS d. d.;
- adoption of the decision regarding the use of the accumulated profit for 2015 and granting discharge to the Management Board and the Supervisory Board for the 2015 financial year.

At the 12th regular session, the Supervisory Board of the Motorway Company of the Republic of Slovenia was acquainted with the unaudited report on the business operations of the company for the first half-year of 2016.

Based on Articles 112 and 113 of the Financial Instruments Market Act, the company issued an unaudited report on business operations of the company DARS d. d. for the first half-year of 2016.

October

At its session, the Supervisory Board of DARS d. d. appointed Vili Žavrlan, BSc (Civil Engineering), as a member of the Management Board.

December

At its 15th regular session, the Supervisory Board of DARS d. d. granted consent for the Business Plan of the company for 2017.

For the purposes of refinancing a part of existing financial obligations arising from this year's debt, DARS d. d. has, on 20 December 2016, concluded a contract with SID banka d. d. on securing a loan in the amount of EUR 50 million, and, on 21 December 2016, a contract with Banka Koper d. d. on securing a loan in the amount of EUR 80 million. These loans are secured with a 100% guarantee of the Republic of Slovenia and are raised at both banks with a 20-year maturity and at a fixed interest rate.

I.7. Risk Management

1.7.1. Business Risks

DARS d. d. is aware of the severity of the consequences that might arise if various types of risks were to be realised. In the increasingly uncertain business environment, risk management represents a significant factor in business performance, which is why the company focuses significant attention on the timely detection of risks as well as the management of said. 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 2016. Transforming the company into an active operator of the country's motorway system has resulted in changes in the detected business risks to which the company is exposed. We are continually reviewing and supplementing the system so that the key risks to which the company is exposed can be identified, evaluated, and managed in good time. We have upgraded our risk management methodology.

Risks were identified using objectives set out in the strategy of the company DARS d. d. and its Business Plan. The risk assessment methodology was renovated in 2015, and in 2016, probability of occurrence was assessed with a five-level scale: highly unlikely (10–20 years), very unlikely (5–10 years), likely (1–5 years), very likely (1 month–1 year), highly likely (1 day–1 month); the financial consequences of risks are expressed either in terms of value using a five-level scale (less than EUR 100,000; EUR 100,000 to EUR 1M; EUR 1M to EUR 10M; EUR 10M to EUR 50M; and EUR 50M to EUR 100M) or semi-qualitatively with grades 1 to 5 (low, moderate, medium high, high, and very high). We have added a new measuring category – the number of events in the period of likelihood, which we 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 should have more attention paid to them. We then determined an acceptable level of risk that we as an organisation are still prepared to assume for these 20 risks. The upper risk limit must be consistent with our business strategy and risk appetite. If the level of acceptable risk is lower than the level of the calculated risk, a discrepancy arises between the actual and still acceptable risk, which needs to be overcome when managing recognised 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 present at all levels of our business operations.

The company invests a great deal of attention into managing the following types of risks:

- the implementation of the ETC (reliability of the technology, compliance with the Directive, implementation in line with the contractual provisions);
- the impact of external factors (macroeconomic position, public relations, company reputation);
- the result of legislation and regulations;
- risks associated with service provider selection and dependence on external providers;
- risks associated with not investing in the existing infrastructure and monitoring the state of infrastructure;
- risks in traffic management and traffic safety;
- risk management related to incidents and exceptional weather conditions on the motorway/expressway network;
- information support risks;
- risks associated with employees (managerial and other skills);
- risks related to environmental protection;
- risks related to loss of revenue (legislation drafting, preparation of methodology, toll prices).

Obsolescence of the Tolling System and the Implementation of the electronic toll collection system (ETC)

The existing tolling system with which freight traffic is tolled needs to be thoroughly renovated as the system uses obsolete technology, does not toll all toll roads, is unfair to users, and does not comply with the Direc-



tive on the Interoperability of Electronic Road Toll Systems in the European Union. In July 2015, we published the international call for tenders to select a contractual partner who is going to carry out the project of the establishment and operation of a multi-lane electronic toll collection system in free traffic flow. Due to the appeals, which were refuted by the National Review Commission, we did not sign the contract with the contractor consortium Telekom/QFree until 6 September 2016, whereby the contract entered into force on 27 September 2016. The deadline for the realisation is 12 months.

Introduction of the new system for electronic tolling in free traffic flow is of key importance for DARS, as the company needs to ensure toll payments which represent the largest and the most important portion of revenue. The transition from the old to the new system will be executed in one step, therefore undisturbed and effective operation needs to be ensured from the start of the operation, which is anticipated to occur in 2018.

The project of the implementation of the ETC is carried out according to the system of project organisation, which functions by the standards of project management and is based on best practice. All activities are documented, we have set rules and technical resources for managing activities of the project. At regular work meetings, we periodically report on activities and we keep a register of risks, which we monitor continuously. Project director of DARS regularly reports on activities at the College and the Management Board of DARS.

Impact of external factors

The company regularly monitors economic flows and actively adjusts its operations to new situations in the economic and political spheres. External risks related to legislation and regulations are managed by monitoring legislation and through consultations, as well as through submitting proposals during drafting of laws. The company also participates in the preparation of price lists and prepares the recommended methodology to determine toll prices, changes in tolls, and methods of toll payment using its own data and calculations. Potential loss due to the company's negative public image is difficult to assess and even harder to repair. The risks to the company's public image that could arise in connection to communication with various segments of the public were managed using appropriate proactive communication strategies. Emphasis was placed on

communications with both the external and internal public. We strive to improve the company's public image by providing timely and complete information to the public.

Risks Associated with Legislation and Regulations

Legal security and the legality of business operations is the domain of the company's legal service. It is involved in all areas of work as early as at the decision-making stage, thereby reducing the risk of disputes; where these do arise, the legal service is in charge of their management and coordination. It regularly monitors changes in the legislation and the formation of case law in the current legal fields, participates in the preparation or review of contracts and the preparation on internal acts, is involved in public procurement procedures, providing public information, and in different legal proceedings, organises and implements land purchases.

Risk associated with service provider selection and dependence on external providers

The company diligently monitors all information related to the operations of its business partners and prepares measures to minimize or prevent the impact of events detrimental to the company's operations (modifications to contractual provisions, consensual terminations of contracts). Already during the contractor selection procedure within 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 monitor the fulfilment of 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. Custodians also monitor the validity of individual documents, e.g. warranties, and are obliged to warn about regular renewal of these documents. The custodian also regularly monitors investment costs, both regular ones and those that arise due to subsequent modifications to a project.

Not investing in the existing infrastructure and monitoring the state of infrastructure

For ensuring regular monitoring of the situation, contracts are concluded with expert institutions, which, pursuant to regulation, perform inspections of infrastructure and prepare the requisite reports on the state of infrastructure. In collaboration with the Department for Renovation, we prepare multi-year renovation programmes, which are the basis for the execution of the renovation works of the existing infrastructure. As the Department for Road Infrastructure cannot expertly oversee the entirety of infrastructure management, we have, in 2016, concluded a contract with an external contractor for additional expert support, which mainly comprises expert supervision of monitoring of the state of the infrastructure, preparation of expert reports, analyses, and the preparation of systemic management of the individual parts of infrastructure (e.g. a pilot project for managing bridging structures).

Risks in traffic management and traffic safety

To manage risks in the sector of traffic management we have implemented the design of additional SPIS portals at strategic locations; we actively performed tasks for managing risks caused in traffic by weather (fog); and we actively coordinated traffic information with neighbouring operators.

We have introduced the DARS Promet application, which offers faster information to the users of the motorway. To manage risks of traffic safety, we have prepared a public tender to introduce a training simulator for traffic supervisors; we upgraded the traffic counting loops to include detection systems for driving in the wrong direction; we purchased new radars for measuring speed on motorways; we replaced 15.5 km of crash barriers, additionally examined (safety assessment) 43 km of motorway, and purchased 20 crash cushions for decreasing risks of serious injuries for the users.

Risk management related to incidents and exceptional weather conditions on the motorway/expressway network

In ensuring safety, passability, and traffic flow on motorways and expressways, the greatest risk is associated

with unpredictable emergencies – massive accidents and exceptional winter weather conditions on the entire motorway/expressway network.

For managing risks in case of a massive accident, we have implemented in the area of every motorway base (MB) plans detailing safety and rescue in the event of a massive accident on the motorway in the area of each MB; these plans describe in detail all procedures and measures for such emergencies. The subject plan also states responsible persons, their authorisations, responsibilities, and the means of communication in case of emergencies. It defines all necessary technical measures for re-establishing passability on the motorway in the shortest time possible, of course in consideration of the extent and consequences of the massive accident.

Managing risks of exceptional winter weather conditions is defined once a year in the seasonal Winter Service Implementation Programme. In case of emergencies on the entire motorway/expressway network, a group is established at a strategic level, which includes the head of the Traffic and Traffic Safety Management Service, the head of the Traffic Department, the head of the Traffic Information Department (TIC), a communication representative, the head of the Regular Maintenance Technical Service (RM), and the head of the tolling control. The group undertakes the management and coordination of all of the procedures to eliminate the consequences of exceptional winter weather conditions and ensure passability and traffic flow on the motorway/expressway network in the shortest time possible.

Information Support Risks

The risk of disruptions/errors is managed by regularly monitoring the state of the IT systems and promptly responding to any incidents. The company has set up a system of continuous operation of the IT system (duplicated essential parts of the IT equipment) and introduced security measures aimed at protecting and safeguarding IT systems against unauthorised tampering and loss of data. Independent IT security assessments are one method used to identify potential threats. Services for which we are not sufficiently competent or lack HR are rendered by external service providers. The risks associated with IT infrastructure are managed through regular maintenance and backups, upgrades of software and hardware, updates of security policies and increases of information security, and by implementing a clear development vision for the company's IT system.

Risks Associated with Employees and Concern for Occupational Health and Safety

In terms of successfully managing work process risks that could be the result of the human factor, the company ensures the adequate degree of human resources required. In addition, it adequately invests in the expertise of the already-employed workers and in the development of their competences and skills in order to ensure they perform their work effectively. The risk of ensuring an adequate and timely supply of HR is managed by monitoring the needs of the work process, implementing the Staff Plan and by strengthening managerial and other skills related to management, work organisation and employee motivation. In terms of preserving employee health, we promote occupational health and carry out preventive and corrective measures at the organisational and the employee levels to ensure a manageable degree of sick leave. The risk of decreases in the organisational climate and employee satisfaction is monitored by measuring employee satisfaction, the results of which are then used in developing the annual activity programme.

In 2016, we adopted a new revision of the assessment of the risks related to occupational health and safety, designing a number of new measures for the increased safety of employees. Most of the measures were already implemented or are currently being implemented.

We have succeeded in the proposals for the amendment of the Rules of Closures on Public Roads, which entered into force in July. Once we purchase all the necessary equipment (the transitional period for that is five years) for the better marking of work sites and a sufficient number of crash cushions for protecting work

sites, we can expect fewer crashes into work sites, fewer injuries among the users and our workers, and less damage to the equipment.

The most important systemic measure, which will ensure increased safety of the users and workers on the road, is the adoption of the decision (the instruction for designing) to asphalt the dividing strip and separate the opposing traffic with a concrete safety barrier during renovation works on motorways. During the renovations, the escape lane is widened to 3.5 m and other road improvements are implemented. The solution was implemented for the first time during the renovation of the motorway section between Arja vas and Šempeter.

Environmental protection

In accordance with its role as a motorway and expressway management and maintenance company, DARS d. d. has in previous years implemented an environmental management system that it uses to consistently realize its environmental protection policy at all levels of its activity. In 2016, the company invested its efforts into maintaining and upgrading this system. The unifying factor throughout the environmental management system is the assessment and analysis of environmental influences and aspects defined within the environmental aspect registry.

In order to reduce environmental influences, we determined approximate and operational targets, as well as programmes that will be used to reach these targets. Risks related to environmental protection, including the risk of inappropriate waste disposal with a special emphasis on hazardous waste, risk of environmental pollution and risks associated with protecting impact areas, are becoming increasingly important. We are continuing the previously-started activities for environmental protection. The systematic management of these risks reflects the ecological awareness of employees. Accidents on motorways can have a negative impact on the environment; this is why it is important to reduce the number of risks that can emerge through accidents and react quickly and effectively when they do occur to minimise the negative consequences for the environment. For this purpose, we inform and train all employees in affected workplaces to act quickly and efficiently in terms of environmental protection should the situation arise. The probability of emergencies is also reduced through preventative measures. Training and drills aimed at learning quick, appropriate, and efficient reactions ensure that the impacts of any incidents 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 function, implementing the Annual Programme of Operational Monitoring of rainwater (APOM), etc., collecting, sorting and controlled disposal of waste, implementing measures to reduce light pollution and by constantly controlling carbon monoxide concentrations and visibility in tunnels, we significantly contributed to reducing the negative impacts on the environment and controlling emerging risks posed to the environment.

In 2016, we introduced an energy management system in accordance with the ISO 50001 standard, as it directly influences the decrease of the environmental influences and impact.

I.8. Business Activities of the Company

1.8.1. Business Performance and Achievement of Plans

At DARS d.d., we have ambitious goals, which we achieve by actively, effectively, and successfully collaborating with the competent state authorities, especially in the field of legislation, borrowing, and tolling. We pay special attention to increasing revenues, managing costs, actively managing our debt portfolio, and rationalising the business processes.

Ensuring safety, passability, and comfort for our users is a strategic guideline which influences the reputation of the company with the users of the motorway network and is a key component for ensuring user satisfaction and, consequently, social responsibility towards the outside environment.

With the optimisation of the existing sources of income (tolling and non-tolling), cost-effective and energy- and environmentally- effective operation, rational investment dynamic, improvement of existing services or development of services, and active management of the financial position of the company, we are ensuring long-term operational stability and sustainable development of the company.

In order to follow the vision, strategy and objectives set out in the company's Business Plan, we regularly monitor the company's key performance indicators, which are aimed at the internal rationalisation of operations, continual improvements in operating efficiency, cost control and active management of the debt portfolio. Monitoring achieved objectives forms the basis for preventive and corrective measures so that we can constantly adapt to changes in the business environment and meet the set objectives.

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 business performance achieved is the result of the company successfully implementing business activities in various areas, which are presented below in detail.

1.8.2. Toll collection

Tolling revenue, which represents 90.5 per cent of all revenue, has in 2016 amounted to EUR 361.3 million, which is 3.2 per cent more compared to 2015. The tolling revenue increase in 2016 is the result of the improved vignette sales (over five per cent) and increased freight traffic (five per cent), which partially offset the negative impact of the changes in freight traffic structure in terms of the EURO emission standards.

The tolling of vehicles whose maximum permissible weight exceeds 3,500 kg (freight vehicles) is performed at 28 tolling stations. The company generated EUR 191.0 million from tolling freight vehicles in 2016, which means that the revenue increased by almost two per cent compared to 2015. Changes in the structure of the vehicle fleet in favour of greener vehicles accompanied by the increase in the number of tolling kilometres in higher EURO emissions classes have continued in 2016, therefore DARS has implemented activities in 2016 as well and worked to change the toll price list for goods vehicles, thereby positively affecting the revenues of DARS.

Revenue from vignette sales in 2016 amounted to EUR 170.3 million, which is five per cent more than the year before. In 2016, we have sold almost six per cent more vignettes than in 2015. Vignettes are sold at 1557 outlets in Slovenia and at 1099 outlets abroad.

In 2016, enforcement officers issued a record number of fines, i.e. 56,887 (of which as many as 55,874 were related to tolls), which is over five per cent more than in 2015. In 2016, we focused more on implementing control over goods vehicles in accordance with authorisations given to us by the Act of rules in road trans-

port in order to obtain as much experience as possible for work in the new tolling system, which will necessitate a shift in control from personal vehicles to goods vehicles. Related to this, we have issued 1013 fines, which is 46% more than in 2015.

1.8.2.1. Electronic Tolling System

On 13 July 2015, DARS has issued a public tender on the establishment of a multilane electronic toll collection system in free traffic flow. By 15 October 2015, we received tenders from consortium Cetis-Autostrade-Ingeniering, consortium Iskratel-SkyToll, Kapsch TrafficCom, and consortium Telekom-Q_Free. On 3 March 2016, DARS has selected the consortium Telekom-Q_Free as the most favourable provider. Although all three non-selected providers filed auditing claims, the National Review Commission has, at the end of July 2016 adopted the decision refuting the claims. On 6 September, following the decision of the National Review Commission, a contract on the establishment and operation of a multi-lane electronic toll collection system in free traffic flow (ETC in FTF) on motorways and expressways for vehicles with the maximum permissible weight over 3,500 kg was signed with the consortium Telekom-Q_Free, a contract which entered into force on 27 September 2016, whereby the system needs to be introduced by 27 September 2017. The value of contractual works amounts to EUR 90,566,754.08 excluding VAT and encompasses the establishment of the system and execution of agreed services over the ten-year period of the operation of the system. After the start-up and handover, DARS d. d. becomes the owner and the operator of the system, while the consortium Telekom-Q_Free is in charge of its maintenance.

In addition to the works subject to the contract with the consortium Telekom-Q_Free, DARS started implementing parallel projects and activities, which will ensure the conditions for the establishment and operation of the future system. The most important among these projects is the reorganisation of toll operations, implementation of toll user points (TUP) under the management of DARS and under the management of its contractual partners, marketing advertising, adjustment of the arrangement of toll stations, and the supervision implementation plan.

1.8.3. Motorway maintenance

Motorway maintenance

Regular motorway maintenance is in the field of maintenance determined in two umbrella documents, the Winter Service Implementation Programme and the Annual Plan of Maintenance of Motorways and Expressways. In the field of maintenance, we pay special attention to ensuring the optimal passability and traffic flow on the motorway/expressway network in all possible conditions. In 2016, we were also faced with increased traffic on our motorways, especially on the A1 motorway. We should emphasise the constant increase in freight traffic; in 2016, our motorway system was on average used by 8000 goods vehicles a day. This is why, we have invested our efforts in reducing the influence of our necessary regular maintenance works and larger investment maintenance works (renovations) on traffic jams in the motorway/expressway network. The works were adjusted to the morning and afternoon rush hours, and were performed in the opposite direction of the increased traffic flow. Furthermore, we have performed a large number of works during the weekends, when the traffic is at its lowest. If traffic jams longer than 2 to 3 km occurred despite our measures, we would interrupt the works and resume them after the traffic jam was cleared.

In 2016, the Rules of Closures, the Rules on Traffic Signs and Equipment on Public Roads, and the Rules on Regular Maintenance of Public Roads entered into force, which allow us to perform certain regular maintenance works at night, which will consequently decrease traffic jams, mainly on the most burdened motorway sections.

To increase traffic security, we have in 2016 purchased three sets of blinds (the length of one set is 100 metres), by which we protect major accident sites from the onlookers. To increase the safety of our workers and other users of the motorway/expressway network, we purchased in 2016 nine new truck-mounted crash cushions and nine trailers with crash cushions to protect our workers and traffic participants in the case of a collision.

In terms of scope, the maintenance work done in 2016 can be broken down as follows:

- road patching and reconstruction 43,289 square m;
- filling of fissures and cracks 91,318 meters + 33,510 meters = 124,828 meters.

Electro-mechanical maintenance in 2016 consisted of the following:

- repairing the damaged electro-mechanical equipment in tunnels and along the MW network (PV Maribor, Golovec, route);
- repairing electro-mechanical equipment that was damaged in accidents (Jasovnik, Markovec);
- replacing the lighting at MW and EW connections with LED lamps, for the purposes of saving energy;
- commencement of electrical installations and lightning conductor measurements according to the company's own initiative (measurements of earthing, lightning conductors, electrical installations in Ex zones (explosion zones) in all areas of the company DARS d.d.);
- maintenance of road weather stations;
- maintenance of traffic counters;
- engaging in and implementing internal control at the execution of the renovation of the EME equipment in tunnels, along the route, and in the facilities along the motorway network.

Restoration of Road Signalisation in Tunnels

In compliance with Directive 2004/54/EC of the European Parliament and of the Council, we replaced LED indicator lamps in tunnels longer than 500 metres. We also repaired the LED indicator lamps in the tunnels Debeli hrib, Mali vrh, Golovec, and Podnanos. In the Golovec tunnel, we renovated the surveillance system, installed the system for the automatic detection of incidents, and constructed a hydrant network. To ensure the smooth functioning of the electro-mechanical equipment and systems, we replaced the UPS systems (or individual parts thereof) in the following tunnels: Golo rebro, Ločica, Trojane/Podmilj, Šentvid, Medvedjek, Debeli hrib/Mali vrh, Tabor Sežana, and Kastelec/Dekani. In early 2017, we are planning on sending two electricians to educational and training programs for independent maintenance of both the tunnel CO measuring devices and the Sick visibility.

1.8.4. Managing and Ensuring Traffic Safety

The area of management, which was established with the new organisation in 2013, combines the management of all types of assets of DARS d.d. (road infrastructure, devices, rest stops, and real estate) for the purposes of improved efficiency in managing company assets as well as efficiency of traffic and traffic safety.

Road infrastructure

By using an expert system for carriageway management PMS – DARS (Pavement Management System), we have prepared a Plan of Measures, which will serve as the basis for determining the necessary infrastructural reconstruction work in the next three-year period. In the expert system, we have updated input data and moved the base year to 2016.

In November 2016, following the public tender for expert services in managing assets and traffic safety, a contract with DRI was concluded, which also included the necessary expert collaboration in managing road infrastructure and road devices. The main item of the contract related to the management of the bridging structures at the dTIMS platform, where we already established an expert management of carriageways. The bridge management system (BMS) would be developed within three years.

Based on the contract for geotechnical monitoring, concluded in 2015, that will last eight years and includes the whole motorway network (except for the Rebrnice area, where it is already being implemented), in 2016, we have completed a comprehensive and thorough examination of all geotechnical structures across the entire motorway and expressway network under the management of DARS d.d. Furthermore, we have introduced a database of geotechnical examinations and measurements (GEITAC), which will provide an overview of the entire history of an individual geotechnical structure.

At the end of 2016, we concluded spherical recording of the whole network of motorways managed by DARS d. d. in order to obtain the data necessary to complete the Database of Road Data (DRD) with data on road signalisation. All the data were input into the traffic signalisation database (WEPS) and into the video viewer (RAMPA), both of which are already actively used.

Measures for Reducing Electricity Consumption

At the Dolenjska and Primorska motorway slip roads and at the Ljubljana Ring Road, we replaced the lamps with energy-saving LED lamps, thereby working to fulfill the company's own goals of reducing electricity consumption as well as the requirements of the Decree on Limit Values due to Light Pollution of the Environment. The compliance with the requirements of this Decree continued with the preparation of technical documentation for the replacement of lamps on the Štajerska and Gorenjska motorway, which is to be implemented in 2017. Based on the implementation of the measures for reducing electricity consumption, the consumption in 2016 was 2% lower than the year before.

Rest areas

Major activities in rest stop/motorway service area management in 2016 included:

- the commencement of the construction of the Maribor Rogoza jug rest stop, which will be constructed in 2017;
- Agreements on compensation were concluded with the distributors of petroleum products, according to which they will pay DARS additional compensation, dependant upon the difference between the retail price, exclusive of VAT, at which the fuel will be sold at petrol stations at the motorway and expressway rest stops and the highest retail price, exclusive of VAT, which will be, at the time of sale, determined according to the valid Decree on the formation of prices of certain petroleum products (hereinafter referred to as: the Decree). Additional compensation is paid for quantities of 95-octane gasoline and diesel fuel sold at petrol stations at the motorway and expressway rest stops;
- at 25 locations of MW rest stops, the fast charging stations introduced in 2015 became operational.

Real estate management

In 2016, we continued processing the received applications/enquiries regarding the sale of surplus real estate managed or owned by DARS d. d., notifying interested parties, identifying surplus land and other real estate, and determining how to manage the real estate located outside the relevant MW route.

Based on published tenders for the sale of real estate owned by DARS d. d. according to the procedure of public call for tenders, in 2016, we concluded purchase contracts in the total value of EUR 270,943 (excluding taxes).

In collaboration with the maintenance field, we continued carrying out activities to conclude agreements with interested parties regarding the use and maintenance of land outside MW routes whose status does not yet permit it to be put on sale. We also participated in the processing of inspectors' decisions on the maintenance of land outside MW routes.

Easements

In 2016, 62 complete applications for easement were discussed/resolved. That is eight less than the year before, which was exceptional due to the assignment of easement for the installation of 26 fast charging stations for electric vehicles at 14 rest stops along the Slovenian motorway network (i.e. Central European Green Corridors project).

Payable easements in 2016 were assigned mainly to smaller interventions – the arrangement of road, municipal, energy, and TC connections (a total of 30, of which 12 were contracts with natural entities), whereby the total value of the easement compensation amounted to EUR 56,626. More than half of the applications dealt with the awarding of free-of-charge easements in line with legislation: seventeen applications based on Article 474 of the Energy Act (with an estimated loss of easement compensation of EUR 130,112) and fifteen based on Article 23 of the Act Regulating Measures Aimed at the Fiscal Balance of Municipalities (with an estimated loss of easement compensation of EUR 45,130).

The costs of procedures of easement assignment including the preparation of the easement contracts and the reimbursement of the costs of their notarisation (Item XIII/10 of the price list of services of DARS d. d.) was charged in the amount of EUR 13,706.

Telecommunications marketing

In 2016, the following services were implemented: marketing of broadband Wi-Fi access to the target group of freight vehicle drivers at rest stops at four locations; whereby the Petrol company OMV also initiated the sales at their petrol stations. Internet access was ensured for two final business users along the motorway, and a contract on internet access via the optical network was concluded with the company Petrol for 35 petrol stations, of which the services were implemented at four locations. Within the sphere of marketing services to operators, including the lease of optic fibres and collocation, eleven contracts, annexes, or purchase orders were signed. Additional revenue resulting from the establishment of the easement for the installation and operation of mobile telephone base stations referred mainly to the common use, meaning roaming of other operators on the existing building plots, antenna towers, pylons, containers, devices, and access points.

Traffic safety

In 2016, we have, in collaboration with the Police, purchased casings for radar devices in closures on the motorways/expressways, purchased new casings for stationary radar devices on MW (the previous casings were obsolete and, therefore, not functional), and prepared all necessary items for the implementation of the sectional speed measurement. After simply announcing the implementation of the sectional speed measurement program, we could already observe the decrease in the speeds at the Trojane section, which confirms the fact that sectional radar systems are the most efficient measure for increasing traffic safety.

We successfully continued with the preventive action REŠI ŽIVLJENJE (SAVE A LIFE), dealing with the proper positioning of vehicles on the motorway, which has a positive effect on motorways and shortens the time needed to eliminate the consequences of an accident.

Last year, a considerable amount of funds was dedicated to the media campaign about safety instructions (radio, TV, FB, TW). Furthermore, we are collaborating with the Slovenian Traffic Safety Agency in educating elderly drivers (SOŽITJE) and with schools in providing information on safe driving on motorways:

- primary schools: art contest related to traffic safety (awards for selected works);
- high schools: with the collaboration of the VOZIM, VENDAR NE HODIM (I drive, but I don't walk) institute; in 2016 we have organised workshops "I still drive – but I don't walk" and reached 11,154 young people at 150 workshops.

In 2016, we have in the sphere of assessments of road safety examined 42 km of MW/EW and prepared measures for improving safety of these sections.

According to special contracts (excluding renovations), we have replaced the existing non-tested fences with new ones in the following measurements:

- | | |
|--|----------|
| – steel protective barriers with H1 and H2 containment levels: | 14,100 m |
| – concrete protective barriers with H2 containment level: | 630 m |
| – concrete protective barriers with H4b containment level on viaducts: | 3014 m |

Within a project related to driving in the wrong direction, ten connections were equipped with additional systems for the detection of driving in the wrong direction and upgraded 20 locations of traffic counters to systems for the detection of driving in the wrong direction.

We have physically separated direction lanes with plastic pickets at the Malence junction where, following the implementation of the measure in 2016, we have no records of vehicles turning at the junction or driving in the opposite direction.

In 2016, we have invested approximately EUR 3 million in concrete traffic safety projects (fences, crash cushions, road examinations, studies, etc.).

There are many more projects related to traffic safety. We should mention that traffic safety is also influenced by work procedures of maintenance technicians in the field and by the procedures of other services. If we wish to monitor all traffic-related issues, we must also respond appropriately in the area of public procurement where backlog happens most often. Therefore, the Management Board of DARS d. d. has also paid attention to this area, ensuring that individual procedures are regularly supervised: from the start of the procedure, through the preparation of tender, and to the end.

1.8.5. Investments

In accordance with its business plan, in 2016, DARS d. d. organised and managed projects involving the construction and reconstruction of motorway sections.

Siting activities were carried out at 15 projects in 2016 in the field of spatial planning and integration of motorways and expressways into the environment. The majority of these were at the following sections: additional construction in the Karavanke motorway tunnel (the Decree on the National Spatial Plan for the additional construction of the Karavanke motorway tunnel, Official Gazette of the Republic of Slovenia, no. 47/2016, was adopted in 2016), the state road from the Šentrupert Slip Road on the A1 motorway Šentilj–Koper to Velenje (implementation of additional public presentation, acquisition of opinions of the spatial planning authorities, Decree on the National Spatial Plan was sent to the Government of RS in December), and the Koper–Dragonja expressway (draft of the National Spatial Plan was publicly disclosed in Autumn of 2016).

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, etc., as well as other tasks assigned throughout the year by the Ministry of Infrastructure, e.g. participation in the preparation of the agreement for the extension of the Bertoki link road to a four-lane road, preparation of the study on the verification of necessary measures on the Šmarska road in Koper in relation to the alternative proposal of route for the Izola–Baredi–Dragonja motorway, and collaboration in the preparation of the agreement on activities for the implementation of investments on the Šmarska road in Koper.

In the processes of integrating motorways and expressways into the environment, the company cooperated with the public and users within the scope of its jurisdiction and strove to implement socially-acceptable solutions.

In addition to the tasks of spatial planning and siting, the Department of Spatial Planning, performed numerous other tasks, which are implemented on behalf of and for the account of DARS, e.g. preparation of guidelines, opinions, project conditions, and consent for cases where DARS is the spatial management provider or the consent authority, study on wider economic effects of the investment for the 3rd developmental axis at the Šentrupert–Velenje–Slovenj Gradec section.

In terms of project documentation, the following main activities were carried out in 2016 (listed according to individual investments):

- Coordination of technical and other project starting points for planning the demolition and rearrangement of toll stations were carried out. Preliminary designs for demolishing and rearranging toll stations were prepared and peer-reviewed. Project documentation DBP/ED for demolishing and rearranging toll station was prepared. ED project documentation for traffic arrangement on the day of the introduction of a multilane electronic toll collection system in free traffic flow was prepared and peer-reviewed. A contract for the preparation of investment documentation (pre-investment assessment, investment schedule, and study of execution of the intended investment) was signed for the project of the demolition and rearrangement of toll stations. ED project documentation for the introduction of the toll user points (TUP) was prepared and peer-reviewed.

- A public procurement procedure was carried out for the Koseze–Kozarje section (expansion to six lanes) for the preparation of the DBP/ED project documentation. The contract with the selected contractor was signed in October 2016. Contractual works were initiated, geodesic measurements, carriageway inspections, facility inspections, and geological and geotechnical studies were performed.
- DBP project documentation, for which an assessment of traffic safety was also performed, was prepared and reviewed for the Dragomer connection (previously called Brezovica).
- DBP/ED project documentation for the Jagodje–Lucija section was prepared. The DBP project documentation was peer-reviewed, the most important sections of the DBP project documentations were revised and activities necessary for obtaining building permits were being carried out. Verification of traffic safety in the DBP project documentation stage was performed. Environmental protection consent is in the procedure of acquiring, due to the lengthy duration of this procedure, the DBP and consequently the ED project documentations were not completed.
- The DBP/ED project documentation for additional wind protection was concluded for the entire route from Razdrto to Ajdovščina, including the project documentation for the execution of test fields. The document of identification of the investment project was confirmed by the Management Board of DARS d. d. The pre-investment assessment was prepared and confirmed by the DARS committee.
- Consents for the DBP project documentation for the Bertoki branch office of the Kozina MW base were being acquired, the ED project documentation was being prepared.

In early January 2016, a contract for the execution of the geologic, geotechnical, and hydrogeologic studies for upgrading the Karavanke Tunnel was signed. Studies were intensively performed throughout the entire year, and the studies on the field were concluded. Parallel to these studies, laboratory analysis of samples was performed and reports, which were submitted for a peer-review, were prepared. A contract for the preparation of the DBP/ED project documentation was signed in early 2016 and the contractor was introduced into work at the end of March. DBP projects were prepared, which were submitted for a peer-review at the end of September and peer-reviewed in October. Projects were amended in accordance with the decisions of the review commission and handed over to the contracting authority. A public procurement procedure for a revision of the most important sections of the DBP/ED project documentation is being carried out. Parallel to the project documentation, a tender documentation for consulting and engineering services for the extension and renovation of the Karavanke tunnel is being prepared. A contract with the selected provider JV DRI + Projekt + ZIL Inženiring was signed on 11 November 2016. On 30 June 2016, the Decree on the national spatial plan for the additional construction of the Karavanke motorway tunnel was adopted. Based on the adopted Decree, a tender was prepared for transferring land plot position to the field, which was followed by the signing of the contract with the selected contractor. After the performed field works, detailed reports were prepared and submitted to the competent Surveying and Mapping Authority by the end of 2016.

In relation to the MW section of the southern part of the 3rd development axis, in November 2016, a contract was signed with an engineer for professional consulting services related to the public road of the southern part of the 3rd development axis, from the A2 Ljubljana–Obrežje motorway at Novo mesto, east, to the Maline connection, for the preparation stage of the DBP/ED project documentation, acquisition of real estates, and all building permits. A tender for designing the DBP/ED project documentation for phase 1 of the project (from MW NM to Revoz in the length of 5.5 km) was prepared and published. Tender documentation for the execution of the project contest for two bridges over the Krka river was prepared to be published.

Activities from the previous year continued at the Draženci MW–Gruškovje IBCP section. Construction works were performed in all phases or sections. In phase 1 and 2a, construction works were being carried out well over the implementation plan. At the MW route of phase 1, the implementation works moved to the last third. Accelerated implementation was also performed at the MW route of phase 2a. By the end of December 2016, more than half of all the construction works in the sphere of the subject investment was executed. The works on the phase 2a were practically finished before the summer; in June 2016, technical examinations of the implemented works were performed, followed by the process of eliminating the established defects. Activities of the contracts for the protected archaeological excavations on the field were finalised,

and archaeological supervision in the Podlehnik area followed. We are successfully drawing funds of the EU Cohesion Fund. The entire section is expected to be given over to traffic in 2018.

In June 2016, a contract with the selected provider was signed for the Šmarje-Sap motorway connection, which was followed by the initiation of work. In 2016, construction works on all sections were initiated. The construction works followed the implementation plan. The motorway connection is expected to be given over to traffic at the end of 2017.

A contract with a contractor for the implementation of the post-excavation treatment of the archived material yielded from already-performed protected archaeological excavations at the motorway sections and individual excavation sites, where post-excavation treatment and treatment of pottery obtained during ETP and ITP research projects had still not yet been performed, was concluded on 12 August 2016. Following the initiation of work, the contractor started working on the following sites: Dolge njive pri Beli Cerkv, Obrežje, Velike njive, Školarice, Križišče, Celje–Maribor road phase III, Celje–Maribor road phase IV, Dragomelj, Col 1, Zemono 2, Rogoza, Čatež–Sredno polje, Čateški grič, Na Vrhu, Grofove njive pri Veliki vasi.

A final report was prepared for the project of the reconstruction of individual MW sections to increase traffic safety, in which framework we received EUR 21.06 million in 2015.

In 2016, we renovated 33.16 kilometres of carriageways at sections and 4.54 kilometres of connections. Within the framework of the reconstructions of sections, we have partially renovated a total of ten smaller bridging structures. On the Arja vas–Šentrupert section, we performed the first reconstruction with the purpose of widening escape lanes and other measures for increasing traffic safety and passability. In 2016, we also performed several smaller rehabilitations of embankments, replaced worn fences, equipped the central dividing strip with a CSB at one of the less safe traffic sections, constructed turn-offs for toll collection supervision at six connections, and performed other smaller works. Throughout the year, we are performing activities to finalise previous projects and activities in the area of preparation of the project and other necessary documentation for the reconstruction works in the future years.

We prepared a final report for the project Construction of noise barriers on five motorway sections in the RS, where the works were concluded in 2015. After terminating the contract for the construction of noise barriers on sections Dramlje–Celje and Celje–Arja vas, the required procedures were implemented as well as the preparation for the elimination of established defects. On three sections, we also finalised the implementation of the passive noise protection.

We prepared the project documentation for the rehabilitation of the noise barrier at the Vrhnik connection. In addition, we are preparing the project documentation for the implementation of the active noise protection in accordance with the Operational Programme NOISE – Section A.

Electromechanical works and ITS

In accordance with the Business Plan of DARS d. d., the following reconstruction and investments were carried out in 2016 in order to modernise the existing motorway network's equipment, increase traffic safety and equip the motorways according to new regulations (directives) and legislation.

The tunnel works were until 2015 implemented in line with the requirements of Directive 2004/54/EC of the European Parliament and of the Council on minimum safety requirements for tunnels in the Trans-European Road Network longer than 500 metres. The works were completed in 2015. In 2016, we performed some smaller renovation works of electro-mechanical tunnel equipment (upgrade of algorithms in tunnels Jasovnik and Trojane, renovation of fans in the Trojane tunnel, upgrade of the EME equipment in the Maribor cut-and-cover, replacement of the UPS devices) and concluded some contracts for the preparation of the project documentation for the planned renovations in 2017 (preliminary designs for ventilation in tunnels Golovec, Pletovarje, and Golo Rebro, ED documentation for the rehabilitation of hydrant networks in tunnels Šentvid, Trojane, Jasovnik, and Golo Rebro).

At the Dolenjska and Primorska motorway slip roads and at the Ljubljana Ring Road, we replaced the lamps with energy-saving LED lamps. Furthermore, we prepared technical documentation for the replacement of lamps on the Štajerska and Gorenjska motorway.

In 2016, we concluded the construction of the cable system and the telecommunications (TC) network on the motorway section from the MB Postojna to the TS Nanos and its rehabilitation on the motorway section from the MB Slovenske Konjice via MB Maribor to the TS Cenkova. Within the domain of the emergency call system (ECS), we renovated the Unec–Senožeče section and the control centre in the MB Slovenske Konjice and prepared technical documentation for the renovation of the sections Brezovica–Unec, Senožeče–Divača, and Gaberk–Fernetiči. In addition, we also prepared the documentation for the renovation of DARS radio connections and the support TC-network.

Within the framework of the ITS, we have constructed a support system for the MDSS winter service, rehabilitated video surveillance in the CC Dragomelj, extended the control system in the Malence junction, installed the signalling board Selišče, renovated traffic signalisation in front of the Golovec tunnel and Strmec gallery, implemented warning signalisation on the western Ljubljana ring, implemented additional signalisation on BC Obrežje, and implemented virtual servers of control in the CC Ljubljana and Vransko.

Several minor reconstructions and investments in the electro-mechanical works and ITS were also concluded.

We completed the preparation and/or peer-review of the project technical documentation for the additional planned restoration work and the preparation of studies, analyses, expert groundwork and algorithms for tunnel ventilation systems. We also prepared expert opinions and supplemented instructions. These tasks also involved obtaining the remaining documentation and ensuring occupational health and safety.

1.8.6. Debt Repayment

DARS d. d. is at the beginning of a major loan principal repayment period that shall last until 2021. In this period, the annual debt repayment obligations will consume a majority of the company's operating cash flow. 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 2016, the company repaid the principals in the amount of EUR 349.9 million (of which EUR 210.7 million represented regular payment of annual principals and EUR 139.3 million represented early repayment of loans), and paid interest in the amount of EUR 41.2 million. On 31 December 2016, the total debt of the company equalled EUR 2,567.0 million. Within the period of 2017–2021, an additional EUR 1.04 billion of loan principal payments will fall due.

In 2016, DARS d. d. has, on the basis of the Debt Restructuring Framework Act, carried out a refinancing in the form of repayments of annual instalments of loan principals. In December, the company signed loan and guarantee contracts with lenders for a total of EUR 130 million.

Additionally, the company concluded two annexes to the current loan contracts with NLB bank for the re-scheduling of two loans in the amount of EUR 312 million.

By refinancing a part of its existing debt and rescheduling its existing loan, the company has not increased its indebtedness; the price conditions did change, however, and also the debt maturity has been extended. As a result, the company's average weighted debt portfolio interest rate has decreased. Replacing expensive loans with cheaper new ones having longer maturities and a moratorium on principal repayment will significantly contribute to the company's ability to repay its debt, particularly in the most critical period up to 2021.

I.9. 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. The Republic of Slovenia has therefore transferred to DARS d.d. the 198.8 kilometres of two-lane and four-lane motorways and expressways, and 67.5 kilometres of link roads constructed thus far.

Through the implementation of the NMCP, the motorway network managed and maintained by DARS d.d. began to expand. By the end of 2016, DARS d.d. was responsible for the management of 610.4 km of motorways, 140.7 km of link roads, 22.3 km of turn-offs and 34.1 km of other roads.

Table 5: Length of the Network Managed and Maintained by DARS d.d. as of 31 December 2016

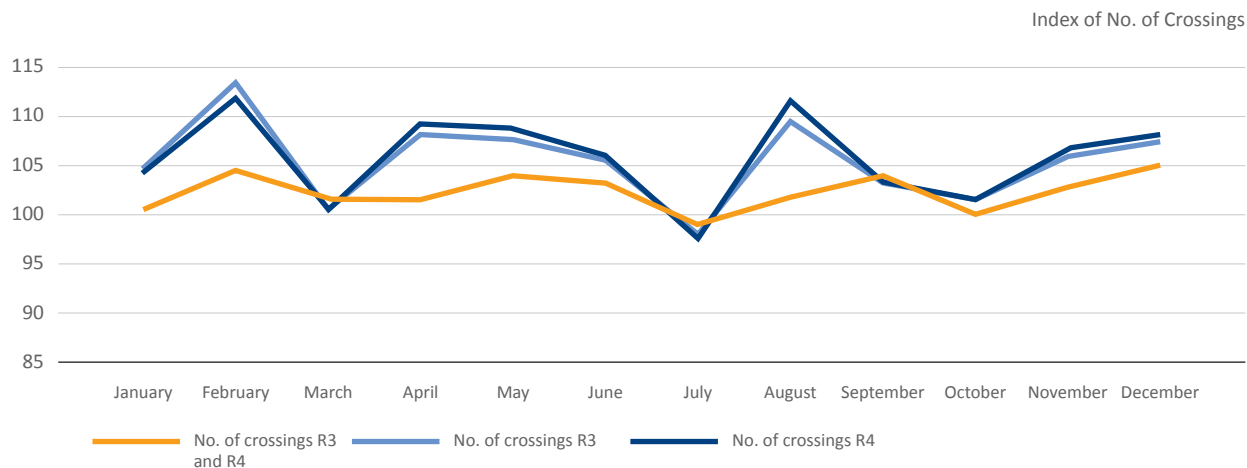
Balance as of 31 December 2016 (in km)	MW and EW length (A)	Length of turn-offs	Length of link roads	Length of other roads	Closed system for vehicles over 3,500 kg	Open system for vehicles over 3,500 kg	Toll roads for vehicles over 3,500 kg	Toll-free roads for vehicles over 3,500 kg
A1 Šentilj–Dragučova–Maribor–Slivnica–Celje–Trojane–Ljubljana (Zadobrova–Malence–Kozarje)–Postojna–Razdrto–Divača–Črni Kal–Srmin	245.266	11.782	58.265	12.560	98.442	146.824	245.266	0.000
A2 Karavanke tunnel–Lesce–Podtabor–Kranj–Ljubljana (Kozarje)–on A1–Malence–Ivančna Gorica–Bič–Pluska–Trebnoje–Hrastje–Novo mesto–Kronovo–Drnovo–Obrežje	175.472	4.929	40.782	9.622	9.514	140.241	149.755	25.717
A3 Divača (Gabrk)–Sežana East–Fernetiči	12.246	0.000	3.779	4.076	12.246	0.000	12.246	0.000
A4 Slivnica–Draženci–[Gruškovje*]–R Croatia	21.671	4.450	4.630	2.496	0.000	20.750	20.750	0.921
A5 Maribor (Dragučova)–Lenart–Senarska–Vučja vas–Murska Sobota–Dolga vas–Lendava–Pince	79.574	1.099	13.005	2.856	0.000	79.574	79.574	0.000
H2 Pesnica–Maribor (Tezno)	7.200	0.000	3.590	0.000	0.000	0.000	0.000	7.200
H3 Ljubljana (Zadobrova–Tomačevo–Koseze)	10.222	0.000	6.849	0.000	0.000	6.330	6.330	3.892
H4 Razdrto (Nanos)–Vipava–Ajdovščina–Selo–Šempeter–Vrtojba	42.127	0.000	3.871	2.511	19.213	22.914	42.117	0.000
H5 Škofije–Koper (Škocjan)–[Dragonja*]	7.833	0.000	2.756	0.000	0.000	0.000	0.000	7.833
H6 Koper (Škocjan)–Izola–[Lucija*]	5.236	0.000	2.257	0.000	0.000	0.000	0.000	5.236
H7 MW A5 – Dolga vas	3.526	0.000	0.955	0.000	0.000	3.526	3.526	0.000
Total of MW nad EW	610.373	22.260	140.739	34.121	139.415	420.159	559.574	50.799

From the second half of 2008, Slovenia has a vignette tolling system for light vehicles, and an open and closed tolling system for heavy duty vehicles.

Heavy duty vehicles, whose maximum allowable weight exceeds 3,500 kg, are not tolled on the Ljubljana bypass section, the Maribor bypass road, coastal roads, or the northern part of the Gorenjska section, because construction of the tolling stations has been suspended.

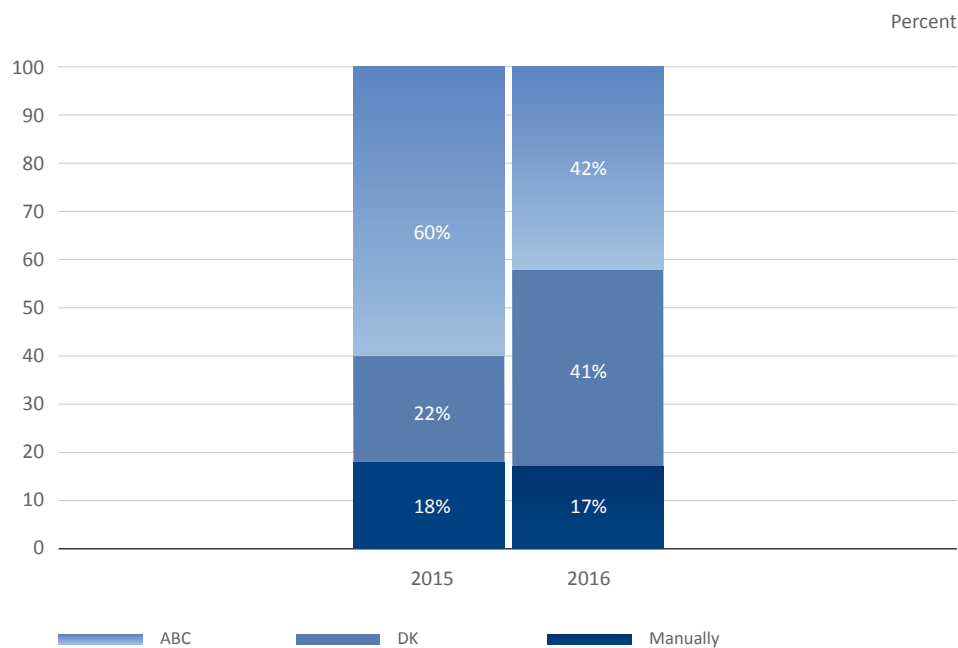
In 2016, the total number of vehicle crossings from toll classes R3 and R4 increased by 5.07 per cent. The biggest increase was on the Dolenjska leg (by 10.44 percent), and the Gorenjska leg (by 8.15 percent). On the Primorska and Štajerska legs, vehicle crossings from toll classes R3 and R4 increased by 5.75 and 3.56 per cent, respectively.

Figure 9: Index of the Number of Crossings in 2015/2016 for Toll Classes R3 and R4 at All Toll Stations



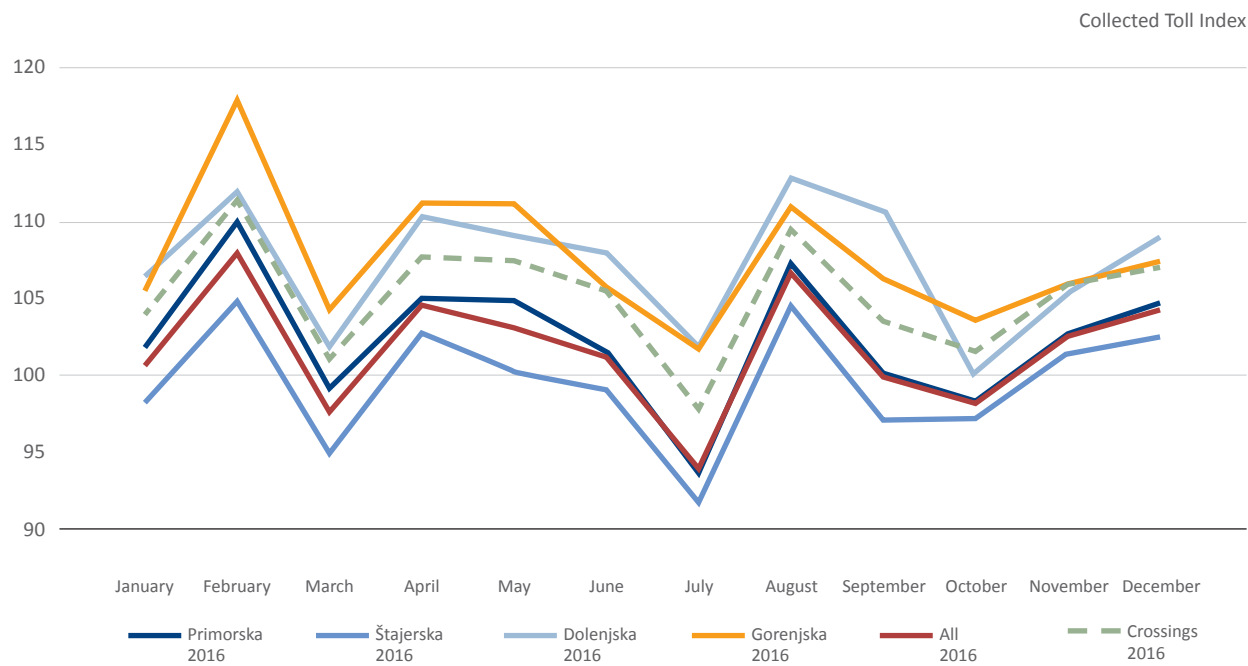
2016 saw the continuation of the trend of decreased use of ABC electronic media to pay tolls compared to paying them manually. In 2016, the share of people using the ABC system has decreased for additional 25.6 per cent and amounted to only 42.5 per cent, while in 2015 it was 60 per cent and in 2014 63.9 per cent. This can be explained by the decreasing functionality of ABC system tags. Consequently, 2016 saw the increase in the use of DARS cards (DC), which was 99.5 per cent higher than in 2015. In 2016, the payments with DC represented a 41-per cent share, while in 2015 it was only 22 per cent.

Figure 10: Share of Crossings Paid Manually, via DC, and via the ABC System from 2015 to 2016



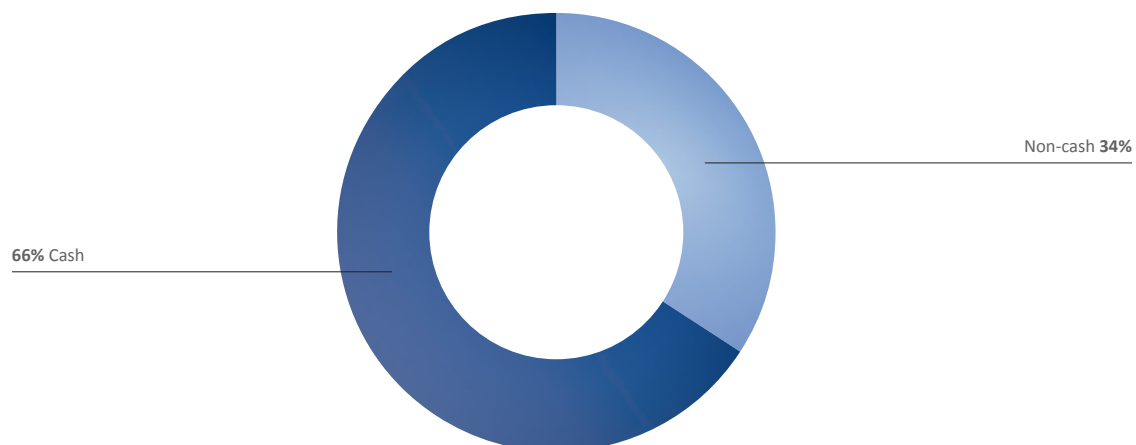
In 2016, the collected tolls from crossings of vehicles from toll classes R3 and R4 increased for 1.48 per cent. Of that, 7.51 per cent increase was at the Gorenjska leg, 7.15 per cent at the Dolenjska leg, and 2.18 per cent at the Primorska leg. At the Štajerska leg, the collected tolls decreased for 0.71 per cent.

Figure 11: Collected Toll Index (for Toll Classes R3 and R4) in 2015/2016 by Motorway Sections



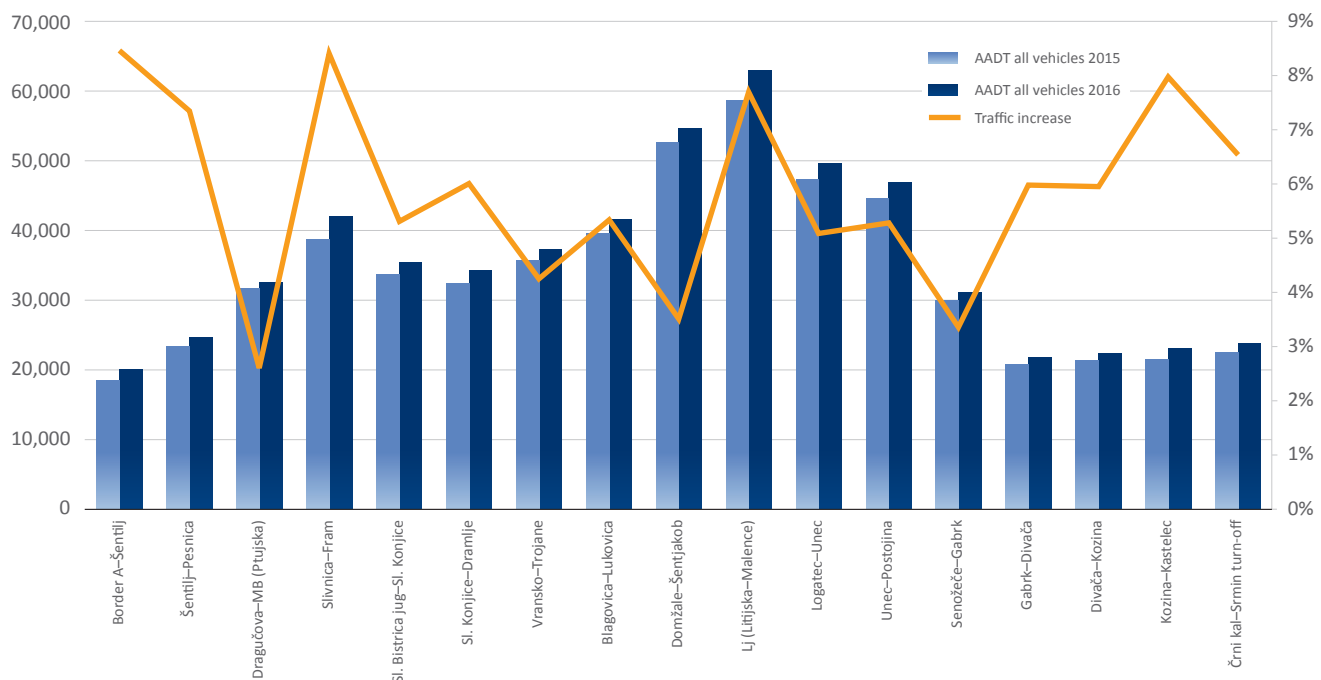
In 2016, shares of cash payments continued to decrease (local and foreign currency) and equalled 33 per cent (36 per cent in 2015) at the expense of increased share of non-cash payments (payments with debit, credit or petrol payment cards) which equalled 66 per cent (64 per cent in 2015). The latter is represented as a general trend in the increased share of non-cash payments within the payment traffic system and, consequently, the continuing decreasing share of cash payments.

Figure 12: Share of cash and non-cash payments in 2016



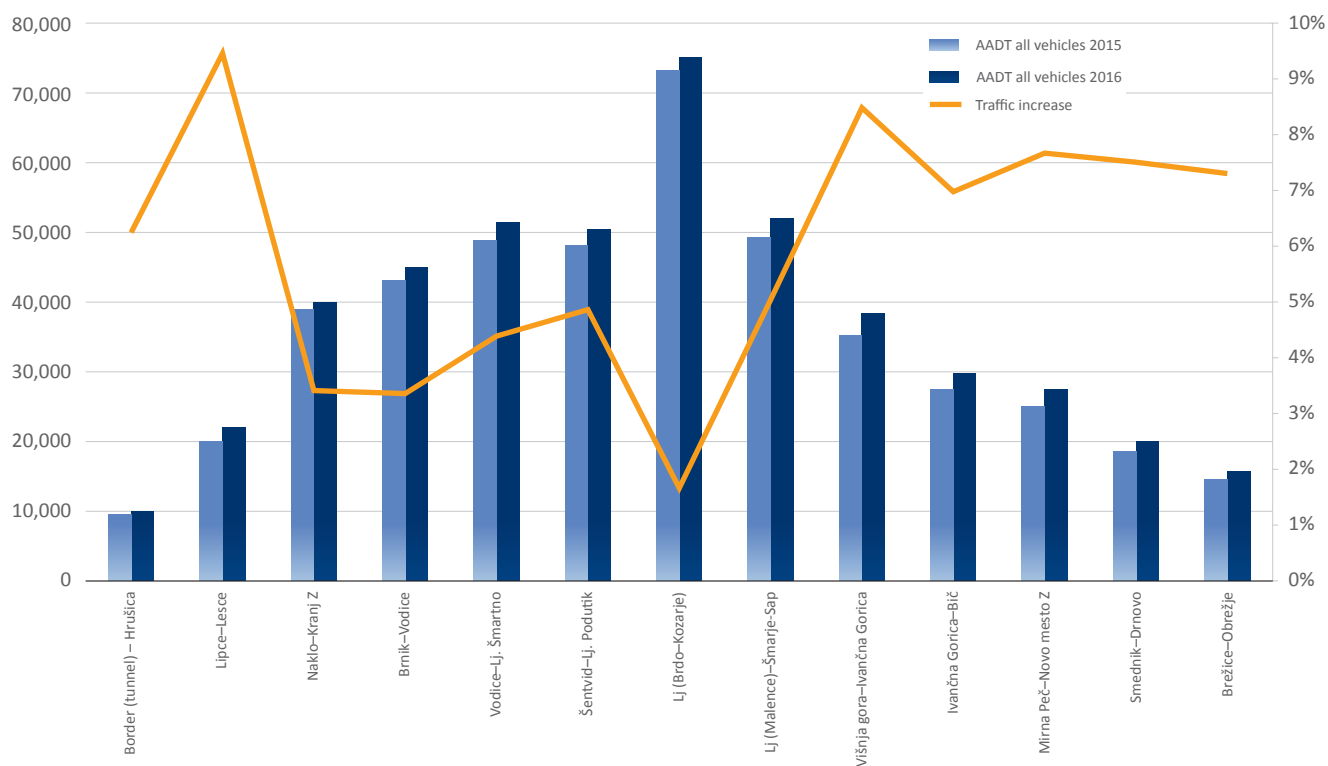
In 2016, we recorded an increase in traffic at all motorway legs, except on the A3, where a drop by 3.4% was recorded compared to 2015.

Figure 13: Comparison of AADT in 2015 and 2016 for the selected sections of the A1 motorway



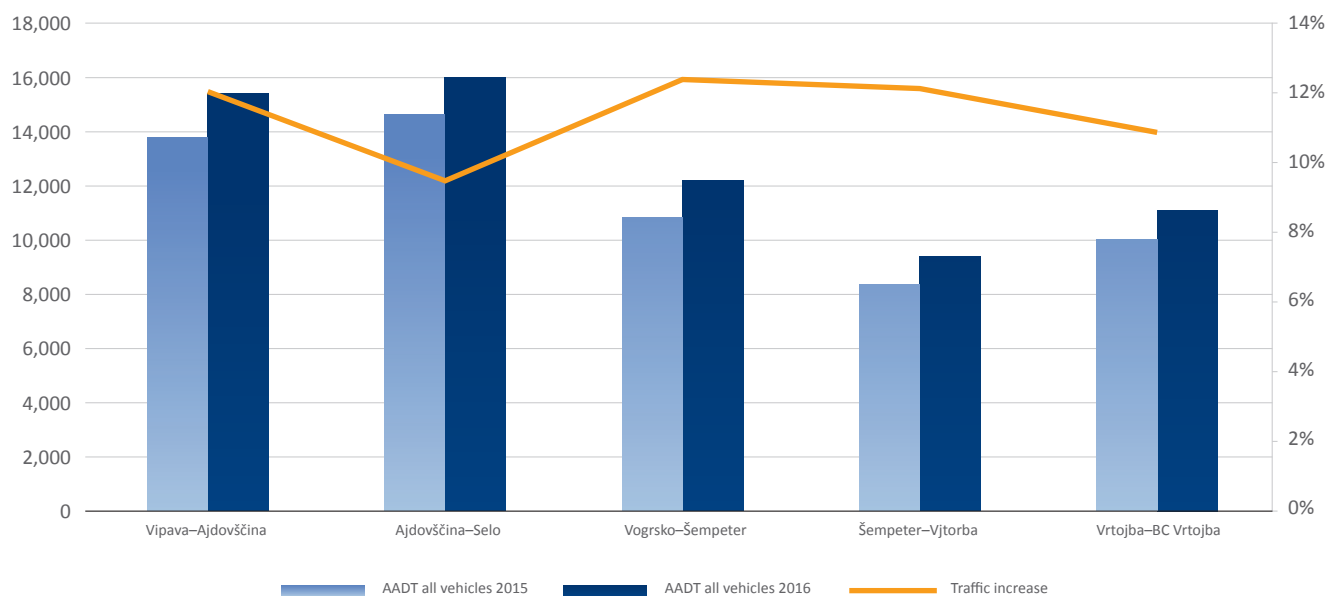
Traffic at A1 has increased in all sections. Regardless of the percentages of the increase, the A1 has seen the largest increase in traffic when it comes to the growth in the number of vehicles. At the shown sections, the AADT has increased for from 837 vehicles/day (Dragučova–MB (Ptujška) section) to 4486 vehicles/day on the eastern Ljubljana ring road, which is also one of the busiest sections of the A1 motorway.

Figure 14: Comparison of AADT in 2015 and 2016 for the selected sections of the A2 motorway



Traffic at A2 has increased in all sections. At the shown sections, the AADT has increased for from 600 vehicles/day (Karavanke) to 2971 vehicles/day (Višnja Gora–Ivančna Gorica section). The busiest section in Slovenia Lj (Brdo–Kozarje) has seen an increase in traffic to 1169 vehicles/day. In 2016, the AADT at this section was 74,348.

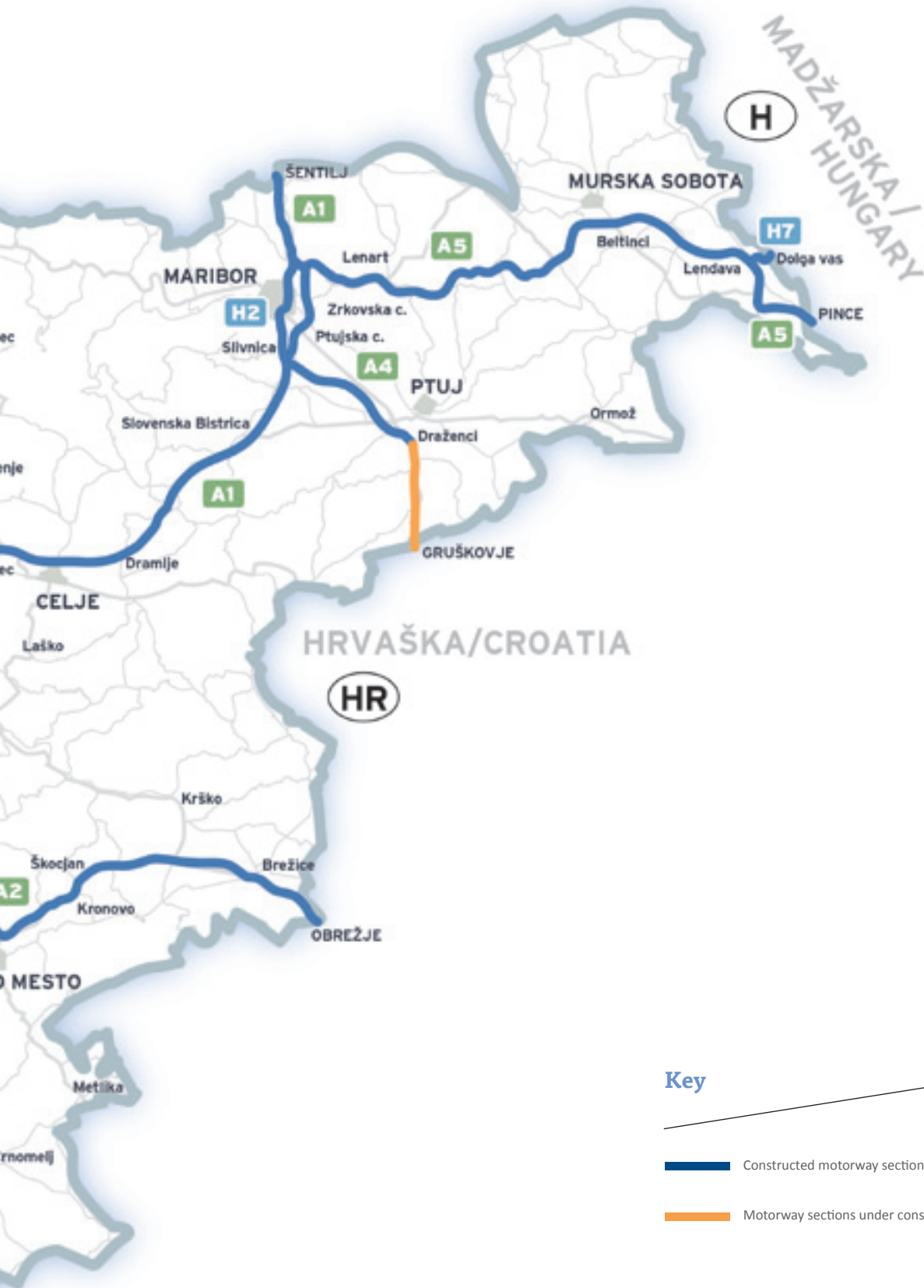
Figure 15: Comparison of AADT in 2015 and 2016 for the selected sections of the H4 expressway



At the H4 expressway, the traffic in 2016 increased for 11.3%.

Figure 16: Motorway System in the Republic of Slovenia, December 2016





I.10. Investments in Motorway Development and Reconstruction

1.10.1. Investments in the name and on behalf 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 MCRSA-1 and in the name and on behalf of the RS. The aforementioned tasks were realised in the amount of EUR 10.4 million.

Table 6: Realised Value of Tasks Performed in the Name and on Behalf of the RS (in EUR)

Spatial planning documentation and real estate acquisition	Realisation*
Spatial planning	1,284,840
Acquisition of real estate	9,107,936
Total spatial planning documentation and real estate acquisition	10,392,776

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

1.10.2. Investments in the name of DARS d.d. and for its account

In 2016, investment activities were performed in accordance with the ability to ensure financial sources. The value of motorway section construction and reconstruction in 2016 amounted to EUR 104.0 million.

Table 7: Realised Value of Investments in the Name of DARS d.d. and for its Account

Motorway Development	Realisation
New electronic tolling system	517,432
Project documentation	3,971,157
Start of construction	1,775,797
Construction of sections for which the project documentation was being created in 2016	2,944
Continuing Construction	50,349,678
Completion works on motorways opened for traffic up to and including 2015	4,428,021
Other items	2,326,892
Motorway Reconstruction Works	27,970,901
Electromechanical works and ITS	3,665,377
Improving Traffic Safety	2,487,964
Non-toll Connecting Roads	15,622
Investments in Management and Maintenance	6,529,927
Total development and motorway and connecting road reconstruction	104,041,710

I.11. International Cooperation and Acquisition of European Grants



In accordance with its vision, which is focused on connectivity in different areas, DARS d. d. strives to establish better international connections.

By participating in international associations – such as ASECAP, PIARC, IBTTA – by organising meetings with similar institutions, meetings with the representatives of the European institutions, and by participating at different work groups and platforms, DARS d. d. is becoming an important partner in preparing the legal bases and organisational guidelines in the field of management, maintenance, and financing of road infrastructure.

A growing number of activities is also related to the acquisition of European funds. Although the funds available for motorway projects are decreasing and the competition is becoming greater, DARS d. d. received EUR 33,058,297 in European Grants in 2016.

We have received EUR 754,378 for the construction of noise barriers on some of the motorway sections (in total, this project used cohesion funds in the amount of EUR 25.1 million), the last claim in the amount of EUR 533,103 for the reconstruction of individual motorway sections to increase traffic safety was paid (the total amount of funds received from the Cohesion Fund for this project is EUR 21.3 million), and we received EUR 30,409 of funds from the TEN-T budget for the projects of the programme “Crocodile I”. For the purposes of preparing the DBP/ED project documentation for the extension of the 2nd Karavanke tunnel tube, we have received EUR 709,946 of the CEF funds (funds for Connecting Europe Facility).

In the last quarter of 2016, the drawing of funds of the EU Cohesion Policy for the period 2014–2020 was initiated. From this, DARS d. d. has received EUR 31,030,460 for the construction of the Draženci–IBCP Gruškovje section.

In 2016, a pilot project C-Roads was approved, which will be co-financed by the funds of the Connecting Europe Facility in the amount of 50%. It is a pilot project on the implementation of cooperative systems for the transfer of information in real time, which are based on vehicle-vehicle, vehicle-infrastructure, and infrastructure-vehicle communications. With this, DARS d. d. is contributing to the realisation of EU priorities in the field of intelligent transport systems.

I.12. Self-Assessment Using the EFQM Excellence Model



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

The Management Board of the company gives great importance to the recommendations and expectations of the SSH in relation to this, the document “DARS d. d. Strategy 2017–2020” within the framework of nine strategic objectives was recognized within the framework of “Strategic guidelines long-term operating stability”, strategic objective “strategic objective “SO 6 Implementation of business excellence”, with the key indicator “Achievement of 500 point by 2020 based on the requirements of the EFQM model”.

Among the aspects of the business-wise excellent organisation are also energy awareness and operation of the company. This is why one of the 35 self-assessment measures of the company DARS d. d. is “For the purposes of optimal energy management of the company, it is necessary to implement and certify the energy management system ISO 50001 and integrate it in the existing management system”, which was confirmed by the obtained certificate in January 2017.

The Supervisory Board considers the report on the realisation of the self-assessment measures according to the EFQM Excellence Model every six months and confirms the adequacy of the implemented measures.

I.13. Integrated Management System



The integrated management system includes the quality aspect in accordance with the requirements of the ISO 9001 standard, the environmental management aspect according to the requirements of ISO 14001, the occupational health and safety aspect according to the BS OHSAS 18001 standard, and the energy management aspect according to the requirements of 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 2016, we continued with the activities to implement an energy management system according to the requirements of ISO 50001, which were integrated into our current systems of quality management, environmental management, and occupational health and safety. At the end of 2016, we confirmed the success of the implemented requirements by undergoing a portion of certification by an independent accredited institution.

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

I.14. Internal audit



The internal audit is performed independently and autonomously, applying necessary professional care and following professional regulations. Organisationally, we are subordinate to the management, and functionally to the Audit Committee and the Supervisory Board. Internal auditing is carried out in accordance with International Standards for the Professional Practice of Internal Auditing, the Code of Internal Auditing Principles, the Code of Ethics and the Code of Professional Ethics for Internal Auditors. Internal auditors constantly improve their knowledge and methodology in compliance with International standards of the professional practice of internal auditing. In 2016, we have performed an external assessment of quality of the internal auditing operation and received information that the internal auditing is operating in accordance with the International Standards of Professional Practice of Internal Auditing.

Through independent and objective auditing and consultancy services to the management board and audit committee of DARS d. d., we contribute to the reinforcement and protection of the organisation's value. Based on the risk assessment, we provide objective assurances and advice to the leadership for the purposes of achieving the set goals and improving the operational efficiency and performance. Internal auditing assists the company in accomplishing its objectives by stimulating the well-considered management of different types of risks, meaning that it evaluates the system of internal controls in a systematic and organised manner and provides recommendations for proper risk management. Internal auditing operates with the authorisation of the management board, to which it is directly responsible. Internal auditing reports to the management and the audit committee of the Supervisory Board on its findings and recommendations for improving the effectiveness of the internal controls for managing risk.

Internal auditing operations are based on the Basic Charter on the Operation of the Internal Auditing Department and the Internal Auditing Department Handbook. The work is performed in accordance with the Strategic Plan of the Internal Auditing and the Annual Plan, which is based on the risks and includes all identified and assessed types of risks as well as the suggestions of the leadership and the audit committee. The Strategic Plan of the Internal Auditing and the Annual Plan of work of internal auditing are confirmed by the management board and the supervisory board of DARS d. d.

In 2016, we have performed five regular and two exceptional auditing reviews as well as two auditing reviews which were initiated in 2016 and concluded in the first quarter of 2017. We also provided advice in the realisation of recommendations. The department also allotted a lot of its time to consulting, finishing eleven consulting business transactions. A total of 23 recommendations were issued on the basis of the audits performed. In addition to regular and exceptional auditing reviews, internal auditing in 2016 regularly monitored the implementation of recommendations from past audits, notifying the management and the audit committee as appropriate.

I.15. Sustainable development



1.15.1. Traffic and Safety Concerns

Figure 17: Comparison of incidents by years

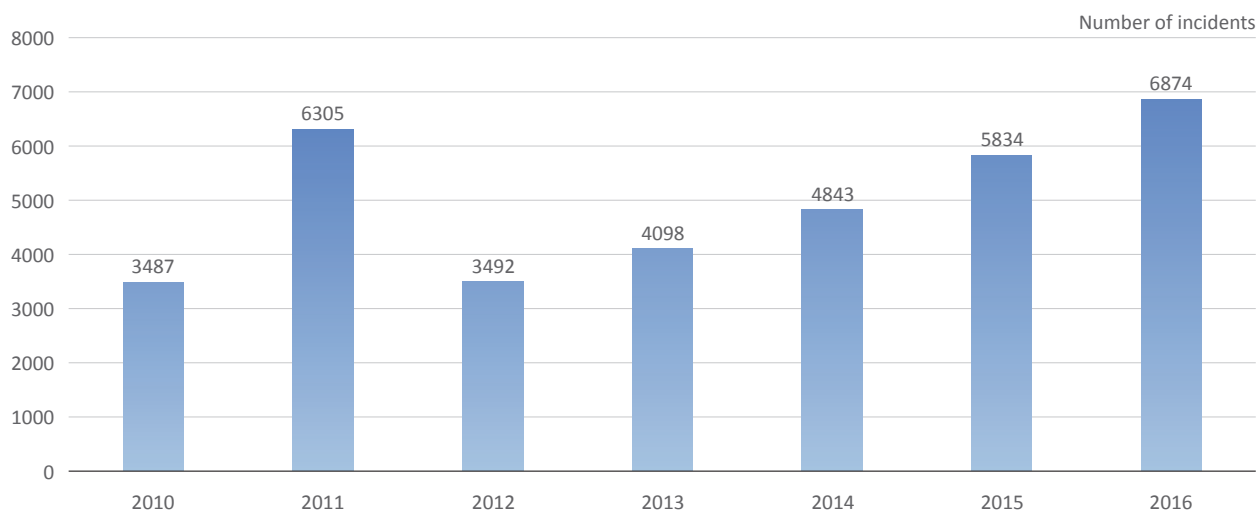
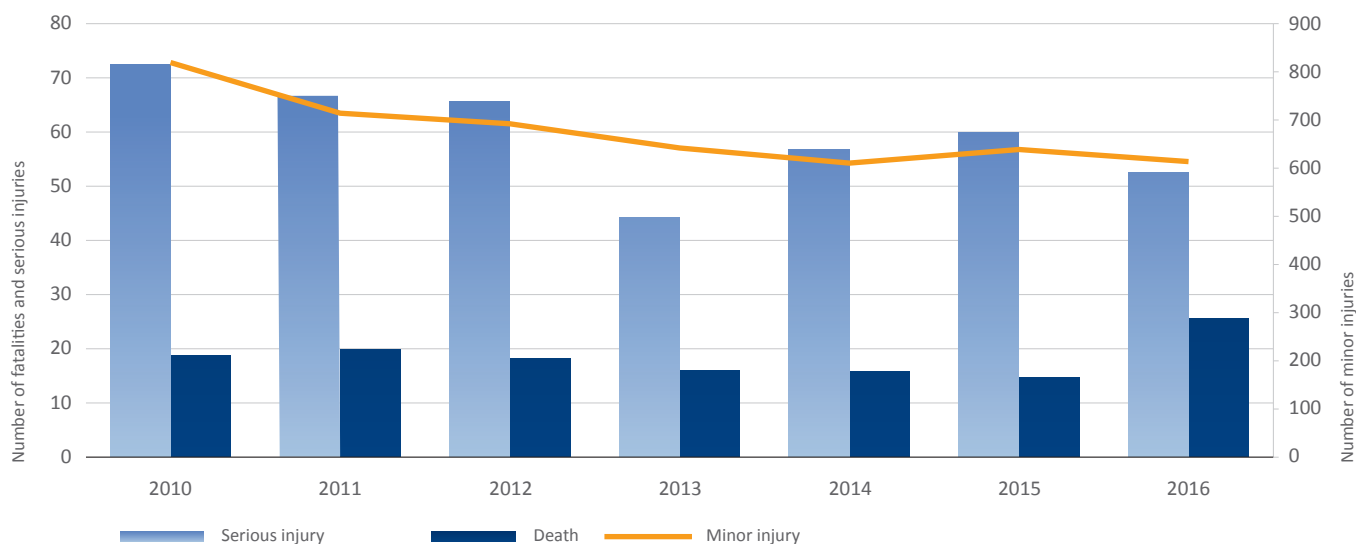


Figure 18: Consequences of traffic accidents on MW and EW by years



Despite the increased traffic, the number of accidents with serious and minor injuries has dropped. Unfortunately, there were more fatal accidents. The police attributed these accidents to driver error; therefore, our activities will continue to focus on prevention, education, and warning.

We ensure traffic safety on several levels and with several services, which is determined in the Annual Plan of Traffic Safety.

The measures are related to infrastructure, ITS and EME equipment, preventive and educational projects, studies, and pilot projects. We pay special attention to the safety of our workers on the field and by updating the Rules on Motorway Maintenance Works, we have implemented an even clearer signalisation for the protection of work sites. Furthermore, we have purchased casings for the radars for the closures and motorway radars. A great achievement in traffic safety came with the pilot project of the sectional speed measuring at Trojane.

We also strive to improve safety with the increasingly more coordinated closures and other traffic disturbances, with better and faster notifications for drivers, and timely restrictions for certain types of vehicles in unfavourable weather conditions, which are becoming increasingly aggressive.

Road Tunnel Safety

There were a total of 38 accidents and incidents in tunnels longer than 500 metres in 2016, where emergency services were needed along with a temporary closure of the whole tunnel or a part of it. The most common primary causes for incidents were category I or II accidents (50%), followed by fire incidents (18%), vehicle breakdowns (16%) and other incidents, e.g. out-of-fuel vehicles or a pedestrian in the tunnel (11%). There was also a category IV accident, where one person died (as a consequence of an inappropriate manoeuvre with the vehicle due to sudden illness). In two incidents, two participants received minor injuries.

Regarding fire incidents, we should mention the fire of a cargo vehicle and the fire of a bus, both in the Jasovnik tunnel. The fire potential was great and in both cases, serious consequences for the participants could have arisen, as well as damage to the tunnel equipment which would have required the tunnel tube to be closed for several days. Due to the effective system of response to fire incident, fast intervention of the fire

brigade and elimination of damages, only the first incident required the tunnel tube to be closed for one day, while in the second case the tunnel tube was restricted from traffic for less than 3 hours.

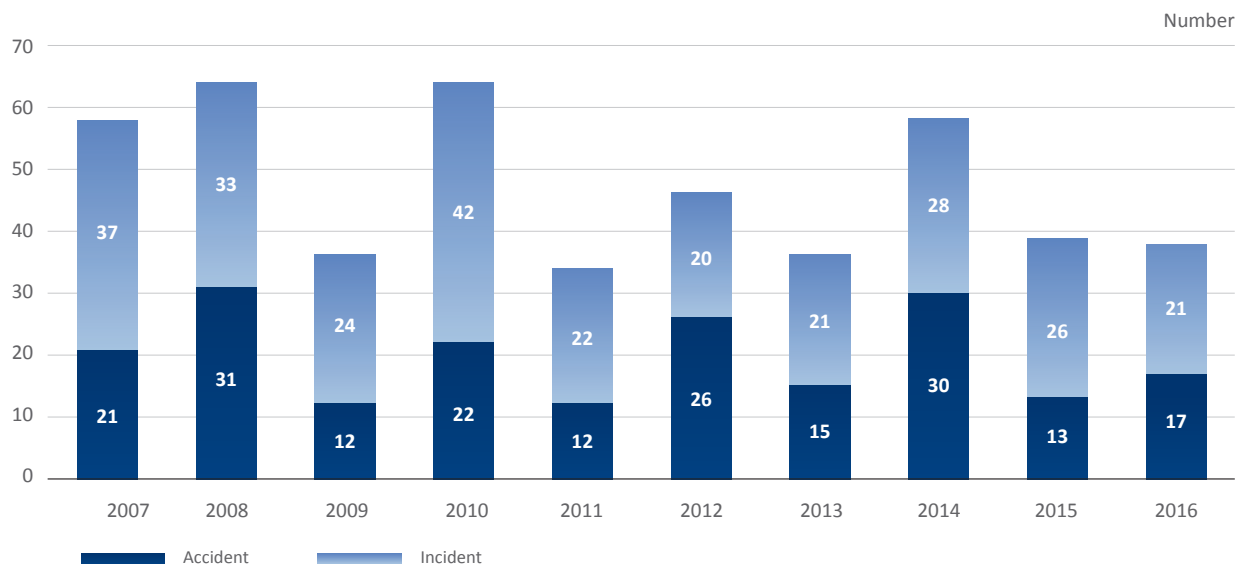
We find that:

- the number of incidents is still relatively small and at a level comparable to recent years;
- these incidents were caused by the actions of users, which is something DARS d.d. has almost no direct influence on;
- the number of incidents did not increase;
- the response of the competent services at incidents is effective.

In addition to the indicated accidents, we had to preventively close down some tunnels due to technical malfunctioning of their systems, which were caused by storms or accidents on the route. In 2016, we have not recorded closures of tunnels due to bora. In one case, the Karavanke Tunnel had to be closed for several hours due to a gas leak resulting from the drilling of a test borehole prior to the implementation of the second tunnel tube.

The trend of relatively good traffic safety in tunnels is mainly the result of the thorough renovations of the tunnel equipment in the recent years (according to the Directive) and the increasingly better awareness of users on the proper manner of driving through tunnels.

Figure 19: Accidents and Incidents in Tunnels Longer than 500 m between 2007 and 2016



1.15.2. Environmental Management

Noise

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. In 2014 and 2015, DARS has, within the framework of the Environmental and Road Infrastructure Development Action Programme, initiated the Construction of Noise Barriers on Five Motorway Sections (Brezovica–Vrhnika, Dramlje–Celje, Celje–Arja vas, and Malence–Šmarje-Sap) in the Republic of Slovenia project, which was co-financed with EU cohesion funds in the amount of 85%. By implementing anti-noise measures, it was established that traffic at the selected sections does not cause excessive noise pollution of the environment. Overall, 31.4 kilometres or nearly 141 thousand square metres of new noise barriers were constructed at five motorway sections within this project. In the Autumn 2016, DARS d.d. has implemented

a project "Filling of openings in the existing noise barrier at Kokrica – left" at the MW section 0607-Kranj Z-Kranj V, within the framework of which, the openings on the noise barrier at Rupa in the area between the roads Bleiweisova cesta and Cesta na rupe in Kranj were filled.

In line with OP HRUP, we produced a study on noise pollution and a proposal for noise protection for the fourteen most exposed facilities along the MW sections that were not completely resolved in the past. Based on the confirmed measures, we started obtaining the ED project documentation for twelve of the mentioned fourteen locations.

With the assistance of outside providers (DRI UI d. o. o., STIA NGI d. o. o.), DARS d. d. prepared and adopted the Methodology for Monitoring the Condition of Noise Protection on Motorways and Expressways. Following its adoption, the company began recording the condition of noise protection with the assistance of a contract specialist. In 2016, we have continued recording the condition of noise protection. Upon collecting and analysing the data, a part of noise protection was included in the Plan of Measures on Infrastructure for 2016–2018.

In 2016, we have received 58 complaints, of which 45 were written and 13 were electronic. Five requests related to public information in connection with excessive noise as a result of traffic on roads managed by DARS d. d. With the assistance of an outside provider (DRI UI d. o. o.), we sent response letters to all complaints.

DARS d. d. representatives are included in the Interministerial Working Group for the Preparation of the Operational Programme for Noise Protection in 2018–2022 for the City of Ljubljana and the City of Maribor, which is currently still in preparation (preparation of the external tender for the selection of the contractor).

Waste management

As part of its environmental protection policy in 2016, DARS d. d. focused on controlled waste management, as dictated by the valid legislation. All activities were aimed at proper waste management with consistent separation of waste already at its source.

In 2016, we continued with our policy of controlled and supervised disposal of all types of waste, while paying special attention to hazardous waste management. For the collection of different types of waste, we have concluded contracts for waste collection with waste disposal contractors, which are authorised to manage the waste in question. The waste disposal contractors were hired following the public procurement procedure. We conclude multi-annual contracts with the waste disposal contractors. In this regard, in 2016, we selected waste disposal contractors for collection of waste materials – waste paints, varnishes, diluents – for collection of waste tunnel wash waters, and for collection of sands from de-sanding areas. Furthermore, in 2016, we have concluded an agreement with the selected contractor for collection of waste iron and aluminium. Septic-tank water and sludge from small urban waste water treatment plants are the exceptions as they are included in the mandatory public utility service and are collected by the local public utility services. The same goes for the municipal waste. In 2016, we have discussed the system for the collection of these types of waste with most of the local providers of the public utility service, therefore the system of waste collection is operating smoothly as agreed.

Waste can be divided into two groups: non-hazardous and hazardous waste. Among non-hazardous waste collected in 2016, similarly to 2014 in 2015, the majority was collected during road cleaning; waste also came from de-sanding, from septic-tank water, from water used for cleaning tunnels and from waste asphalt and waste plastics. The majority of hazardous waste consisted of waste oils, water containing oil, sludge, waste paints and varnishes and absorbent papers (used to clean up roads after accidents). This does not include municipal waste, which is treated differently. The large amount of waste incited the company to target its efforts at reducing the amount of waste. One of the major steps undertaken in the recent years was the construction of drip trays for waste sand from de-sanding areas. Most of the planned drip trays (at least one per

each base) was implemented already in 2015, while in 2016 the implementation of the last drip tray (drip tray Novo mesto) was planned. The drip tray was implemented at the end of 2016, and the finishing works were performed in the beginning of 2017.

In relation to managing waste, DARS d.d. kept records on waste management as prescribed by the ministry and prepared a report at the beginning of the year on waste management for the year before last.

Protection of Waters

Rainwater can be removed from motorways using two methods: with dispersed water drainage and controlled water drainage using retention basins. In 2016, we thus performed the regular annual cleaning of all of the most burdened separators of oils (motorway bases and branches) and the basic maintenance of retention basins (grass mowing, repairing damaged parts and railing and cleaning sedimentation tanks, de-sanding areas). Generated non-hazardous and hazardous waste were handed over to the contractual waste collector for the particular type of waste, who has a valid environmental permit issued by the Slovenian Environment Agency. In accordance with the requirements of the legislation, the internal acts on waste management, and rules on maintenance of oil separators, for each intervention on an oil separator or retention basin, an operation log was made as an integral part of the reports on inspections and operation of retention basins along motorways and expressways for each calendar year separately.

Concerning the operation of retention basins in terms of protecting the natural environment, in 2016, we performed the Annual Programme of Operational Monitoring (APOM) for waste water from rainfall, which measures the pollutant load of the drainage water from the retention basins. Measurements have shown that the parameters of the drainage water from the retention basins are within the limits prescribed by the Regulation and, as such, can be discharged into nature without further treatment. In Q1 2016, we drew up a report on conducting the APOM in 2015 and later on prepared recommendations for conducting the APOM in 2017, which were confirmed by the Ministry of the Environment and Spatial Planning. We also conducted the controlled collection of tunnel waste water from washing that was handed over to waste disposal contractors as a specific kind of waste and then driven to waste-water treatment plants.

Gas Emissions

Tunnels longer than 500 metres are equipped with ventilation systems, where the automatic control of these systems enables us to monitor the gas emissions and visibility in the tunnels. Measurements are monitored by the control centres in charge of controlling traffic in individual tunnels.

CC Hrušica monitors parameters in the Karavanke Tunnel; the RCC in the Golovec and Šentvid tunnels; CC Kozina in the Kastelec, Dekani, Podnanos and Barnica tunnels, and in the Rebernice II cut-and-cover; and CC Vransko and Slovenske Konjice in the Cenkova, Golo rebro, Pletovarje, Ločica, Jasovnik, Trojane, and Podmilj tunnels.

We reduce the number of traffic congestions 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 coordination of all closures as well as through the coordinated operation of control centres.

Environmental Impacts of Road Gritting

To prevent slippery roads and ensure safe road conditions in winter, roads are gritted using various gritting materials. These materials have a minimum impact on the ground, quality of surface and groundwater, flora, fauna, humans and animals, facilities (road lanes, bridges, viaducts and buildings), and on vehicles. In 2016, the effect of spreading salt on the environment was also monitored during 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. The APOM Final Report for 2016 was prepared by the end of February 2017 and will be submitted to the Ministry of the Environment and Spatial Planning.

1.15.3. Human resources management

Employees in DARS d. d.

Table 8: Key Data on DARS d. d. Employees for 2015 and 2016

	2015	2016
Status of employees in DARS d. d.		
Number of employees in DARS d. d. – with replacements	1,242	1,247
Number of employees in DARS d. d. – without replacements	1,231	1,237
Demographic data on employees		
Average age of employees	44.8 years	45.3 years
Percentage of employed females	25.8%	25.6%
Educational structure of employees		
Percentage of employees with a maximum 4th level education	40.3%	39.8%
Percentage of employees with 5th level education	33.3%	33.4%
Percentage of employees with 6th level education	16.5%	16.5%
Percentage of employees with 7th level education or higher	9.9%	10.3%
Social security of DARS d. d. employees		
Number of solidarity benefits granted	47	54
Number of employees with disabled status	36	38
Number of procedures introduced for recognising disabilities	12	11
Number registered in voluntary pension insurance	21	143
Degree of sick leave	5.0%	4,7%
Employee development – education and training		
Scope of education in hours per employee	17	21
Value of education per employee	123	132
Number of participants in education	1846	2275

Employment

In order to achieve the set business objectives for 2016 and uninterrupted business operation, the company employed new individuals in accordance with the adopted business plan and the operational and implementation part of the staff plan for 2016. The company announced 26 internal job postings and 38 external job openings, newly employing 43 individuals. In 2016, 38 employees left DARS d. d., ten of which retired.

Concern for Employee Social Security

In accordance with the relevant legislation and the adopted internal acts, the activities were redirected to different areas or aspects of ensuring social safety for the employees of DARS d. d. In 2016, acts of the employer were adopted, which significantly contribute to a higher degree of social safety for the employees of the company and provide the bases for the payment of the additional jubilee award, the possibility of receiving additional severance when retiring, or the possibility to perform temporary or occasional work after retirement. Furthermore, all employees are included in the collective supplementary pension insurance at one of the manager of pension funds, according to the provisions of the Pension and Disability Insurance Act.

HR Development

Professional training and skill improvement of the employees in order to improve the quality of services and work efficiency were included as key activities in the sector of HR development in 2016 as well. Compared to 2015, we achieved a 22% larger extent of education per employee, and the number of participants of education and training programmes was increased by 23%. On the basis of the programme for developing managerial competence, which was prepared based on the results of measurements of the managers' competence in 2015, in 2016, a special emphasis was placed on the training of managers. The largest extent of education

and training, that is 91% of all education hours, was achieved within the realm of internal education and training. In this way, more employees have the possibility to participate in different education programmes. In addition to the internally-organised education programmes, the employees, especially the expert staff, were offered the possibility to acquire specific knowledge in the domain of changes of the legislation and technological progress in individual expert areas, including outside of DARS d.d. frameworks.

The value of invested education funds per employee has been increasing in the recent years. In 2016, the invested funds per employee were seven per cent higher compared to 2015. This shows that DARS d.d. values the professional competence and knowledge of its employees and offers them a chance to attend education courses and training. Considering the large scope of organisational, technological, and demographic changes both at DARS d.d. and in broader society, such investments in employees are proof of the employer's social and corporate social responsibility.

Figure 20: Comparative Overview of Employee Educational Structure for 2015 and 2016 in %

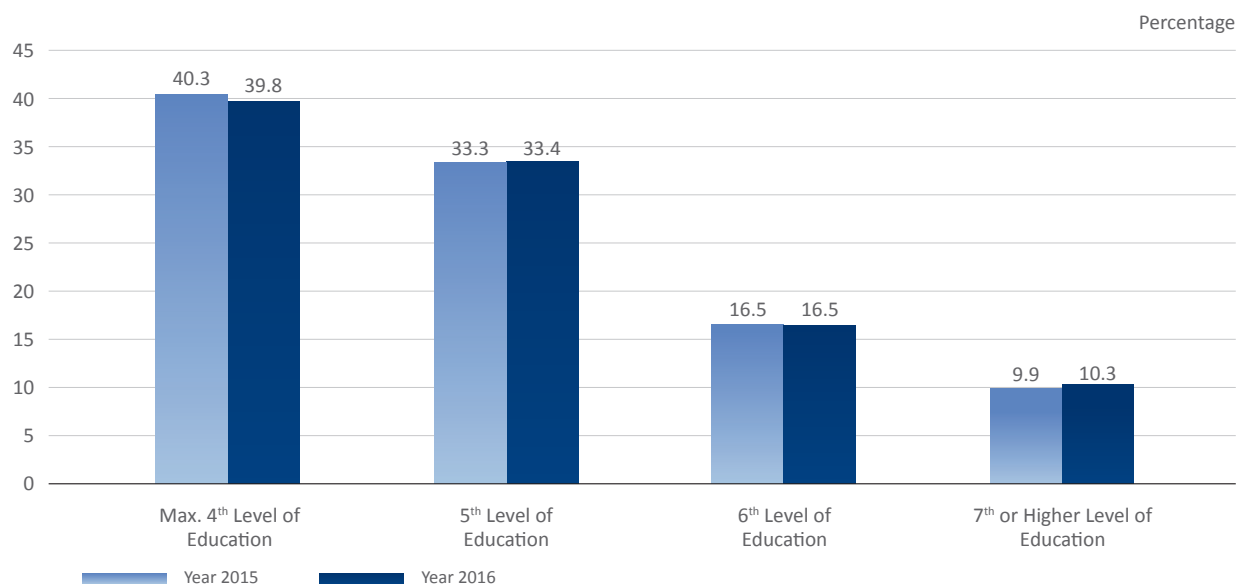
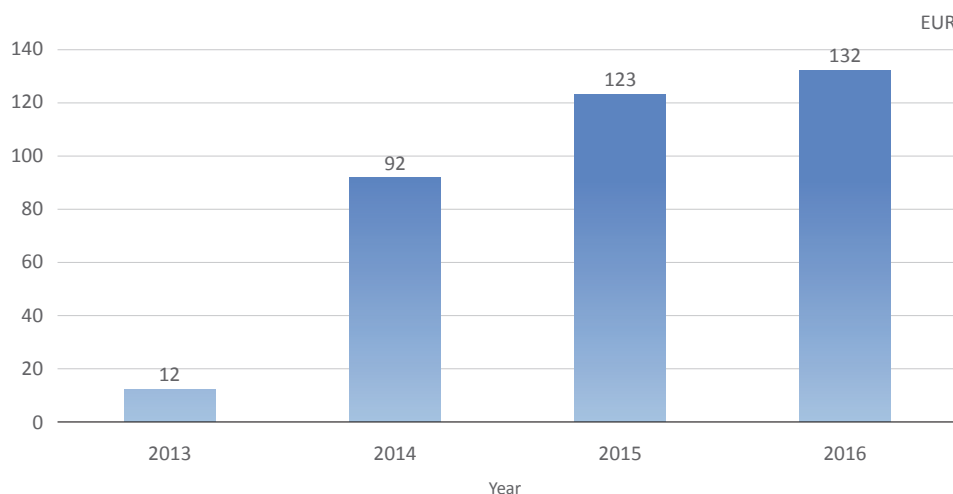


Figure 21: Value of funds used for education per employee by years in EUR



HRM Projects

In addition to education and training, in 2016, we performed the following activities in the field of HR development:

Retraining of employees in the field of tolling: With the decision of the National Review Commission in relation to the procurement contract for establishing a multilane electronic toll collection system in free traffic flow (ETC-FTF), additional activities in the domain of retraining employees in the area of tolling were undertaken. We prepared a set of additional training possibilities for improving knowledge and employment possibilities within the framework of the ETC-FTF system and performed intensive activities for including employees in appropriate trainings based on the expressed interests and the needs of DARS as an employer.

Health on the Road project: In collaboration with its partners (B&B Kranj, Union of traffic workers, and associations and the Police Officers' Trade Union), DARS has submitted the Health on the Road project (Zdravje na poti) for the tender of the Health Insurance Institute of the Republic of Slovenia on co-financing projects for promoting health at work and was selected among the 250 applicants. Based on this, the company acquired funds in the amount of EUR 50,000, which helped the project partners to implement different activities in the field of health promotion (different workshops, safe driving trainings, activities for protecting health and lives of motorway users, etc.). In relation to this, DARS has in 2016 directly drawn funds in the amount of approximately EUR 10,000.

Organisational climate and employee satisfaction: Good organisational climate and employee satisfaction are important factors in the high-quality implementation of both the DARS mission and the services that the company provides to its users and all shareholders. This is why the company annually measures organisational climate and employee satisfaction. The results of 2016 compared to 2015 show a slight improvement in employee satisfaction. In 2016, DARS has continued to perform the adequate activities and measures for improving organisational climate and employee satisfaction. Activities were performed in the domain of improving internal communication and relations, management, and variable rewarding of employees. The aim of these measures is to unlock the innovation and creative potential of employees for the more successful achievement of the company's objectives and mission.

DARS is a Family-Friendly Company: Based on the implemented measures arising from the awarded certificate of being a family-friendly company, in 2016, we have continued with activities which allow employees to better coordinate their professional needs and family life. In relation to this, the employees may benefit from the flexible working hours, anonymous psychological help and support, activities for maintaining health, and other activities or possibilities offered to employees by the employer.



Safety and Health at Work

In the area of ensuring the safety of employees, 2016 has seen a slightly lower number of accidents at work compared to previous years. There were 26 workplace accidents resulting in worker injury, which is 16 fewer than the year before (42) and the lowest it has been in the last six years. Among the injured were one enforcement officer and one employee in the field of management, the rest were maintenance technicians (24). Most accidents resulted in minor injuries. Two of the workers were on sick leave for over six months, but their injuries are not expected to lead to disability (one of them has not finished medical treatment yet). Due to accidents at work that occurred in the last year, 667 working days were lost. Following the analysis of causes, we find that most of the accidents were caused by a human factor. Causes include lack of attention, carelessness, and rushing. Time distribution of the accidents with injuries is similar to previous years, with the exception of a significant increase in accidents during weekends (total of five). Last year, the most accidents occurred in January (5), on Wednesdays (6), and between 8 am and 10 am (7).



In addition to the accidents resulting in worker injury, we also recorded 13 collisions of user vehicles with the vehicles of the maintenance technicians and the equipment for protecting work sites on the road, as well as

one case of violence against a toll supervisor. In the collisions, two maintenance technicians suffered minor injuries. Almost a third of the crashes (4) occurred on the escape lane, even though driving in this location is prohibited. Full implementation or installation of closures in accordance with the new Rules of Closures on Public Roads, which introduced the protection of escape lane signalling with the warning slats, and the placement of cones on lengthier areas of diversion (first, placed diagonally at the length of 50 metres, then along the line for additional 50 metres in front of the board signalling the closure of the lane), as well as the fortification and protection of work sites with crash cushions (the transitional period for the use of cushions is five years) is expected to additionally decrease crashes, injuries of workers, and equipment damage.

In addition to the usual every-day activities (organisation of medical examinations, training of newly-hired employees, consulting services for the employer, implementing internal control, etc.), the service for health and safety at work has, in the first half-year of 2016, concluded the fifth risk assessment review, renovated the training and performed periodic competence tests for safe work of the employees working at toll stations (cashiers, shift manager at the toll station) – in total approximately 550 employees at 26 all-day workshops. Before the introduction of the new Rules of Closures on Public Roads, we have implemented trainings of the maintenance technicians for ensuring safe installation of closures (all-day workshops at all MW bases).

With the help of external institutions, we have organised trainings which we could not perform by ourselves due to their special requirements (transport of hazardous goods, work with phyto-pharmaceutical preparations, management of a TGM forklift, elevators, and lifting devices).

1.15.4. User Satisfaction and Communication

Satisfaction of motorway and expressway users in Slovenia

With user satisfaction measurement, we measure the index of satisfaction of MW and EW users and determine the factors that influence the level of satisfaction with MWs and EWs. The most important factors of satisfaction are: signalisation, toll station, passability, and safety. The most critical factors for car and lorry drivers remain the traffic flow and parking spaces at rest stops respectively.

The index of satisfaction, which shows to what extent the users' expectations have been achieved, is 75.6 for 2016, which is somewhat lower among foreign car and lorry drivers and among domestic car drivers than in 2015. Among the local lorry drivers, the index of satisfaction is equal to that in 2015.

Communication with users and other groups of the public

Users of motorways and expressways under the management of DARS d. d. most often contact us with concrete questions, proposals, comments, complaints, and even praise, relating to the use of the motorway system. The questions are most often related to tolling or vignettes, to renovation and maintenance works, traffic management or traffic safety management. Persons residing in the vicinity of motorways are most interested in measures to reduce or eliminate the negative impacts of motorway traffic on the environment. We respond to the majority of the users' questions in the shortest time possible. Furthermore, we offer the media comprehensive and updated access to information and materials. We also actively communicate with the public through social networks (Twitter, Facebook). We primarily use these services to inform people about traffic and different campaigns (media campaigns included) to improve traffic safety awareness.

The safety and passability of the motorway system is established also by providing direct notifications for users. The Traffic Information Centre (TIC) provides complete, quality, and up-to-date notifications to users regarding driving conditions on motorways and expressways. TIC operators also tune into various media outlets several times a day with live reports. The information is available to users via the free-of-charge telephone number, the website promet.si, direct telephone conversation with the operator, and some other communication channels. In addition, we have established a free of charge mobile application DarsPromet (in Slovene and English) with the main purpose of informing users on the situation on our roads.

In the area of social responsibility, special attention is given to contents regarding traffic safety, education and preventative actions on the roads the company manages. Furthermore, sponsorship and donation funds are mostly allocated to projects in the field of prevention. Every year, we dedicate over three-fifths of the anticipated donation funds to large families and people with disabilities for the purchase of vignettes for vehicles of the toll class 2B according to the agreement with the Ministry of Infrastructure and the Red Cross of Slovenia. In addition, we give donations to one of the largest humanitarian projects, most recently to children within the project "Botrstvo", which operates within the scope of the Slovenian Association of Friends of Youth, Ljubljana Moste-Polje.

The company is well aware of the responsibility it has towards people and the environment in which it operates. Through awareness, and prevention campaigns in the areas of traffic and traffic safety and environmental protection, it takes an active part in current social events, co-creating them to the greatest extent possible.

1.15.5. Research and Development Activities

In the future, DARS d.d. is going to continue developing and improving the existing business model as well as systematically developing and implementing new business ideas. These ideas are reflected in innovations created on the basis of employee proposals and in the projects and the improvements in various areas of work that are included in the business plan for the current year. The status of their realisation is reported at the extended management council.

We keep track of new developments in best practices through projects, improvements, and innovation and systematically implement them in our management system and work processes.

In 2016, DARS d.d. continued implementing the introduction of the road management project for the roads it manages. In addition to the current work with the PMS – DARS expert system (PMS: Pavement Management System), which is performed using the dTIMS_CT software tool (Deighton's Total Infrastructure Management System with Concurrent Transformation), we continued our activities to prepare the launch of the pilot project for implementing the Bridge Management System (BMS: Bridge Management System).

For the purposes of improving the friction characteristics of carriageways, we have implemented two test fields (concrete carriageway, asphalt carriageway) for the measure of "sanding with steel balls" as a more durable alternative to the high-pressure cleaning of carriageways with water. Before and after the measure was implemented, we performed measurements of friction characteristic according to the SCRIMTEX methodology. First comparisons showed a significant improvement of the condition, however we will monitor the condition for a longer period to confirm the durability of the measure. If this measure proves to be efficient, it would be reasonable to perform it on sections where the wearing layer is not anticipated to be renovated in the near future and where the friction characteristics are poor.

Continual Improvement, Innovation and Projects

DARS d.d. encourages employees to submit proposals for improvements, which is reflected in the positive trend of submitted and realised improvements or innovations compared to 2015. The best innovators received awards at the pre-New Year's event in 2016.

In the coming years, we at DARS d.d. intend to carry out a large number of projects in individual work areas and thus follow the business plan, the strategic goals and the company's vision. On the basis of the adopted management system policy and the related strategic goals, we will determine measurable operative goals using key performance indicators (KPIs) that are identified in the company's business plan. 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.

I.16. Report on the Work of the Supervisory Board for 2016

Pursuant to the provisions of paragraph 2 of Article 282 of the CA-1, the Corporate Governance Code for Joint Stock Companies and the Corporate Governance Code for Companies with Capital Assets of the State, the Supervisory Board of DARS d. d. has prepared a written report that is an accurate and credible representation of the Supervisory Board's activities during the year.

1. Composition of the Supervisory Board of DARS d.d.

According to its Articles of Association, the company has six Supervisory Board members, of which two are employee representatives.

In 2016, members of the supervisory board as representatives of the owner included Marjan Mačkošek (Chairman), Miha Juhart, PhD (Deputy Chairman), Tatjana Colnar, MSc, and Igor Pirnat, MSc. Members of the supervisory board as employee's representatives:

- in the period from 1 January 2016 to 13 April 2016: Vito Meško, Rožle Podboršek
- in the period from 13 April 2016 to 30 April 2016: Darko Kodrič, Rožle Podboršek
- in the period from 30 April 2016 to 9 May 2016: Darko Kodrič
- in the period from 9 May 2016 onwards: Darko Kodrič, Rožle Podboršek

2. Activities of the Supervisory Board

The Supervisory Board carries out work according to the law, the recommendations of the Slovenian Directors' Association and other best practice recommendations. It also follows 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.

The 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. Harmonised activity of the Supervisory Board is illustrated by the fact that all decisions adopted in 2016 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. The members attended these sessions regularly. In 2016, all of the members attended all sessions, with the exception of one whose one-off absence was justified.

The Chairman of the Supervisory Board and of the Management Board work together even outside the official sessions.

In 2016, the Supervisory Board of DARS d. d. met at twelve regular sessions and seven sessions by correspondence, at which it discussed the regular reports on company operations and other current matters and important issues.

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

- discharged the Chairman of the Management Board and a member of the Management Board;
- appointed a new Chairman of the Management Board and a new member of the Management Board;
- discussed and confirmed the Annual Report 2015, adopted a report on its activities for the previous year;
- discussed materials and confirmed propositions for adopting resolutions at the general meeting;
- gave consent for the Business Plan for 2016 and the Business Plan for 2017;
- gave consent for transactions in excess of EUR 1.5m as per the Articles of Association;
- gave consent for public procurement announcements as per the Rules of Procedure of the Supervisory Board;
- regularly kept track of the status of the ETC in FTF project;
- acquainted itself with the Annual Plan of the Internal Auditing Department for 2016 and with the Report on the Work of the Internal Auditing Department for 2015;
- gave consent for the Strategic Plan of internal auditing for 2016–2020;
- proposed at the general meeting the auditor for the financial year 2016, a discharge of the Management Board for 2015, and consented to the proposal of the general meeting related to the use of accumulated profit as evaluated on 31 December 2015;
- accepted changes and amendments of the Rules of Procedure of the Management Board;
- acquainted itself with the unaudited Semi-annual Report;
- regularly acquainted itself with reports of Supervisory Board committees;
- considered the proposals of the Supervisory Board Committee related to the HR issues and the evaluations of the Management Board in relation to the contracts with the members of the Board and consented to the proposals;
- amended Rules on Determining the Content of Employment Contracts for the Management Board Chairman and Members regarding Remuneration and Severance Pay;
- monitored the realisation of the self-assessment measures of the company according to the EFQM Excellence Model;
- regularly acquainted itself with other information.

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

of interest. Two members informed the Supervisory Board of the existence of a conflict of interest in a specific case at sessions and removed themselves from discussing and making decisions on the relevant issue.

Members of the Supervisory Board have signed and submitted statements of independence according to the Corporate Governance Code, which were published at the company's website.

In 2016, the Supervisory Board of the company initiated the self-assessment procedure based on the proposed methodology of the Slovenian Directors' Association.

The receipts of the members of the Supervisory Board and its committees are disclosed in chapter Labour costs.

2.1. Committees of the Supervisory Board of DARS d.d.

Two committees provided their expert support to the Supervisory Board. They report to and advise the Supervisory Board, which has full decision-making power. The two committees did not carry out a self-assessment in 2016.

Audit Committee

Tasks and competences of the Audit Committee are determined by the Companies Act, the Rules of Procedure of the Supervisory Board, the Rules of Procedure of the Audit Committee, and the decisions of the Supervisory Board.

In 2016, the members of the Audit Committee included: Chairman Tatjana Colnar, MSc, Deputy Igor Pirnat, MSc, and member Miha Juhart, PhD. The Committee also includes an independent external expert, Ms Mojca Lahajner.

In 2016, the Audit Committee met at ten regular sessions, at which they adopted the Rules of Procedure of the Audit Committee, discussed the Annual Report for 2015 and the reports on the work of internal auditing for 2015, the Plan of Work of internal auditing for 2016, and the Strategic Plan of internal auditing 2016–2020. The Committee discussed the problems of land purchase related to the Draženci–Gruškovje motorway section and the problems related to the company Delkom. Among other things, the Committee monitored and discussed the reports and recommendations of the internal auditing, proposed the Supervisory Board to appoint a candidate for the auditor of the Annual report for 2016, and discussed

the contract with the authorised auditor for 2016. The Committee regularly reported on its work at sessions of the Supervisory Board.

Supervisory Board Committee for Remuneration and Management Board Assessments

In 2016, the members included:

- in the period from 1 January 2016 to 13 April 2016: Chairman Miha Juhart, PhD, Deputy Chairman Vito Meško, and member Tatjana Colnar, MSc;
- in the period from 13 April 2016 to 16 May 2016: Chairman Miha Juhart, PhD, member Tatjana Colnar, MSc;
- in the period from 16 May 2016 to 27 September 2016: Chairman Miha Juhart, PhD, member Podboršek Rožle, member Tatjana Colnar, MSc;
- in the period from 27 September 2016 onwards: Chairman Miha Juhart, PhD, Deputy Chairman Podboršek Rožle, member Tatjana Colnar, MSc.

In 2016, the Committee met at seven regular sessions and held two sessions by correspondence, primarily to discuss the appointment of the new Chairman of the Management Board and a new Management Board member. It also discussed the reports of the HR Management Service and the Occupational Health and Safety Service. It prepared amendments to the Rules on Determining the Content of Employment Contracts for the Management Board Chairman and Members regarding Remuneration and Severance Pay. The Committee regularly reported on its work at sessions of the Supervisory Board.

2.2. Organisation of Work

In accordance with its Rules of Procedure, the Supervisory Board of DARS d.d. has a Secretary from among the company employees, who is responsible exclusively to the Chairman of the Supervisory Board for work performed for the Supervisory Board. The Secretary coordinates the work of the Supervisory Board and its committees, ensures that the company's professional services duly prepare the materials for the sessions of the Supervisory Board and its committees, and performs other tasks specified in the Rules of Procedure of the Supervisory Board.

The Supervisory Board has most of the times met at the DARS d.d. branch office in Ljubljana, occasionally at the company's head office in Celje, and once on the premises of the construction control for the MW Draženci–IBCP Gruškovje in Podlehnik.

This method of work ensures the optimal efficiency of the Supervisory Board's activities.

3. Approval of the Annual Report and Proposed Appropriation of Accumulated Profit for the Year 2016

The company's Management Board has, on 14 April 2017, provided the Supervisory Board with the Annual Report for 2016. The Supervisory Board of DARS d. d. discussed the Annual Report of DARS d. d. for the year 2016 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 financial statements for the 2016 financial year, and established that the certified auditor had not discovered any significant 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.

Pursuant to the provisions of Articles 64 and 230 of the CA-1, on the basis of the audited financial statements of the company and within the context of the comprehensive treatment of the Annual Report, as well as the proposal of the Management Board, the Supervisory Board of DARS d. d. established that net profit for the period from 1 January to 31 December 2016 amounted to EUR 102,448,010. Loss brought forward equals EUR 4,109. The established net profit would be allocated as follows:

- EUR 5,122,195 in legal reserves;
- EUR 24,330,426 in statutory reserves;
- EUR 36,495,640 in other reserves from profit according to the decisions of the Management Board and the Supervisory Board of DARS d. d.

The accumulated profits as at 31 December 2016 amounted to EUR 36,495,640.

According to Article 69 of the CA-1, the Management Board and the Supervisory Board propose the distribution of the accumulated profits for 2016 in the amount of EUR 36,495,639.63 to other revenue reserves.

The appropriation of accumulated profit will be decided by the General Meeting of the company.

The Supervisory Board issued no remarks regarding the report of the auditing firm KPMG d. o. o.. Upon careful examination of the audited Annual Report for the 2016 financial year, the Supervisory Board had no remarks regarding the Report and, therefore, approved it unanimously at its session on 21 April 2017. Pursuant to Article 282 of the CA-1, this means that the Supervisory Board of DARS d. d. agrees with the audited Report and thereby adopts the Annual Report of DARS d. d. for the year 2016.

The Supervisory Board proposes that the General Meeting grant discharge to the Management Board and the Supervisory Board in accordance with Articles 293 and 294 of the CA-1.

Marjan Mačkošek
Chairman of the Supervisory Board



DARS



II. Financial Report



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II.1. Financial Statements of DARS d.d.

Balance sheet as of 31 December 2016

in EUR (without cents)	Note	31 December 2016	31 December 2015
ASSETS		5,680,666,379	5,510,535,999
A. LONG-TERM ASSETS		5,251,514,755	5,304,508,457
I. Intangible assets, and non-current deferred costs and accrued revenues	II.5.1.1	1,273,864	1,100,237
1. Long-term property rights		1,273,864	1,100,237
II. Tangible fixed assets	II.5.1.2	5,218,771,008	5,269,368,766
1. Land and buildings		5,019,580,278	5,109,475,890
a) Land		204,622,614	208,522,743
b) Buildings		4,814,957,664	4,900,953,147
3. Other machines and equipment		18,012,273	18,103,221
4. Tangible fixed assets being acquired		181,178,457	141,789,655
a) Tangible fixed assets in course of construction or production		181,178,457	141,789,655
IV. Long-term financial investments		964	964
1. Long-term investments, excluding loans		964	964
c) Other long-term financial investments		964	964
V. Long-term operating receivables	II.5.1.3	25,968,165	28,681,484
2. Long-term trade receivables		30,764	30,768
3. Long-term operating receivables from others		25,937,401	28,650,716
VI. Deferred tax receivables	II.5.1.4	5,500,753	5,357,006
B. CURRENT ASSETS		428,393,504	205,038,315
I. Assets (disposal groups) available for sale	II.5.1.5	160,691	188,202
II. Inventories		3,208,043	3,294,700
1. Materials	II.5.1.6	3,201,086	3,291,143
3. Products and merchandise		6,957	3,557
III. Short-term financial assets	II.5.1.7	366,791,513	146,934,390
1. Short-term financial investments, excluding loans		598,641	0
c) Other short-term financial investments		598,641	0
2. Short-term loans		366,192,872	146,934,390
b) Short-term loans to others		366,192,872	146,934,390
IV. Short-term operating receivables	II.5.1.8	44,902,102	42,905,620
2. Short-term trade receivables for customers		14,002,577	14,321,336
3. Short-term trade receivables due from others		30,899,525	28,584,285
V. Cash and cash equivalents	II.5.1.9	13,331,155	11,715,403
C. SHORT-TERM DEFERRED COSTS AND ACCRUED REVENUES	II.5.1.10	758,120	989,227

in EUR (without cents)	Note	31 December 2016	31 December 2015
LIABILITIES		5,680,666,379	5,510,535,999
A. EQUITY	II.5.1.11	2,665,453,020	2,566,206,940
I. Called-up capital		2,319,866,345	2,319,866,345
1. Share capital		2,319,866,345	2,319,866,345
II. Capital reserves		26,576,494	26,576,494
III. Reserves from profit		289,772,337	188,454,822
1. Legal reserves		17,960,990	12,838,795
4. Statutory reserves		55,398,007	31,067,581
5. Other revenue reserves		216,413,340	144,548,447
V. Reserves arising from valuation by fair value		-7,257,795	-4,059,975
VI. Retained net profit or loss		0	13,831,556
VII. Net profit or loss for the financial year		36,495,640	21,537,697
B. PROVISIONS AND LONG-TERM ACCRUED COSTS AND DEFERRED REVENUES	II.5.1.12	183,402,232	166,540,148
1. Provisions for pensions and similar liabilities		3,296,187	2,484,316
2. Other provisions		32,813,987	49,372,892
3. Non-current deferred costs and accrued revenues		147,292,058	114,682,940
C. LONG-TERM LIABILITIES		2,514,324,693	2,297,048,407
I. Long-term financial liabilities	II.5.1.13	2,364,024,512	2,131,822,705
2. Long-term financial liabilities to banks	II.5.1.14	2,140,400,323	1,905,013,561
3. Long-term financial liabilities from bonds	II.5.1.15	160,364,547	160,364,547
4. Other long-term financial liabilities	II.5.1.16	63,259,642	66,444,597
II. Long-term operating liabilities		150,186,440	165,225,702
2. Long-term operating liabilities to suppliers	II.5.1.17	2,323,959	2,316,654
5. Other long-term operating liabilities	II.5.1.18	147,862,481	162,909,047
III. Deferred tax liabilities	II.5.1.19	113,742	0
D. SHORT-TERM LIABILITIES		288,971,521	454,870,634
II. Short-term financial liabilities	II.5.1.20	224,536,718	389,355,921
2. Short-term financial liabilities to banks		206,781,695	375,258,926
3. Short-term financial liabilities from bonds		3,410,736	3,411,653
4. Other short-term financial liabilities		14,344,287	10,685,342
III. Short-term operating liabilities	II.5.1.21	64,434,803	65,514,714
2. Short-term operating liabilities toward suppliers		27,095,216	37,966,446
4. Short-term operating advance payables		148,778	32,394
5. Other short-term operating liabilities		37,190,808	27,515,874
E. SHORT-TERM ACCRUED COSTS AND DEFERRED REVENUE	II.5.1.22	28,514,913	25,869,870

The accounting guidelines and explanatory notes are a constituent part of the Financial Statements and should be read in connection thereof.

Income Statement for the Period from 1 January to 31 December 2016 (version 1)

in EUR (without cents)	Note	1 January to 31 December 2016	1 January to 31 December 2015
1. Net sales revenues	II.5.2.1	372,161,638	360,880,094
Revenue from tolls		361,269,595	349,925,047
Revenue from rest stop leases		7,296,256	7,071,880
Revenue from closure and overweight load transports		652,445	908,124
Revenue from easements for base stations and others		594,426	856,090
Revenue from agency contracts		383,902	407,016
Revenues from lease of optical fibres		1,021,585	771,393
Other sales revenues		943,430	940,544
3. Capitalised own products and services	II.5.2.2	1,022,313	1,695,339
4. Other operating revenues	II.5.2.3	24,065,320	7,892,818
5. Costs of goods, materials and services	II.5.2.4	-36,740,431	-35,872,408
a) Acquisition cost of goods and materials sold and cost of materials used		-8,838,553	-9,283,845
b) Cost of services		-27,901,879	-26,588,563
6. Labour costs	II.5.2.5	-37,910,486	-35,832,067
a) Costs of wages and salaries		-27,575,205	-26,414,827
b) Costs of social insurance		-5,448,645	-5,213,087
c) Other labour costs		-4,886,636	-4,204,153
7. Write-offs	II.5.2.6	-154,705,750	-149,878,711
a) Amortisation		-154,106,846	-149,570,864
b) Operating expenses for revaluation of intangible assets, and property, plant and equipment		-80,143	-125,189
c) Operating expenses from the revaluation of operating current assets		-518,761	-182,658
8. Other operating expenses	II.5.2.7	-4,309,555	-29,333,817
10. Financial revenue from granted loans	II.5.2.8	1,919,171	2,359,556
b) Financial revenue from loans made to others		1,919,171	2,359,556
11. Financial revenues from operating receivables	II.5.2.9	32,970	28,259
a) Financial revenues from operating receivables due from group companies		0	0
b) Financial revenue from operating receivables from others		32,970	28,259
12. Financial expenses from impairments and write-offs of investments	II.5.2.10	-665,286	0
13. Financial expenses from financial liabilities		-40,972,239	-49,084,319
b) Financial revenue from loans received from banks	II.5.2.11	-29,204,680	-38,344,890
c) Financial expenses from bonds issued	II.5.2.12	-7,348,296	-7,335,306
d) Financial expenses from other financial liabilities	II.5.2.13	-4,419,263	-3,404,123
14. Financial expenses from operating liabilities	II.5.2.14	-791,730	-309,137
b) Financial expenses from liabilities to suppliers and bills of exchange payable		-788,650	-277,587
c) Financial expenses for other operating liabilities		-3,081	-31,550
15. Other revenue	II.5.2.15	99,123	211,543
16. Other expenditures	II.5.2.16	-734,733	-310,786
17. Corporate income tax	II.5.2.17	-19,203,477	-12,009,362
18. Deferred taxes		-818,838	19,691
19. Net profit or loss for the period		102,448,010	60,456,694

The accounting guidelines and explanatory notes are a constituent part of the Financial Statements and should be read in connection thereof.

Statement of Other Comprehensive Income for the period from 1 January to 31 December 2016

in EUR (without cents)	2016	2015
19. Net profit for the year	102,448,010	60,456,694
Effective part of changes in the fair value of the instrument for hedging against interest rate change risk	-3,973,544	1,210,620
Change in deferred taxes	848,844	-205,805
Other comprehensive income to be recognised in the income statement in the future	-3,124,700	1,004,814
Changes in the revaluation surplus for actuarial deficits and surpluses	-73,120	-55,900
Other comprehensive income not to be recognised in the income statement in the future	-73,120	-55,900
21. Changes in reserves arising from valuation by fair value	-3,197,820	948,914
24. Total comprehensive income for the period	99,250,190	61,405,608

The accounting guidelines and explanatory notes are a constituent part of the Financial Statements and should be read in connection thereof.

Cash Flow Statement for the Period from 1 January to 31 December 2016

in EUR (without cents)	2016	2015
A. Cash flows from operating activities		
a) Income statement items		
Operating revenues (except from revaluation) and financial revenues from operating receivables	396,265,265	368,696,262
Operating expenses excluding amortisation and depreciation (except from revaluation) and financial expenses from operating liabilities	-79,983,383	-100,145,534
Tax on profits and other taxes excluded from operating expenses	-20,871,158	-20,888,562
	295,410,724	247,662,166
b) Changes in net current assets (and accruals, provisions and deferred receivables and tax liabilities) of operating items in the balance sheet		
Opening minus closing operating receivables	782,477	652,777
Opening minus closing current deferred costs and accrued revenues	231,107	84,849
Opening less closing deferred tax receivables	-143,748	-186,114
Opening minus closing assets (disposal groups) available for sale	5,327	-3,587
Opening minus closing inventories	86,658	96,367
Closing less opening operating debt	-15,666,042	-21,326,512
Closing less opening accrued costs and deferred income and provisions	19,507,127	57,458,315
Closing less opening deferred tax liabilities	113,742	0
	4,916,647	36,776,097
c) Positive or negative cash flow in operations (a + b)	300,327,371	284,438,263
B. Cash flows from investing activities		
a) Cash inflows of investments		
Cash inflows from interest received and shares in profit received relating to investing activities	1,853,531	2,647,589
Cash inflows from disposal of property, plant and equipment	131,445	316,453
Cash inflows from disposal of financial investments	254,510,164	401,099,227
	256,495,140	404,063,269
b) Cash outflows of investments		
Cash outflows for purchase of intangible assets	-790,557	-669,402
Outflows for purchase of property, plant and equipment	-102,987,777	-78,979,997
Cash outflows for purchase of financial investments	-474,367,085	-383,894,390
	-578,145,419	-463,543,788
c) Positive or negative cash flow in investments (a + b)	-321,650,279	-59,480,519
C. Cash flows from financing activities		
a) Cash inflows from financing activities		
Inflows from increase in financial liabilities	414,320,789	97,459,211
	414,320,789	97,459,211
b) Cash outflows from financing activities		
Outflows for interest given related to financing activities	-41,425,369	-49,585,683
Cash outflows for payment of short-term financial liabilities	-349,956,759	-231,710,325
Outflows from dividends paid and profit sharing	0	-31,000,000
	-391,382,128	-312,296,009
c) Positive or negative cash flow in financing (a + b)	22,938,661	-214,836,798
D. Cash and cash equivalents at end of period	13,331,155	11,715,403
x) Net cash in period (sum of Ac, Bc and Cc)	1,615,752	10,120,946
y) Opening cash balance	11,715,403	1,594,457

The accounting guidelines and explanatory notes are a constituent part of the Financial Statements and should be read in connection thereof.

Statement of Changes in Equity for the period from 1 January to 31 December 2016

in EUR (without cents)	I.	II.	
	Called-up capital	Capital surplus	
	1.		
	Share capital		
A.1 Balance as of 31 December 2015	2,319,866,345	26,576,494	
B.2 Total comprehensive income for the reporting period			
a) Entry of net profit or loss for the reporting period			
c) Changes in reserves arising from valuation of financial investments by fair value			
d) Changes in other components of comprehensive income for the reporting period			
B.3 Changes in capital			
a) Allocation of the remainder of net profit of the comparable reporting period to other components of equity			
b) Allocation of a part of net profit of the reporting period to other components of capital under a decision of management and supervisory bodies			
D. Balance as of 31 December 2016	2,319,866,345	26,576,494	
ACCUMULATE PROFIT as at 31 December 2016			

Statement of Changes in Equity for the Period from 1 January to 31 December 2015

in EUR (without cents)	I.	II.	
	Called-up capital	Capital surplus	
	1.		
	Share capital		
A.1 Balance as of 31 December 2014	2,319,866,345	26,428,084	
B.1 Changes in equity capital – transactions with owners			
g) Dividend payment			
B.2 Total comprehensive income for the reporting period			
a) Entry of net profit or loss for the reporting period			
d) Changes in other components of comprehensive income for the reporting period			
B.3 Changes in capital			
a) Allocation of the remainder of net profit of the comparable reporting period to other components of equity			
b) Allocation of a part of net profit of the reporting period to other components of capital under a decision of management and supervisory bodies			
f) other changes in capital			148,410
D. Balance as of 31 December 2015	2,319,866,345	26,576,494	

The accounting guidelines and explanatory notes are a constituent part of the Financial Statements and should be read in connection thereof.

	III. Reserves from profit			V. Reserves arising from valuation by fair value	VI. Retained earnings 1. Net profit from previous periods	VII. Net profit for the year 1. Net profit for the year	Total capital
	1. Legal reserves	4. Statutory reserves	5. Other reserves from profit				
	12,838,795	31,067,581	144,548,447	-4,059,975	13,831,556	21,537,697	2,566,206,940
						102,448,010	102,448,010
				-3,124,700			-3,124,700
				-73,120	-4,109		-77,228
			35,369,254		-13,831,556	-21,537,697	0
	5,122,195	24,330,426	36,495,640		4,109	-65,952,370	0
	17,960,990	55,398,007	216,413,340	-7,257,795	0	36,495,640	2,665,453,020
					0	36,495,640	36,495,640

	III. Reserves from profit			IV. Surplus from revaluation	V. Retained earnings 1. Net profit carried over	VI. Net profit for the year 1. Net profit for the year	Total capital
	1. Legal reserves	4. Statutory reserves	5. Other reserves from profit				
	9,815,960	16,709,116	123,010,749	-5,008,889	15,393,340	25,063,673	2,531,278,379
					-31,000,000		-31,000,000
						60,456,694	60,456,694
				948,914			948,914
					25,063,673	-25,063,673	0
	3,022,835	14,358,465	21,537,697			-38,918,997	0
					4,374,543		4,522,953
	12,838,795	31,067,581	144,548,447	-4,059,975	13,831,556	21,537,697	2,566,206,940

Statement of accumulated profit 2016

in EUR (without cents)	31 December 2016	31 December 2015
A. Net profit or loss for the financial year	102,448,010	60,456,694
B. Profit/loss brought forward	-4,109	13,831,556
C. Increase in revenue reserves by decision of the Management Board		
– Legal reserves	5,122,195	3,022,835
– Statutory reserves	24,330,426	14,358,465
– Other reserves from profit	36,495,640	21,537,697
ACCUMULATED PROFIT 31 December 2016	36,495,640	35,369,254

The net profit from 2016 amounts at EUR 102,448,010. While preparing the Annual Report, DARS d. d. has, according to the Articles of Association of DARS d. d. and Articles 64 and 230 of the CA-1, formed legal reserves in the amount of EUR 5,122,195, statutory reserves in the amount of EUR 24,330,426, and other reserves from profit in the amount of EUR 36,495,640.

The accumulated profit of DARS d. d. as of 31 December 2016 amounts to EUR 36,495,639.63. The General Meeting of DARS d. d. will decide on the allocation of accumulated profit in accordance with the CA-1.

According to Article 69 of the CA-1, the Management Board and the Supervisory Board propose the distribution of the accumulated profits for 2016 in the amount of EUR 36,495,639.63 to other revenue reserves.

II.2. Reporting Company

DARS d. d. is a registered legal entity with its registered office in Slovenia. The address of the registered office of the company is Ulica XIV. divizije 4, 3000 Celje. 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 23 March 2017.

II.3. Important Accounting Policies

Basis for the preparation of the financial statements

The financial statements of DARS d. d., together with notes and disclosures of the most important categories, have been prepared in accordance with the accounting and reporting requirements of the Slovenian Accounting Standards (SAS) and in accordance with the provisions of the CA-1 and the 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 which started on 1 January 2016 and ended on 31 December 2016, i.e. in accordance with the Slovenian Accounting Standards 2016.

The company DARS d. d. has, on 1 January 2016, moved from the SAS 2006 to the SAS 2016. Following this transition, the rights of superficies were re-classified from Intangible Assets to Land. The transition did not have other consequences for the company DARS d. d.

Movement of rights of superficies in 2016:

in EUR (without cents)	RIGHT OF SUPERFICIES	
	Intangible fixed assets	Tangible fixed assets (land)
Purchase price		
Balance as of 31 December 2015	190,810,787	0
Transfer between items	-190,810,787	190,810,787
Coordination		-50,787
Balance as of 31 December 2016	0	190,760,000
Value adjustment		
Balance as of 31 December 2015	14,073,523	0
Transfer between items	-14,073,523	14,073,523
Amortisation		3,926,830
Balance as of 31 December 2016	0	18,000,353
Current value		
Balance as of 31 December 2015	176,737,264	0
Balance as of 31 December 2016	0	172,759,647

The comparable information is in accordance with the disclosures referring to the current reporting period.

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 euros, without cents. Transactions expressed in a foreign currency are converted into euros using the reference exchange rate of the European Central Bank applicable on the

date of receipt. Monetary assets and liabilities expressed in a foreign currency on the balance sheet date are converted to the domestic 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.

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 the estimated ones. Estimates and assumptions are regularly checked. The change in the accounting estimate is used for the future and only affects the period in which the accounting estimate was changed and the later periods.

The obligatory financial statements are compiled for the requirements for 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 obligatory financial statements for general requirements, where the legal requirement for the audit of obligatory financial statements is fulfilled. The audit considers obligatory financial statements as a whole and does not provide an assurance 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 Revenues

Intangible assets comprise investments in acquired industrial property rights (licenses, software).

Intangible assets are initially recognised at purchase value. The purchase price comprises of any costs incurred during purchase and in preparing them for their intended use. After initial recognition, intangible assets are presented at purchase value decreased by the amortised value adjustment.

The company independently determines annual amortisation rates regarding the useful life of an individual intangible fixed asset with a finite useful life.

Intangible assets are presented in the balance sheet as a collective item at their carrying amount, which is the amount at which an asset is recognised after deducting any accumulated amortisation from its cost.

The cost model has been applied for the valuation of intangible assets.

Impairments of assets or cash-generating units are recognised whenever their book values exceed their replacement value. Impairments are shown in the income statement. If the company operates with an adequate profit and within the scope of business plans, no need for impairment exists.

Tangible fixed assets

Tangible fixed assets include land plots, buildings, equipment, and tangible fixed assets in the course of construction. Such assets are presented in the balance sheet as a collective item, by type of assets, at their carrying amount, which is the amount at which an asset is recognised after deducting any accumulated depreciation from its cost. 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 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 which arise after this date and which 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 property, plant and equipment comprises the borrowing costs, connected with the acquisition of property, plant and equipment until it is purposed for use. Borrowing costs:

- interest,
- other company costs, connected with borrowing financial assets.

Borrowing costs which 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 original cost of an item of property, plant, and equipment constructed or produced at the company comprises the direct costs incurred by construction or production, and the indirectly-attributable costs of construction or production.

Repairs or maintenance of property, plant, and equipment is 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.

The cost model is applied for the valuation of property, plant and equipment.

If the cost of the tangible fixed asset is significant, then it can be divided into parts. If the parts have different useful lives and/or usage patterns, which are relevant in relation to the entire cost of the tangible fixed asset, each part is considered separately.

The difference between the net proceeds on disposal and the carrying amount of a company-owned tangible fixed asset item that is disposed of shall be recognised as operating revenue from revaluation if the first exceeds the latter, or as operating expenses from revaluation if the latter exceeds the first.

The company annually verifies the carrying amount of tangible fixed assets 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 amount is considered as the net sales value or its value in use, whichever is greater. The impairment of an asset is recognised when its carrying amount exceeds the recoverable amount. Impairments are shown in the income statement.

If the company justifiably believes that the tangible fixed asset will be sold in the following twelve months, it is re-categorised under non-short-term assets for sale.

According to the CA-1 and the SAS 2016, the company has transferred the right of superficies from Intangible Assets to Land. The comparable information is in accordance with the disclosures referring to the current reporting period.

The right of superficies was established pursuant to the MCRSA-1 for the benefit of DARS d.d. on land owned by the Republic of Slovenia, where motorways are considered as buildings that had been constructed or the construction of which had commenced prior to the enforcement of the MCRSA-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 an annual compensation is paid for it in accordance with the annual implementation contract for the performance of contracts pursuant to Article 4 of the MCRSA-1.

The right of superficies is as one of the rights on real estate initially measured at the purchase value. 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 uses the straight-line amortisation method.

Amortisation

The carrying amount of property, plant, equipment and intangible assets is decreased by depreciation or amortisation. The basis for the assessment of the depreciation of property, plant, and equipment, and the amortisation of intangible assets is the complete 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 base.

The company independently determines annual amortisation rates with regards to the useful life of an individual tangible fixed asset and intangible long-term asset.

The utility period depends on:

- the expected physical use;
- the expected technical ageing;
- the expected economic ageing;
- the expected legal or other use restrictions.

The useful life of an individual asset is the shortest useful life of one of the mentioned factors.

A tangible fixed asset starts to be amortised on the first day of the month following its availability for use. Tangible fixed assets – motorways – begin use on the day the motorway opens for road users, whereby it is not necessary that the investment be concluded or all deficiencies remedied.

The carrying amount of an intangible asset with a final useful life is decreased with amortisation. Amortisation starts when an intangible asset is available for use.

Amortisation of a tangible or intangible fixed asset is calculated for each asset separately, using the straight line method. Land, substructures of motorways, and assets under acquisition are not depreciated.

If the cost of the tangible fixed asset is significant, then it can be divided into parts. If the parts have different useful lives and/or usage patterns, which are relevant in relation to the entire cost of the tangible fixed asset, each part is considered separately.

Amortisation rates for tangible fixed assets and intangible assets

Groups of fixed assets	Key components	Average amortisation rate in 2016
Right of superficies		2%
Motorway superstructures	a) Superstructure (road surface of the motorway route, 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, and other costs	3%
	c) Drainage facilities (sewerage, oil collectors, retention basins, water protection facilities)	6%
	d) Fences (safety fences and crash barriers, anti-noise protection)	6%
	e) Traffic signalisation and traffic equipment (vertical and horizontal signalisation, road illumination, emergency call system, CVP, cable sewage etc.)	6%
	f) Traffic control and management system – electromechanical equipment	11%
	g) Traffic control and management system – building-construction works	6%
Motorway facilities (viaducts, bridges, tunnels, overpasses, underpasses, retaining walls etc.)	a) Construction elements	3%
	b) Tunnel equipment and electromechanical installations	6%
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	3%
Computers and computer equipment		43%
Other equipment		19%
Computer software – tolling system		5%
Computer software – other		33%
Easement		3%

Value Adjustment, which is linked to amortisation, does not appear in relation to:

- Land;
- Tangible fixed assets to the start of calculation of amortisation;
- Tangible fixed assets of cultural, historical, or artistic importance;
- Substructure of motorways, including construction works (preparatory works, ground works), landscaping costs, archaeological excavation costs, costs of building demolition, etc.;
- Other road infrastructure which includes state or municipal roads that are not motorways and were built by DARS d.d. in accordance with NMCP.

The annual amortisation and depreciation of tangible fixed assets and intangible assets of the company represent an operating expense.

Amortisation and depreciation needs to be accounted, even if the asset is no longer in use or has been removed from use, until it is fully amortised.

The costs of amortisation of assets acquired by state support or by donations are compensated in favour of business revenue and according to an appropriate decrease in long-term deferred revenue.

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.

Assets available for sale

Assets available for sale represent tangible fixed assets (land), which meet the conditions for re-categorisation as assets available for sale:

- a) the asset is available for immediate sale in the current condition;
- b) the sale is very likely (the management has adopted the sales plan, the search for the buyer is being carried out);
- c) the asset is actively marketed for sale;
- d) it is expected that the sale will be concluded within one year following the re-categorisation.

It is reasonably anticipated for the carrying amount of assets available for sale that it will be settled mostly due to the sale in the following 12 months (after the date of the balance sheet) and not by further use. The amortisation of an asset is terminated when it is determined as non-current asset available for sale. Such non-current asset available for sale is assessed at carrying amount and at fair value, decreased by the costs of sale, considering which is smaller.

The sale is deemed very likely when the Management Board of the company adopts the decision on the sales plan. The company annually checks, whether the assets continue to meet the criteria for disposal assets. If the asset no longer meets these criteria, the company shall re-categorise it back to tangible fixed assets.

Long-term financial investments

Long-term financial investments are investments that the company plans to own for a period longer than one year and which it does not intend to trade. Long-term financial investments are held by the company to earn returns and thus increase its financial revenue.

Long-term financial investments are initially recognised at cost, i.e. the amount of money or its equivalents invested.

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

Long-term operating receivables

Long-term operating receivables are the receivables which fall due in the period longer than one year. Under the long-term operating receivables, the company reports trade receivables and the long-term receivables for the input VAT for the right of superficies. Based on the annual implementation contract on the execution of contracts on the basis of Article 4 of the MCRSA-1, the short-term part of a long-term liability for the input VAT is transferred to short-term liabilities.

Deferred tax receivables

Deferred tax receivables are recognised for the amounts of profit tax, which will be returned in future periods. Deferred tax receivables are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available, against which the deductible temporary difference can be utilised.

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.

Inventories

The quantity unit of material inventories are valued at purchase price after initial recognition, and the cost comprises the purchase price including all discounts, import duties, and direct purchase costs. The purchase price is reduced by any discounts received.

Inventories shall be managed according to the first-in, first-out (FIFO) method.

The company implements write-offs of inventories if the sale thereof is completely terminated or if they are unmarketable.

If the carrying amount exceeds the historical cost of an item of inventories, a revaluation of inventories is carried out at the year-end.

Short-term financial investments

A short-term financial investment is a financial investment owned by the company for less than one year or an investment purposed for trading.

Derivative financial instruments can be one of the short-term financial investments owned by the company in order to be insured against risks.

Short-term financial investments are initially recognised at cost, i.e. the amount of money invested. A revaluation of short-term financial investments to fair value is carried out during and at the end of the financial year with the established difference posted under financial revenue or financial expenses.

Foreign currency-denominated short-term financial investments are translated 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, trade receivables from operations in foreign markets, interest receivable on short-term sight deposits and financial investments, advances receivable, input VAT receivable, short-term receivables in connection to European funds, and other receivables.

Short-term operating receivables are initially recognised at the amounts indicated in relevant documents, provided their collection can be assumed. Interest is calculated in accordance with the contract on the maturity dates of the short-term receivables and on the balance sheet date. Foreign currency-denominated short-term financial investments are translated into the national currency on the date they are incurred using the reference exchange rate of the European Central Bank.

At the balance sheet date, individual receivables are reassessed on the basis of objective evidence of their collectability. Allowances are set up for doubtful receivables that we believe will not be settled by their due date or in their full amount. Value adjustments of receivables are reported to the benefit of special correction accounts of receivables and charged to operating expenses from revaluation.

The company performs a complete write-off of receivables for which all actions were taken with due diligence to achieve the repayments of receivables or for which it has established that further legal procedures are not economically justified or where a bankruptcy procedure or compulsory settlement has been executed. 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

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

Domestic and foreign currency denominated cash is presented separately. Cash and cash equivalents expressed in the domestic currency are disclosed at their nominal values. Cash denominated in a foreign currency is converted into the national currency using the reference exchange rate of the European Central Bank

applicable on the date of receipt. The balance of cash denominated in a foreign currency is translated into the national currency on the last day of the business year using the reference exchange rate of the European Central Bank, exchange rate differences arising due to the conversion increases financial revenue or financial expenses.

Equity

Capital is the company's liability to its owners that, prior to the company ceasing to operate, matures into payment. The company's capital comprises of called-up capital, capital reserves, reserves from profit (legal reserves, statutory reserves and other reserves from profit), fair value reserves, and undistributed net profit for the financial year.

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

Capital reserves of the company comprise the value of real assets transferred by the Republic of Slovenia to the company upon its transformation for the purpose of motorway operation and maintenance and the general capital revaluation adjustment, which was transferred to capital reserves on 1 January 2006 (at the transition to the SAS 2006), as well as a surplus of assets that represents the difference between the in-kind contribution of the Republic of Slovenia and the value of newly-issued shares of the company and the difference in the merger of the DELKOM, d. o. o. subsidiary.

Legal reserves are set up in accordance with the Companies Act. The company must form legal reserves in the amount of legal and capital reserves defined in points 1 through 3 of Article 64 of the CA-1 that must amount to at least ten per cent of the company's share capital. If the total of the legal and capital reserves defined in points 1 through 3 of Article 64 of the Companies Act do not attain a ten per cent share of the company's share capital in the financial year, five per cent of the net profit must be allocated to legal reserves, reduced by the amount used for covering losses from previous periods in the balance sheet.

The company forms statutory reserves of up to 25 per cent of its share capital. Statutory reserves are formed by using 25 per cent 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 per cent of the share capital. These reserves are not distributable.

Pursuant to the third paragraph of Article 230 of the CA-1, managing and supervisory bodies may at the adoption of the annual report, form other reserves from profit from the amount of net profit remaining after the utilisation of net profit for the purposes as defined in the first paragraph of Article 230 of the CA-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.

Reserves arising from valuation by fair value include the following:

- actuarial gains and losses related to the provisions for severance pay on retirement according to the actuarial calculation and
- effects of changes of the fair value of derivatives, which were classified as successful against risk.

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

Provisions and Long-Term Accrued Costs and Deferred Revenues

Provisions are created for present 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 set up for accrued costs or expenses and are decreased by the amounts of costs or expenses 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 whom 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. These provisions are formed on the basis of an actuarial calculation made by a certified actuary. The calculation is performed for every employee, taking into account the costs of retirement benefits and the cost of all expected jubilee premiums until retirement. At the conclusion of each financial year, the amount of these provisions is examined and increased or decreased accordingly. Payments of retirement severance and jubilee premiums reduce the formed provisions. The income statement shows labour costs and costs of interests; while the re-calculation of post-employment income or non-realised actuarial gains or losses arising from severances is shown in the other comprehensive capital income.

The company forms long-term provisions due to long-term costs calculated in advance for severance pay due to the redundancy of employees working at toll stations that will arise at the introduction of the new tolling system (explained under II.5.1.12) and long-term costs calculated in advance for payments at retirement to employees who are not included in the collective voluntary supplementary pension insurance plan in accordance with the agreement between the unions and the company.

Long-term provisions for long-term accrued costs are also set up with regards to the possible unfavourable outcome of lawsuits related to motorway construction, reconstruction, operation and maintenance as well as labour disputes. Provisions for lawsuits are formed on the basis of an estimate as to the likely outcome of these disputes at the time when the likelihood of a negative outcome for the company exceeds 50 per cent.

Long-term accrued costs and deferred revenue comprise deferred revenue expected to cover estimated expenses in a period of more than one year. Deferred revenues are converted to calculated revenues when the relevant services are performed or when their inclusion in the income statement is justifiable and relevant costs need to be covered.

Long-term deferred revenue also includes earmarked state financial support for the acquisition of fixed assets. The donations are earmarked to cover amortisation charges of fixed assets thusly 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 arising from received government grants for acquisition of fixed assets are utilised by transferring to operating revenue according to the calculated amortisation. Deferred revenue arising from received government grants for covering other costs are utilised by transferring to operating revenue according to the occurrence of costs for whose coverage they were intended

Long-term deferred revenues are formed for assets received from realised guarantees for the rectification of defects, performance guarantees and tender bonds. Realised guarantees are used for covering the costs of realisation purpose or in the case of the realisation of performance guarantees also for the purpose of the guarantee for the rectification of defects during the warranty period.

Long-term deferred revenues have also been shown in the amount co-financed by users of the ABC system, namely third and fourth toll-class vehicles. Deferred revenues relate to warranties granted on the sale of electronic tags. At the end of each accounting period, long-term deferred revenues are restated to the present value of expenditure required to settle the liability. The warranty granted on an ABC system tag is one year from the date of its acceptance. Its useful life is seven years. If an electronic tag is purchased, used and

then returned undamaged within its useful life, the user is entitled to the refund of the proportionate share of the co-financed amount taking into account the un-depreciated amount of the electronic tag. The annual amortisation rate is 14.29%. The claim of refund of a proportionate share of the co-financed amount, taking into account the un-depreciated amount of the electronic tag, and the return of the unused net credit actually paid are possible only on the basis of a written claim with the obligatory statement of the identification number (ID) and the return of the electronic tag and receipt of purchase (or payment of the co-financed amount).

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 which 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 long-term financial investments are translated into the national currency on the date they are incurred using the reference exchange rate of the European Central Bank.

Long-term financial liabilities denominated in foreign currency are translated into the national currency on the last day of the business year using the reference exchange rate of the European Central Bank.

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

The company incurs debt in its name and for its account. The liabilities arising from loans taken out are secured by a guarantee of the Republic of Slovenia.

Long-term liabilities from bonds

Long-term financial investments incurred from issued bonds are initially recognised at cost indicated in relevant documents proving the receipt of funds.

The payment of coupons from issued bonds increase the acquisition value of fixed assets until the fixed asset for which the loan was taken out is acquired. Following the fixed asset being commissioned, the payment of interest 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 MCRSA-1, the short-term part of a long-term liability is transferred to short-term liabilities.

Long-term operating liabilities are recorded in the amount of co-financing of motorway construction by local communities and public utility companies for the purposes of such co-financing parties and, following the construction of such buildings, are transferred by DARS d. d. to individual co-financing parties.

Short-term financial liabilities

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

- the short-term portion of long-term liabilities maturing in the following year;
- weighted interest on 31 December 2016 and accounted interest on 31 December 2016 for loans and bonds issued for motorway construction and reconstruction and weighted interest for derivative financial instruments that were concluded to insure bank loans against changing interest rate risks;
- liabilities from derivative financial instruments.

The company uses derivative financial instruments for protecting cash flow against exposure to interest rate risks.

Since it implemented hedging against risk, the company keeps official documents on the relationship of hedging against risk, the purpose of the company's risk management, the strategy underpinning the project of hedging against risk and on the methods used in assessing the effectiveness of the relationship of hedging against risk. The company assesses hedging against risk using the conventional method and at its implementation when highly successful hedging against risk is expected in achieving offset changes in fair value or cash flows that are attributed to a hedged risk, and when the actual performance of each hedged item is from 80 to 125 per cent. In hedging against risks arising from cash flows, the expected transaction being hedged must be very likely, as well as exposed to cash flow changes that can have a decisive impact on the profit or loss.

Derivative financial instruments are initially recognised at fair value, while the costs arising from the transaction are recognised in the profit or loss upon their occurrence. Following initial recognition, derivative financial instruments are measured at fair value, with the associated changes being evaluated as described below.

Hedging the Cash Flow against Risk

When a derivative financial instrument is set as a hedge against risk in case of exposure to changeable cash flows that can be attributed to individual risks associated with a recognised asset – a liability or a very likely expected transaction that can impact the profit or loss – the successful part of changes in the fair value of a derivative financial instrument is recognised within other comprehensive income for the period and disclosed under reserves for hedging against risk or the equity item. The unsuccessful part of changes in the fair value of a derivative financial instrument is recognised directly within the profit or loss.

The amount recognised in equity is transferred to the profit or loss for the same period in which the item hedged against risk influences the profit or loss. It is expected that the company will stop hedge accounting if the hedging instrument no longer meets the criteria for hedge accounting, if the hedging instrument is sold, cancelled, or exhausted or if the company revokes the designation. If the anticipated transaction can no longer be expected, the amount under other comprehensive income must be recognised directly within the profit or loss.

Short-term operating liabilities

Short-term operating liabilities include short-term liabilities to suppliers, construction contractors (including contractually retained amounts) and third parties; liabilities arising from purchase prices and indemnifications in the acquisition of land; liabilities to employees; and liabilities to state institutions for taxes and contributions. A special type of short-term operating debts is that which includes the liabilities to buyers for acquired advance payments and also for received short-term securities.

Short-term operating liabilities are initially recognised at amounts indicated in relevant documents provided that creditors require for their settlement. Foreign currency-denominated liabilities are translated into the national currency at the date they are incurred using the applicable reference exchange rate of the European Central Bank.

Short-term accrued and deferred items

Accruals and prepaid expenditure include short-term accrued revenues and short-term deferred costs that have been incurred but not yet charged against an entity's activities, and they do not yet affect its profit or loss. Deferred costs and accrued revenue comprise deferred costs of commission to vignette sales agents and deferred costs of vignette printing, which are recognised in the amount equal to the proportionate share of each allowed amount of revenue from the sold vignettes.

Accrued expenses and deferred revenues comprise accrued costs and short-term deferred revenues. Accrued costs are costs that affect the company's profit or loss for the period. The payment obligation is envisaged in the next accounting period. The company also recognises costs associated with rewards for business performance of the Management Board and executives as accrued costs.

Short-term deferred revenue arises when services to be rendered in the future have already been invoiced or even paid. Short-term deferred revenue was formed for revenue from tolls collected in the form of top-ups on electronic toll media (ABC tags, DARS cards and DARS Transporter cards) invoiced and paid in 2016 but not used in the same year. Revenues will be deferred until the service users make toll crossings. Short-term deferred revenue also included revenue from vignettes charged in 2016, which will be valid in 2017, and from half-year vignettes, which will be partly or entirely valid in 2017 (a half-year vignette is valid six months from the date of purchase, and the annual vignette for 2017 is valid from 1 December 2016 until 31 January 2018).

Revenue

Revenue is recognised if it increases in economic benefits during the accounting period if they can be reliably measured and are associated with an increase in assets or decrease in liabilities. 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 occurrence of revenue.

Revenue includes sales values of goods and services sold in the relevant period. Revenue is recognized without value added tax, other taxes, and potential sale-related discounts.

Revenues are classified into operating revenues, financial revenues, and other revenues.

Operating revenues comprise the following:

- tolls collected;
- rentals paid by various service providers to use motorway service areas;
- revenue from motorway closures and exceptional freight transports;
- revenue from easements for the installation of facilities and devices of public importance alongside motorways;
- revenue from telecommunications;
- revenue pursuant to performance contracts;
- 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 material, the direct labour costs and other costs that can be directly attributed to the goal of preparing the asset for use.

Other operating revenues related to operating effects are subsidies, grants, holiday allowances, compensations, premiums, and similar revenues. State support received for the acquisition of fixed assets or coverage of certain costs temporarily remain among the deferred operating revenues and are transferred to operating revenues in accordance with the depreciation of the acquired fixed assets or the occurrence of costs for whose coverage they were intended.

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 calculated 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.).

Expenditure

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 classified as operating expenses, financial expenses, and other expenses.

Operating expenses are recognised once the materials are consumed or the service is rendered, for the period to which they relate. The company's operating expenses include expenses associated with motorway construction, reconstruction, management and maintenance and consist of the following:

- costs of materials and cost of goods sold;
- costs of services;
- labour costs;
- write-offs (disclosures connected to calculated amortisation are shown among disclosures of intangible assets and property, plant and equipment);
- other operating expenses.

Financial expenses comprise interest expenses from received loans and issued bonds, expenses from derivatives used to insure against financial risks, foreign exchange losses, default interest, and impairment of financial investments. Financial expenses are recognised when accrued, regardless of related payments.

Other expenses comprise unusual items that decrease the profit or loss for the period. Other operating expenses are comprised of the following:

- 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. Income tax is payable on the taxable profit generated during the tax period and for 2016 comprised 17 per cent.

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 to the extent that it is probable that future taxable profits will be available, against which a deferred tax asset can be utilised.

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 of 31 December 2015 and 31 December 2016, the Income Statement for 2016, and additional information required for adjustment of inflows and outflows.

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

II.4. 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.

By managing various types of financial risks, the company endeavours to attain maximum stability of operations and to 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.

Cons. no.	Description of risk	Assessed risk			Risk management (controls)
		Probability of risk emergence	Consequences of risk occurrence	Degree of risk	
1	2	3	4	5 = 3 x 4	6
1	Risk of changes in exchange rates	1	1	1	Use of natural protection by matching cash flow, regular monitoring of currency markets, hedging with appropriate financial instruments
2	Risk of changes in interest rates	3	3	9	Monitoring interest rate fluctuations, negotiations with credit institutions, hedging with appropriate financial instruments
3	Credit risk	2	3	6	Monitoring and regular analysis of the company's credit portfolio
4	Credit risk of business partners	2	2	4	Monitoring exposure to an individual partner
5	Liquidity risk	2	2	4	Planning needs for liquid funds, previously agreed loan facilities and overdrafts

Likelihood of risk: 1 – low, 2 – medium, 3 – high

Consequences: 1 – good, 2 – mediocre, 3 – bad

Risk of changes in exchange rates

A majority of transactions at DARS d. d. are carried out in euros. Payment at toll stations is possible in foreign currencies; these are then converted to the euro immediately. Despite this, the company regularly monitors the situation in the currency markets.

Risk of changes in interest rates

DARS continuously monitors its exposure to interest rate risk. On 31 December 2016, the company had 39 long-term loans that were partly or entirely linked to the reference interest rate EURIBOR (6-month or 3-month rates).

The average value of EURIBOR in 2016 and at the end of 2016 was lower than at the end of 2015. In 2016, the 6-month EURIBOR rate fluctuated between –0.04 and –0.22 per cent. The European Central Bank's key interest rate, on 31 December 2016, was 0 per cent. The overall interest rate for DARS borrowings (average weighted interest rate), on 31 December 2016, amounted to 1.60% and was lower than at the end of 2015 (1.77%).

Part of the variable interest rate of long-term loans is hedged by 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 market situation. In the period from 1 January to 31 December 2016, we have concluded two new hedging transactions to protect against interest rate risks, each in the amount of EUR 50 million for the period of ten years, whereby the total value amounts to EUR 100 million.

On 31 December 2016, 56.60 per cent of the company's loans were based on a fixed interest rate and 42.28 per cent on a variable interest rate, while 1.12 per cent comprised interest-free debt. If interest-free debt is taken into account, 57.7% of the company's credit portfolio is protected against interest rate risks, while 42.3 per cent of it is exposed to the variable interest rate.

A simulation of the influence of interest rate changes on financial expenses in 2016, considering the debt of DARS d. d. and the interest rate structure on 31 December 2016, shows that an increase of EURIBOR by one percentage point would present an increase in financial expenses of approximately EUR 10.8 million annually. This means that changes in the EURIBOR rate have a major impact on the company's net profit or loss.

Refinancing from 2015 was finalised at the end of February 2016 with early repayment of loans with non-favourable interest rates in the total amount of EUR 139.2 million. In order to refinance a part of its existing debt in 2016, DARS d. d. concluded two new loan contracts for a total of EUR 130 million at a fixed interest rate at the end of December.

Credit risk

Credit risk of business partners is the possibility that receivables are repaid only partially or not at all. DARS d. d. regularly monitors outstanding receivables from individual business partners and, if necessary, takes appropriate action. This risk exists in connection with the sale of vignettes through sales agents, the issuers of payment cards that can be used to pay tolls at toll stations and the payment of tolls for vehicles over 3,500 kg using electronic media where payment is made for the previous month on the basis of an issued monthly invoice. Hedging instruments are required for a certain segment of business partners. Individual procedures for monitoring the credit ratings of business partners have been instituted (at each extension of contract; 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 (toll) and goods supply (vignettes), contract termination); in case of payment delays, debt recovery procedures are activated.

Liquidity risk

In 2016, risks linked to solvency were reduced through effective liquidity management and the formation of a highly liquid investment portfolio. The ability to make borrowings for refinancing existing debt is extremely important as the annual debt repayment obligations will consume a majority of the company's operating cash flow until 2021. April 2015 saw the adoption of the Debt Restructuring Framework Act (the 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 RS, No. 30/15)). This act enables DARS d. d. to actively manage its existing debt and restructure its loan portfolio as well as ensures that it can provide on time the necessary sources of funding to settle the matured liabilities arising from the existing debt. The company can make borrowings for debt refinancing with a 100% guarantee of the Republic of Slovenia. On the basis of this act, the company was able to refinance a part of its existing debt in the amount of EUR 130 million in 2016. Additionally, the company concluded two annexes to the current loan contracts for rescheduling of two loans in the amount of EUR 312 million. The company assesses liquidity risk as moderate.

Its basic source of funds for the repayment of obligations arising from loans in accordance with the MCRSA-1 includes revenue from toll collection, the amount of which also is sufficient to cover obligations arising from loans. However, the credit portfolio is monitored increasingly diligently, since negative changes in financial markets can rapidly and significantly change the amount of annual obligations arising from loans. Therefore, it is important for DARS d. d. to enforce a tolling system in Slovenia that maximises revenue from tolls and enables the motorway operator to manage these revenues with the lowest possible costs.

II.5. Notes to the Financial Statements

II.5.1. Explanatory Notes to the Balance Sheet

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

The company's intangible assets comprise of computer software and the easement.

According to the CA-1 and the SAS 2016, on 1 January 2016, the company moved right of superficies in the total carrying amount of EUR 176,737,264 from Intangible Assets to Tangible Assets (land). The comparable information is in accordance with the disclosures referring to the current reporting period.

Overview of Intangible Asset Movement in 2016

in EUR (without cents)	Plant, property and equipment under construction	Software	Total
Purchase price			
Balance as of 31 December 2015	15,600	8,529,584	8,545,184
Purchases	790,557	0	790,557
Activation	-784,607	784,607	0
Eliminations (divestments, write-offs)	0	-53,094	-53,094
Balance as of 31 December 2016	21,550	9,261,097	9,282,647
Value adjustment			
Balance as of 31 December 2015	0	7,444,947	7,444,947
Amortisation	0	616,930	616,930
Eliminations (divestments, write-offs)	0	-53,094	-53,094
Balance as of 31 December 2016	0	8,008,783	8,008,783
Current value			
Balance as of 31 December 2015	15,600	1,084,637	1,100,237
Balance as of 31 December 2016	21,550	1,252,314	1,273,864

Movement of intangible assets in 2015

in EUR (without cents)	Plant, property and equipment under construction	Software	Total
Purchase price			
Balance as of 31 December 2014	23,070	7,884,636	7,907,706
Purchases	667,022	0	667,022
Activation	-674,492	674,492	0
Increase upon the merger of DELKOM d. o. o.	0	2,400	2,400
Eliminations (divestments, write-offs)	0	-31,945	-31,945
Balance as of 31 December 2015	15,600	8,529,583	8,545,183
Value adjustment			
Balance as of 31 December 2014	0	7,019,289	7,019,289
Increase upon the merger of DELKOM d. o. o.	0	20	20
Amortisation	0	457,582	457,582
Eliminations (divestments, write-offs)	0	-31,945	-31,945
Balance as of 31 December 2015	0	7,444,946	7,444,946
Current value			
Balance as of 31 December 2014	23,070	865,347	888,417
Balance as of 31 December 2015	15,600	1,084,637	1,100,237

Major additions to intangible assets in 2016:

- upgrade of the DARS d. d. Project Information System in the amount of EUR 164,528;
- upgrade of the software for the toll collection system in the amount of EUR 96,145;
- upgrade of software for the supervision and sale of vignettes in the amount of EUR 27,600;
- upgrade of the system support software for the TIS infrastructure in the amount of EUR 12,560;
- upgrade of the software for the road database in the amount of EUR 28,280;
- upgrade of the system for electronic management and archiving of documents in the amount of EUR 89,807;
- upgrade of information support for KAŽIPOT II for informing and monitoring the traffic situation in the amount of EUR 236,555;
- upgrade of the NAVISION software in the amount of EUR 54,607;
- upgrade of the GIS application in the amount of EUR 74,525.

As of 31 December 2016, 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 obligations for intangible assets on 31 December 2016, amount to EUR 106,935 and are mainly related to purchase of software and licences, software development, and system software upgrade.

II.5.1.2. Tangible fixed assets

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, and rights on real estate.

According to the CA-1 and the SAS 2016, on 1 January 2016, the company moved right of superficies in the total carrying amount of EUR 176,737,264 from Intangible Assets to Tangible Assets (land). The comparable information is in accordance with the disclosures referring to the current reporting period.

The right of superficies was established pursuant to the MCRSA-1 for the benefit of DARS d. d. on land owned by the Republic of Slovenia, where motorways are considered as buildings that had been constructed or the construction of which had commenced prior to the enforcement of the MCRSA-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 an annual compensation is paid for it in accordance with the annual implementation contract for the performance of contracts pursuant to Article 4 of the MCRSA-1.

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

On 29 February 2016, a certified real estate appraiser has upon the request of the Ministry of Infrastructure amended the report on assessed value of the compensation for the establishment of the right of superficies on 31 May 2012, which now equals EUR 190,760,000 excluding VAT. DARS d. d. has performed the adjustment of the right of superficie value to the new assessed value, which is now EUR 50,787 lower than previously estimated.

Buildings comprise motorways (understructure, superstructure, buildings, road infrastructure – other operators) and other facilities (motorway bases, toll stations, business premises in Celje, vacation accommodation units, 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 presenting the purchase value of the motorway understructure and superstructure, is presented in the chapter Accounting Policies.

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

The company divides the cost of property, plant and equipment to significant parts of the property, plant and equipment in accordance with the SAS. If the parts have different utility periods and/or usage patterns, which are relevant in relation to the entire cost of the tangible asset, each part is considered separately.

Under the MCRSA-1, the company owns the building in Dragomelj, where the Ljubljana Regional Traffic Control and Management Centre and the Traffic Information Centre operate. According to the Roads Act (Official Gazette of the Republic of Slovenia, No. 48/12 of 26 June 2012), the Dragomelj building is also going to house the National Traffic Management Centre (NTMC). Pursuant to the Roads Act and based on the contract between DARS d. d. and the Republic of Slovenia, all equipment and real estate necessary for the performance of the tasks under Article 104 of this Act shall be transferred to the NTMC. The contract that will regulate the mutual relationships is not yet finalised, which is why there is still some ambiguity regarding the transfer and ownership of the relevant equipment and real estate. The company is in negotiations regarding these relationships with the Ministry of Infrastructure.

Major acquisitions and activation of property, plant and equipment in 2016 comprised the following:

- investments into motorways and other buildings in the amount of EUR 58,313,150;
- purchase of machinery, devices and connectors in the amount of EUR 2,652,405;
- purchase of work, cargo and trailer vehicles in the amount of EUR 1,619,916;
- purchase of office and other supplies in the amount of EUR 97,625;
- purchase of computer equipment in the amount of EUR 242,467;
- purchase of personal and combined vehicles in the amount of EUR 431,670;
- upgrade of the electro-mechanical equipment of the traffic control and management system in the amount of EUR 230,113;
- upgrade of video surveillance in the amount of EUR 3,170.

No property, plant, and equipment of DARS d. d. were pledged as security for liabilities as of 31 December 2016. Loans and bonds issued for the financing of property, plant and equipment of DARS d. d. are secured by a guarantee of the Republic of Slovenia.

Movement of Tangible Fixed Assets in 2016

in EUR (without cents)	Land		Motorways (substructures, superstructures, facilities, road infrastructure – other operators)	Buildings (bases, TS, administration building in Celje, holiday units, apartments, etc.)	Equipment and small tools	Property, plant and equipment under construction	Total
	Land	Right of superficies					
Purchase price							
Balance as of 31 December 2015	31,785,479	190,810,787	5,505,355,092	76,973,919	118,177,868	141,789,655	6,064,892,800
Purchases in 2016	0	0	0	0	0	103,038,564	103,038,564
Transfer between items	22,183	-50,787	0	0	0	0	-28,604
Activation	79,001	0	57,858,380	375,769	5,277,365	-63,590,515	0
Eliminations in 2016 (divestments, write-offs)	-23,696	0	0	-83,690	-1,452,961	-59,247	-1,619,594
Balance as of 31 December 2016	31,862,967	190,760,000	5,563,213,472	77,265,998	122,002,272	181,178,457	6,166,283,166
Value adjustment							
Balance as of 31 December 2015	0	14,073,523	669,370,010	12,005,855	100,074,647	0	795,524,035
Amortisation in 2016	0	3,926,830	141,869,052	2,344,440	5,349,594	0	153,489,916
Eliminations in 2016 (divestments, write-offs)	0	0	0	-67,550	-1,434,242	0	-1,501,792
Balance as of 31 December 2016	0	18,000,353	811,239,062	14,282,745	103,989,999	0	947,512,159
Current value							
Balance as of 31 December 2015	31,785,479	176,737,264	4,835,985,082	64,968,064	18,103,221	141,789,655	5,269,368,765
Balance as of 31 December 2016	31,862,967	172,759,647	4,751,974,410	62,983,253	18,012,273	181,178,457	5,218,771,007

Movement of Tangible Fixed Assets in 2015

in EUR (without cents)	Land		Motorways (substructures, superstructures, facilities, road infrastructure – other operators)	Buildings (bases, TS, administration building in Celje, holiday units, apartments, etc.)	Equipment and small tools	Property, plant and equipment under construction	Total
	Land	Right of superficies					
Purchase price							
Balance as of 31 December 2014	31,827,375	190,810,787	5,357,190,756	76,102,230	117,277,156	216,855,714	5,990,064,018
Purchases in 2015	0	0	0	0	0	78,985,639	78,985,639
Activation	0	0	148,142,019	871,689	4,936,120	-153,949,828	0
Increase upon the merger of DELKOM d. o. o.		0	22,318	0	27,314	0	49,632
Eliminations in 2015 (divestments, write-offs)	-41,896	0	0	0	-4,062,722	-101,870	-4,206,488
Balance as of 31 December 2015	31,785,479	190,810,787	5,505,355,093	76,973,919	118,177,868	141,789,655	6,064,892,801
Value adjustment							
Balance as of 31 December 2014	0	10,146,028	531,504,499	9,685,383	99,100,868	0	650,436,778
Increase upon the merger of DELKOM d. o. o.	0	0	1,727	0	8,865	0	10,592
Amortisation in 2015	0	3,927,495	137,863,783	2,320,472	5,001,531	0	149,113,281
Eliminations in 2015 (divestments, write-offs)	0	0	0	0	-4,036,616	0	-4,036,616
Balance as of 31 December 2015	0	14,073,523	669,370,009	12,005,855	100,074,648	0.00	795,524,035
Current value							
Balance as of 31 December 2014	31,827,375	180,664,759	4,825,686,257	66,416,848	18,176,288	216,855,714	5,339,627,241
Balance as of 31 December 2015	31,785,479	176,737,264	4,835,985,084	64,968,064	18,103,220	141,789,655	5,269,368,766

II.5.1.3. Long-term operating receivables

Long-term receivables to buyers are in the amount of EUR 30,754 related to receivables due to the confirmation of the compulsory settlement of T-2 d. o. o.

Long-term receivables to others are in the amount of EUR 25,937,401, related to the long-term part of receivables for input VAT from the compensation for the establishment of the right of superficies. Until 31 December 2015, DARS d. d. has managed long-term operating liability arising from the right of superficies in net amount. In 2016, the company has increased the long-term liability for the amount of VAT to coordinate the accounting aspect of the right of superficies with the Ministry of Infrastructure.

The comparable information is in accordance with the disclosures referring to the current reporting period.

II.5.1.4. Deferred tax receivables

Movement of deferred tax receivables in 2016:

in EUR (without cents)	31 December 2015	Recognised in the Income Statement	Recognised in the other comprehensive income statement	31 December 2016
Retirement and anniversary bonus provision	229,542	91,631	0	321,173
Provisions for redundancies	36,464	-1,979	0	34,486
Provisions for civil claims	1,432,056	-1,428,452	0	3,604
Provisions for electronic tags	9,928	-6,098	0	3,831
Cash flow hedging related to interest swaps	797,898	0	962,586	1,760,484
Revaluation of receivables	2,700,592	362,119	0	3,062,711
Fixed assets	150,525	163,941	0	314,466
Total	5,357,006	-818,838	962,586	5,500,753

Deferred corporate tax assets and liabilities are calculated based on temporary differences using the balance sheet liability method according to the tax rate for income of legal entities in the following years. In the reported period, income of legal entities is taxed with a 17% tax rate (2015: 17%). In 2016, the Act Amending the Corporate Income Tax Act (ZDDPO-2N) (Official Gazette of RS no. 68/2016) was adopted, which will enter into force on 1 January 2017, raising the tax rate to 19%. In 2016, the company recalculated deferred taxes to the 19% rate.

II.5.1.5. Assets available for sale

Short-term assets include property, plant and equipment in the amount of EUR 160,691, which are available for sale. These assets refer solely to real estate.

II.5.1.6. Inventories of materials

Material inventories include inventories of material, spare parts, small tools and packaging. In comparison with the balance as at 31 December 2015, the material inventories decreased by 3%. Inventories of materials with an 81 per cent share represent the major share in the structure of inventories, whereas inventories of gritting materials account for 35 per cent and inventories of vignettes for 2017 for 11 per cent of the total inventories of materials.

in EUR (without cents)	31 December 2016	Share	31 December 2015	Index
Materials	2,607,975	81%	2,755,783	95
Spare parts	293,899	9%	266,484	110
Piece inventory and packaging	299,212	9%	268,876	111
Total	3,201,086	100%	3,291,143	97

The sale of vignettes for 2016 for personal and motor vehicles concluded on 30 November 2016. In accordance with the SAS 4.41, inventories of unsold vignettes for 2016 were written off and charged against operating expenses for revaluation in the amount of EUR 88,978, which represents the amount of cost of vignettes.

During the annual material stocktaking and the stocktaking of small tools, the company discovered deficits amounting to EUR 16,448 and surpluses amounting to EUR 84,318.

No inventories of DARS d. d. were pledged as security for liabilities as of 31 December 2016. The book value of inventories does not exceed their recoverable value. The inventories of the company represent current inventories.

The inventories are not out-dated and do not show signs of impairment therefore no impairment was implemented.

II.5.1.7. Short-term financial investments

Other short-term financial investments in the amount of EUR 598,641 refer to receivables arising from the valuation of derivative financial instruments on 31 December 2016.

Derivative financial instruments are disclosed in detail under the explanatory note on short-term financial liabilities.

As of 31 December 2016, short-term financial investments to others equalled EUR 366,192,872, which includes the following:

- short-term deposits with banks in the amount of EUR 366,100,000, with an average maturity of 308 days and average 0.11% weighted interest rate;
- a short-term overnight deposit with a bank in the amount of EUR 92,872, with 0.01 per cent interest rate.

Short-term financial investments are not exposed to credit risk, or there is only a minimum risk that the counterparty would not fulfil its obligations, since the company invests its liquidity surpluses of assets in bank deposits in the Republic of Slovenia. The carrying amount of the short-term financial investments in others corresponds to their fair value.

II.5.1.8. Short-term operating receivables

in EUR (without cents)	31 December 2016	Share in %	31 December 2015	Index
Short-term trade receivables	14,002,577	31%	14,321,336	98
– toll receivables	13,038,394	29%	12,298,275	106
– receivables from the use of motorway service areas	355,495	1%	471,334	75
– receivables from motorway closures	236,982	1%	251,469	94
– other short-term receivables	1,745,701	4%	2,729,674	64
– revaluation of short-term trade receivables	-1,373,995	-3%	-1,429,417	96
Short-term trade receivables due from others	30,899,525	69%	28,584,285	108
– advances receivable for operating current assets	18,066	0%	2,846	635
– short-term receivables from operations for foreign accounts	41,605,491	93%	36,801,604	113
– short-term receivables from operations for foreign account	-14,434,530	-32%	-14,434,530	100
– short-term receivables from financial revenue	139,265	0%	63,708	219
– value adjustment of short-term receivables from financial revenue	-24,167	0%	-21,887	110
– input VAT receivables	3,285,544	7%	3,679,474	89
– other short-term receivables due from state institutions	61,410	0%	2,256,987	3
– other short-term receivables	535,286	1%	236,083	227
– adjustment of value of other short-term receivables	-286,839	-1%	0	–
Total	44,902,102	100%	42,905,620	105

The majority share of short-term operating receivables represents receivables from the Republic of Slovenia totalling EUR 20,443,637, which are related to operations for foreign accounts for transactions from Article 4 of the MCRSA-1 equalling EUR 19,516,279 and fees from performance contracts in the amount of EUR 927,358, and receivables due from domestic commission agents and foreign sales agents in the amount of EUR 22,019,533. Twenty-four per cent of all short-term operating receivables represent trade receivables for tolls, while the remainder comprises other short-term receivables.

DARS d. d. performs business operations on behalf of, and on account of, the state on the basis of Article 4 of the MCRSA-1. These transactions are recorded in accounting ledgers as transactions for foreign accounts. This refers to tasks connected to spatial planning and the siting of motorways and the acquisition of real estate required for the construction of motorways, which the company performs in accordance with performance contracts. DARS d. d. records receivables due from the Republic of Slovenia for implemented transactions. The funds for such transactions are guaranteed from the budget of the Republic of Slovenia in accordance with Article 10 of the MCRSA-1.

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

in EUR (without cents)	Un-matured	Up to 60 days	Over 60 days	Total
Short-term operating receivables trading for third party accounts				
Short-term operating receivables trading for third party accounts	19,073,689	5,854,513	16,677,289	41,605,491
Formed adjustments of value of receivables from operations for foreign account	0	0	-14,434,530	-14,434,530
Short-term trade receivables				
Short-term trade receivables	13,835,819	64,192	1,476,560	15,376,572
Formed adjustments of value of trade receivables	0	0	-1,373,995	-1,373,995

No inventories of DARS d. d. were pledged as security for liabilities as of 31 December 2016. Short-term operating receivables of DARS d. d. represent the company's current receivables and are in the amount of EUR 22,656,900 insured with bank guarantees and enforcement drafts.

In 2016, the company formed an adjustment of value for short-term operating receivables in the amount of EUR 378,890.

in EUR (without cents)	31 December 2016	31 December 2015
Situation on 1 January	15,885,834	15,946,413
Write-offs	130,046	0
Reversal of adjustments	15,146	107,275
Formation	378,890	46,696
Total	16,119,532	15,885,834

Evaluation method in the formation of adjustments of receivable value was not changed in 2016.

On 31 December 2016, the company had a formed adjustment of value of short-term receivables from the Republic of Slovenia in the following amounts:

- EUR 14,434,530 from receivables from the Republic of Slovenia and linked to operations for foreign accounts described in Article 4 of the MCRSA-1 and conducted in 2010;
 - EUR 801,718 from receivables for compensation according to the performance contract for 2010.
- For these receivables from 2010, the company filed legal action against the Republic of Slovenia.

As of 31 December 2016, the company still believes that it is entitled to those receivables, but because the State did not acknowledge these receivables, and also based on their maturity, the company made, as a precaution, an adjustment to the value of the total amount of receivables in 2011.

II.5.1.9 Cash

in EUR (without cents)	31 December 2016	Share	31 December 2015	Index
Cash in banks	2,376,905	18%	906,665	262
Call deposits	10,000,000	75%	10,000,000	100
Cash on hand and cheques received	1,246	0%	2,635	47
Cash in toll booths	375,060	3%	354,500	106
Cash in transit	577,944	4%	451,603	128
Total cash and cash equivalents	13,331,155	100%	11,715,403	114

The item "cash in transit" comprises tolls not yet deposited into the company's transaction account. Upon taking the annual inventory of cash in transit from collected tolls on 30 November 2016, the company reconciled the balance in the books of account with the actual balance.

II.5.1.10. Current deferred costs and accrued revenues

Deferred costs and accrued revenue amounting to EUR 758,120 comprise short-term deferred costs that will be charged against profit or loss in future accounting periods.

Included are the short-term deferred costs of commission fee to sales agents based on the value of vignettes sold, in the amount of EUR 380,903 and short-term deferred costs for the lease of Microsoft licensed software in the amount of EUR 264,714.

II.5.1.11. Equity

The movement in equity is shown in the Statement of Changes in Equity for the period from 1 January 2016 to 31 December 2016 in which the reasons for changes in equity items are evident.

According to the CA-1 and the SAS 2016, on 31 December 2015, by 1 January 2016, the company re-categorised surplus from revaluation in the Balance Sheet and the Statement of Changes in Equity from the item Surplus from revaluation to item Reserves arising from valuation by fair value. The comparable information is in accordance with the disclosures referring to the current reporting period.

Share capital

The company's share capital amounts to EUR 2,319,866,345 and is distributed to 55,592,292 ordinary registered shares owned by the Republic of Slovenia. The book value of a share on 31 December 2016 was EUR 47.95. It is calculated as a ratio between the total value of capital and 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 liquidation or bankruptcy of the company.

Capital surplus

Capital reserves of the company in the amount of EUR 26,576,494 comprise the value of real assets transferred by the Republic of Slovenia to the company upon its transformation for the purpose of motorway operation and maintenance (equalling EUR 26,202,240) and the general capital revaluation adjustment, which was transferred to capital reserves (EUR 225,817) on 1 January 2006 (at the transition to the SAS 2006), as well as a surplus of assets which represents the difference between the in-kind contribution of the Republic of Slovenia and the value of newly-issued shares of the company (EUR 27) and the difference in the merger of the DELKOM, d.o.o. subsidiary in 2015 in the amount of EUR 148,410.

Reserves arising from valuation by fair value

Reserves arising from valuation by fair value in the amount of EUR –7,257,795 refer to the following:

- Changes in the revaluation surplus for actuarial deficits and surpluses
Actuarial deficits and surpluses include changes in the present value of liabilities to employees due to changes in actuarial assumptions. At the end of 2016, revaluation surplus was EUR 237,475.
- The change in the fair value of a derivative instrument for hedging against interest rate change risk, including changes in the value of derivative financial instruments used as cash flow protection that are shown in the statement of comprehensive income; at the end of 2016 these (less deferred tax assets) equalled EUR 7,020,320. Derivative financial instruments are disclosed in detail under the guidelines and explanatory notes on short-term financial liabilities.

In 2016, the reserves resulting from valuation by fair value were decreased by EUR 3,197,820. Movements in individual components of the surplus in 2016 are shown in the Statement of Other Comprehensive Income for 2016.

Net profit carried over

At the 10th session of the DARS d.d. General Meeting, on 29 August 2016, shareholders adopted a resolution on the use of accumulated profit in 2015 in the amount of EUR 35,369,253.69, which was following the resolution allocated to other revenue reserves.

Other changes of the retained net profit of EUR 4,109 include the decrease in the retained net profit, which is linked to the transfer of the proportionate share of actuarial losses tied to the consumption of provisions for retirement benefits.

Net profit for the year

The net profit from 2016 amounts at EUR 102,448,010. While preparing the Annual Report, DARS d.d. has, according to the Articles of Association of DARS d.d. and Articles 64 and 230 of the CA-1, formed legal reserves in the amount of EUR 5,122,195, statutory reserves in the amount of EUR 24,330,426, and other reserves from profit in the amount of EUR 36,495,640.

II.5.1.12. Provisions and Long-Term Accrued Costs and Deferred Revenue

Movement of Provisions and Long-Term Accrued Costs and Deferred Revenue in 2016

in EUR (without cents)	Balance as of 31 December 2015	Implementation in 2016	Reversal in 2016	Additional creation in 2016	Balance as of 31 December 2016
Provisions for retirement benefits	1,712,092	57,504	0	388,481	2,043,069
Provisions for jubilee premiums	734,967	99,818	0	583,847	1,218,995
Provisions for voluntary supplementary pension insurance	37,257	4,237	0	1,102	34,123
Provisions for claims related to motorway operation and maintenance	0		0	72,256	72,256
Provisions for employment-related claims	496,101	17,803	0	35,805	514,104
Provisions for claims related to construction and reconstruction	48,447,799	2,592,491	17,875,350	3,884,664	31,864,621
Provisions for severance pay related to toll-system change	428,992		65,986	0	363,006
Free of charge acquisition of fixed assets	173,085	8,142	0	79,001	243,944
Return of ETC tags	116,805	801	75,679	0	40,325
Lease of optical fibres	423,809		70,419	131,071	484,462
Cashed-in guarantees	9,183,415	1,118	0	2,849,793	12,032,089
State subsidies received	104,785,825	3,352,884	0	33,058,297	134,491,238
Total	166,540,148	6,134,799	18,087,434	41,084,316	183,402,232

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 conclusion 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 2016 was performed for each employee so that it took into account the costs of retirement benefits and the cost of all 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 one per cent considering the average maturity in the company, i.e. 15.6 years;
- The currently valid 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 one per cent 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, determined by sex;
- Future long-term nominal increase of wages – one per cent annually.

Based on an actuarial calculation, provisions were set up on 31 December 2016 for jubilee premiums in the amount of EUR 1,218,995 along with provisions for retirement benefits in the amount of EUR 2,043,069.

The company joined the collective voluntary supplementary pension insurance scheme in 2006. In accordance with an agreement concluded with trade unions, all of the company's employees were entitled to join this scheme, except those being 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 formed long-term provisions for this reason, which equal EUR 34,123 on 31 December 2016.

The company presented provisions in the amount of EUR 31,864,621 for lawsuits in connection with claims relating to construction and reconstruction, EUR 72,256 for lawsuits in the field of motorway management and maintenance, and EUR 514,104 for claims arising from employment relationships. In 2016, the provisions decreased in the total amount of EUR 16,492,919. Certain lawsuits for which in the recent year's provisions were formed, were in 2016, favourably resolved for the benefit of DARS; therefore in 2016, the provisions were reversed in the amount of EUR 17,875,350.

In previous years, the company set up long-term provisions for long-term accrued costs related to employment relationships that would arise upon the transition from the electronic toll collection to the free-flow traffic system. The electronic toll collection system, where motorway users pay fees for the use of motorways according to the distance travelled, is the final vision and objective of the toll collection system in the Republic of Slovenia. The Government of the Republic of Slovenia adopted the Action Plan for the Introduction of ETC and FTF on 26 November 2009. In June 2012, the Ministry of Infrastructure and Spatial Planning engaged DARS d. d. to implement all necessary activities on the basis of which Slovenia would transition in the upcoming years to ETC in FTF for vehicles with a maximum permissible weight over 3,500 kg. A reassessment of the required long-term provisions for restructuring the toll division was carried out on 31 December 2016, and based on the Restructuring Plan, the company adopted a resolution on the reconciliation of long-term provisions formed for severance payments for redundant employees with an assessment of envisaged costs in the amount of EUR 363,006.

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 which serve to cover the costs of depreciation of the holiday facilities with furnishings and apartments throughout their service lives. On 31 December 2016, the free of charge acquisitions of fixed assets equalled EUR 243,944.

Long-term deferred revenues have also been shown in the amount co-financed by users of the ABC system, namely, third and fourth toll class vehicles. Deferred revenues relate to warranties granted on the sale of electronic tags. At the end of each accounting period, long-term deferred revenues are restated to the present value of expenditure required to settle the liability. The warranty granted on an ABC system tag is one year from the date of its acceptance. Its useful lifespan is seven years. If an electronic tag is purchased, used and then returned undamaged within its useful lifespan, the user is entitled to the refund of the proportionate share of the co-financed amount taking into account the un-depreciated amount of the electronic tag. The annual amortisation rate is 14.29%. The claim of refund of a proportionate share of the co-financed amount taking into account the un-depreciated amount of the electronic tag and the return of the unused net credit actually paid are only possible on the basis of a written claim with the obligatory statement of the identification number (ID) and the return of the electronic tag and receipt of purchase (or payment of the co-financed amount). On 31 December 2016, long-term deferred revenues in the amount of EUR 40,325 (the buyers of ETC tags are entitled to return them within seven years from the date of purchase) were formed for the settlement of contingent liabilities arising from the return of purchase money upon a possible return.

The company also shows long-term deferred revenue from advance purchases of optic fibres by users in the amount of EUR 484,462 among long-term accrued costs and deferred revenue.

In 2016, the company formed long-term deferred revenues for assets received from realised guarantees for the rectification of defects, performance guarantees, and tender bonds. Realised guarantees are used for covering the costs of realisation purpose or in the case of the realisation of performance guarantees also for the purpose of the guarantee for the rectification of defects during the warranty period. On 31 December 2016, the realised guarantees equalled EUR 12,032,089.

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 from, and in accordance with, the EU Cohesion Fund, the TEN-T and CROCODILE projects, and the EasyWay and TEMPO-CONNECT programmes. On 31 December 2016, the company presented long-term accrued costs and deferred revenues for acquired state grants for the purchase of fixed assets in the total amount of EUR 134,491,238. The increase in 2016 is associated with the funds received from the following funds:

- the EU Cohesion Fund for the project entitled Construction of Noise Barriers on Individual Motorway Sections in the amount of EUR 754,378;
- the EU Cohesion Fund for the project of reconstructing motorway sections in the amount of EUR 533,103;
- the EU Cohesion Fund for the project of the “A4 motorway: Slivnica–Gruškovje: Draženci–International border crossing (IBC) Gruškovje” in the amount of EUR 31,030,460;
- for the CROCODILE I project in the amount of EUR 30,409; and
- the funds of the Connecting Europe Facility for preparing DBP/ED project documentation for the additional construction of the second tube of the motorway tunnel Karavanke in the amount of EUR 709,946.

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.5.1.13. Long-term financial liabilities

The company obtains loans on the international and domestic financial markets for its operational needs. The aim of the loans is to finance motorway construction and reconstruction. All loans are secured by a guarantee of the Republic of Slovenia. In 2016, refinancing of a complete replacement of loans in the total amount of EUR 139 million was performed. In December, two loan contracts were signed with lenders for refinancing in the form of repayments of annual instalments of loan principals in the amount of EUR 130 million. Additionally, the company concluded two annexes to the current loan contracts with the NLB bank for rescheduling of two loans in the amount of EUR 312 million. In 2016, the company DARS d.d. has made borrowings also for financing the motorway construction and renovation. For this purpose, the company raised a loan at the European Investment Bank in the amount of EUR 145 million.

The interest rates and manner of calculating interest for received loans are contractually defined and represent a business secret. The weighted annual interest rate for the total loan amount of DARS d.d. amounted to 1.60 per cent on 31 December 2016. The interest rate for the total debt of DARS d.d. on 31 December 2016 amounted from 0 to 4.80 per cent.

Long-term financial liabilities referring in their total amount to motorway construction and reconstruction.

in EUR (without cents)	31 December 2016	Share
Long-term loans acquired from domestic banks	967,502,894	41%
Long-term loans acquired from foreign banks	1,172,897,428	50%
Long-term loans acquired from foreign entities	25,479,642	1%
Loan on the Basis of a Schuldschein Promissory Note	37,780,000	1%
Long-term bonds issued	160,364,547	7%
Total	2,364,024,511	100%

Long-term financial liabilities by maturity

in EUR (without cents)	31 December 2016	Share
Long-term financial liabilities with a maturity of up to five years	792,696,267	34%
Long-term financial liabilities with a maturity longer than five years	1,571,328,244	66%
Total	2,364,024,511	100%

Movement of long-term financial liabilities in 2016

Long-term financial liabilities	Balance as of 31 December 2015	Increase in 2016	Decrease in 2016	Balance as of 31 December 2016
European Investment Bank	716,836,868	145,000,000	71,300,303	790,536,565
Nova Ljubljanska banka*	341,129,807	20,889,423	0	362,019,231
Kreditanstalt für Wiederaufbau	271,984,375	0	37,718,750	234,265,625
Consortium of Slovenian banks	228,398,020	0	36,905,761	191,492,258
Depfa Bank	136,904,762	0	23,809,524	113,095,238
UniCredit Banka Slovenija	45,017,526	0	8,335,837	36,681,689
Kommunalkredit	49,000,000	0	14,000,000	35,000,000
Addiko Bank (Hypo Alpe Adria Bank)	44,396,325	0	5,419,942	38,976,383
Avtovie Venete S.p.A.	28,664,597	0	3,184,956	25,479,642
Banka Koper	11,666,667	80,000,000	2,333,333	89,333,333
Schuldschein	37,780,000	0	0	37,780,000
Abanka	50,000,000	0	0	50,000,000
SKB banka	9,679,211	40,320,789	0	50,000,000
Unicredit + Banka Koper	0	99,000,000	0	99,000,000
SID	0	50,000,000	0	50,000,000
Bonds	160,364,547	0	0	160,364,547
Total	2,131,822,705	435,210,212	203,008,406	2,364,024,512

* Loans from Nova Ljubljanska banka were rescheduled, which led to a transfer from short-term financial liabilities to long-term financial liabilities.

II.5.1.14. Long-term financial liabilities to banks

Long-term share of the principal amount of bank borrowings by lenders

Credit institution	Balance as of 31 December 2016	in EUR (without cents) Share
Consortium of Slovenian banks	191,492,258	9%
Addiko Bank (Hypo Alpe Adria Bank)	38,976,383	2%
UniCredit Banka Slovenija	36,681,689	2%
Banka Koper	89,333,333	4%
Unicredit + Banka Koper	99,000,000	5%
NLB	362,019,231	17%
Abanka	50,000,000	2%
SKB banka	50,000,000	2%
SID	50,000,000	2%
European Investment Bank	790,536,565	37%
Kreditanstalt für Wiederaufbau	234,265,625	11%
Depfa Bank	113,095,238	5%
Kommunalkredit Austria AG	35,000,000	2%
Total	2,140,400,322	100%

a) Loans from the Consortium of Slovenian Banks

DARS d. d. obtained seven loans from the consortium of local banks in the period from 1996 to 2004. These loans were paid off in 2016 in a total amount of EUR 39,940,421.

Long-Term Liabilities to the Consortium of Slovenian Banks and Maturity Dates

Type	Repayment period	in EUR (without cents)
II	from 2004 to 2019	22,557,701
III	from 2007 to 2019	42,056,497
IV	from 2008 to 2020	30,997,467
V	from 2007 to 2020	34,936,948
VI	from 2009 to 2021	27,686,443
VII	from 2012 to 2024	33,257,202
Total		191,492,258

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

DARS d. d. took three loans from Addiko Bank in 2003, 2004 and 2005. These loans were paid off in 2016 in the total amount of EUR 4,170,379.

Long-term Liabilities to Addiko Bank and Maturity Dates

Type	Repayment period	in EUR (without cents)
I	from 2011 to 2023	18,326,922
II	from 2012 to 2024	8,130,683
III	from 2014 to 2023	12,518,778
Total		38,976,383

c) Loans from UniCredit Banka Slovenija

The company took out three loans from UniCredit Banka Slovenija, in 2005, 2006, and 2009. The loan from 2006, which was intended for refinancing or the early repayment of loans from the bank Kreditanstalt für Wiederaufbau, was repaid early in its entirety in 2016. The loans from UniCredit banka Slovenija were paid off in 2016 in a total amount of EUR 45,935,837.

Long-Term Liabilities to UniCredit Banka Slovenija and Maturity Dates

Type	Repayment period	in EUR (without cents)
I	from 2011 to 2023	10,015,022
II	from 2007 to 2021	26,666,667
Total		36,681,689

d) Loan from Banka Koper

The loan that the company took out with Banka Koper in 2006 that was intended for the refinancing and early repayment of loans taken out with the bank Kreditanstalt für Wiederaufbau, was early repaid in its entirety in 2016.

DARS d. d. took out a EUR 80M loan with Banka Koper in 2016 that was intended for the refinancing of loans.

The loans from Banka Koper were paid off in 2016 in a total amount of EUR 44,000,000.

Long-Term Liabilities to Banka Koper and Maturity Dates

Type	Repayment period	in EUR (without cents)
I	from 2007 to 2021	9,333,333
II	from 2021 to 2036	80,000,000
Total		89,333,333

e) Loans from NLB

In 2007, 2008, and 2013, DARS d. d. raised three loans with NLB, which were completely drawn-up for financing motorway construction. In 2016, loans NLB I and NLB II were rescheduled to extend its maturity.

The loans from NLB were paid off in 2016 in the amount of EUR 5,576,923.

Long-Term Liabilities to NLB and Maturity Dates

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

The company took out a EUR 50M loan with Abanka in 2015 that was intended for the refinancing and early repayment of loans.

Long-Term Liability to Abanka and Maturity Dates

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 EUR 50M loan with SKB in 2015 for the refinancing and early repayment of loans, which was in the same year drawn in the amount of EUR 9,679,211, while the remaining part in the amount of EUR 40,320,789 was drawn in February 2016.

Long-Term Liability to SKB and Maturity Dates

Type	Repayment period	in EUR (without cents)
I	from 2021 to 2028	50,000,000
Total		50,000,000

h) Loan from Unicredit banka Slovenia and Banka Koper

DARS d. d. took out a EUR 99M loan with Unicredit and Banka Koper in 2016, which was drawn on 29 January 2016 and 29 February 2016, in its entirety for the purposes of refinancing or early repayment of loans in 2015.

Long-Term Liability to Unicredit banka Slovenia and Banka Koper and Maturity Dates

Type	Repayment period	in EUR (without cents)
I	from 2021 to 2036	99,000,000
Total		99,000,000

i) Loan from SID

The company took out a EUR 50M loan with SID in 2016 that was intended for the refinancing and early repayment of loans.

Long-Term Liability to SID and Maturity Dates

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 were taken out during the period from 1994 to 2006, with EUR 71,619,970 of the amount repaid in 2016. In 2016, the last instalment of the principal of EIB C loan matured.

In 2016, DARS d. d. took out a new loan with the European Investment Bank in the amount of EUR 145M, which was intended for the financing of motorway construction and renovation. The remainder of the loans are therefore due between 2018 and 2041.

Long-term Liabilities to European Investment Bank and Maturity Dates

Type	Repayment period	in EUR (without cents)
II	from 2003 to 2018	4,333,333
III	from 2004 to 2019	17,499,999
IV	from 2005 to 2019	21,333,333
V	from 2007 to 2027	57,000,000
VI	from 2012 to 2029	72,380,000
VII	from 2014 to 2037	217,045,455
VIII	from 2015 to 2034	255,944,445
IX	from 2022 to 2041	145,000,000
Total		790,536,565

k) Loan 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 2016 in the amount of EUR 37,718,000.

Long-Term Liabilities to Kreditanstalt für Wiederaufbau and Maturity Dates

Type	Repayment period	in EUR (without cents)
II	from 2013 to 2029	192,265,625
III	from 2014 to 2019	22,000,000
IV	from 2014 to 2019	20,000,000
Total		234,265,625

l) Loans from Pfandbriefsbank (DEPFA)

In 2006, DARS d. d. took out two loans from Depfa Bank totalling EUR 225,000,000. These loans were repaid in 2016 in the amount of EUR 23,809,523.

Long-Term Liabilities to Depfa Bank and Maturity Dates

Type	Repayment period	in EUR (without cents)
I	from 2014 to 2024	46,428,571
II	from 2013 to 2021	66,666,667
Total		113,095,238

m) Loan from Kommunalkredit Austria AG (Kommunalkredit)

In 2010, DARS d. d. took out a loan from Kommunalkredit Austria AG in the amount of EUR 70,000,000. The loan was obtained at a fixed interest rate. The principal of this loan was paid off in 2016 in the amount of EUR 14,000,000.

Long-Term Liabilities to Kommunalkredit and Maturity Dates

Type	Repayment period	in EUR (without cents)
I	from 2015 to 2020	35,000,000
Total		35,000,000

II.5.1.15. Long-term financial liabilities from 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	Size of issue in EUR (excl. 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 EUR 56,042,047. The principal is due in its total amount in 2024. The annual coupon rate is 5.1 per cent. 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 EUR 61,758,920. The principal is due in its total amount in 2025. The annual coupon rate is 4.5 per cent. 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 EUR 42,563,580. The principal is due in its total amount in 2020. The annual coupon rate is four per cent. The bonds are traded on the Ljubljana Stock Exchange.

II.5.1.16. Other long-term financial liabilities

a) Loan from Autovie Venete (AVV)

The loan from Autovie Venete 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 facilities required for connecting the Slovenian motorway network with the Italian network. The loan was taken in 2000. In 2016, the loan from Autovie Venete was paid off in the amount of EUR 3,184,955.

Long-Term Liabilities to AVV and Maturity Dates

Type	Repayment period	in EUR (without cents)
I	from 2011 to 2025	25,479,642
Total		25,479,642

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 EUR 37.78 million. The loan was taken out for a period of 15 years.

Long-Term Liabilities from the Schuldschein Promissory Note and Maturity Dates

Type	Repayment period	in EUR (without cents)
I	2030	37,780,000
Total		37,780,000

II.5.1.17. Long-term operating liabilities to suppliers

On 31 December 2016, the company has long-term operating liabilities to suppliers in the amount of EUR 2,323,959, which are mostly comprised of the following:

- retained funds for motorway construction contractors due to having received claims from subcontractors in the amount of EUR 2,045,318 and
- retained funds for motorway construction contractors for the purpose of eliminating any faults within the warranty period in the amount of EUR 278,641.

II.5.1.18. Other long-term operating liabilities

Other long-term operating liabilities include the liability for the right of superficies compensation in the amount of EUR 143,834,680. Based on the annual implementation contract (on the execution of contracts on the basis of Article 4 of the MCRSA-1 for 2017), the short-term part of the long-term liability is transferred to short-term liabilities.

The right of superficies was established pursuant to the MCRSA-1 for the benefit of DARS d. d. on land owned by the Republic of Slovenia, where motorways are considered as buildings that had been constructed or the construction of which had commenced prior to the enforcement of the MCRSA-1. The right of superficies is established for a 50-year period (from 4 December 2010 to 4 December 2060) free of charge. A 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 EUR 190,810,787 without VAT. On 29 February 2016, a certified real estate appraiser has upon the request of the Ministry of Infrastructure re-assessed the value of the right of superficies, which amounts to EUR 190,760,000 without VAT. DARS d. d. has performed the adjustment of the value of the right of superficies to the new assessed value, which is now EUR 50,787 lower than previously estimated.

Until 31 December 2015, DARS d. d. has managed long-term operating liability arising from the right of superficies in net amount. In 2016, the company has increased the long-term liability for the amount of VAT to coordinate the accounting aspect of the right of superficies with the Ministry of Infrastructure. On 31 December 2016, the amount of VAT comprised in the long-term liability for the right of superficies, considering the current relevant VAT rate (22%) was EUR 25,937,401. The comparable information is in accordance with the disclosures referring to the current reporting period.

Other long-term operating liabilities include liabilities in the amount of EUR 4,027,802 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-financers.

II.5.1.19. Deferred tax liabilities

Movement of deferred tax liability in 2016:

in EUR (without cents)	31 December 2015	Recognised in the Income Statement	Recognised in the other comprehensive income statement	31 December 2016
Cash flow hedging related to interest swaps	0	0	113,742	113,742
Total	0	0	113,742	113,742

The calculation of the deferred taxes takes into account the change in the corporate income tax rate, which was on 1 January 2017, raised from 17% to 19%.

II.5.1.20. Short-term financial liabilities

Short-term financial liabilities totalling EUR 224,536,718 represent the short-term portion of long-term financial liabilities maturing in the following year and interest due from bank loans, bonds issued and liabilities from derivative financial instruments.

Short-term financial liabilities to banks in the total amount of EUR 206,781,695 represent:

- A part of the principal of the short-term bank loans for purchasing tangible fixed assets that mature in 2017;

Credit institution	in EUR (without cents)	
	31 December 2016	31 December 2015
European Investment Bank A, B, C	0	2,028,000
European Investment Bank II	8,666,667	8,666,667
European Investment Bank III	11,666,667	11,666,667
European Investment Bank IV	10,666,667	10,666,667
European Investment Bank V	6,000,000	6,000,000
European Investment Bank VI	6,270,000	6,270,000
European Investment Bank VII	11,363,636	11,363,636
European Investment Bank VIII	16,666,667	14,958,333
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
Kommunalkredit	14,000,000	14,000,000
Pfandbriefsbank (DEPFA) I	7,142,857	7,142,857
Pfandbriefsbank (DEPFA) II	16,666,667	16,666,667
Intesa Sanpaolo (BIIS)-Banka Koper II	0	41,666,667
Banka Koper I	2,333,333	2,333,333
Bank Consortium I	0	24,456,810
Bank Consortium II	8,963,381	8,067,043
Bank Consortium III	21,028,249	700,942
Bank Consortium IV	344,416	344,416
Bank Consortium V	794,022	595,516
Bank Consortium VI	659,201	659,201
Bank Consortium VII	5,116,493	5,116,493
Addiko Bank (Hypo Alpe Adria) I	2,082,605	833,042
Addiko Bank (Hypo Alpe Adria) II	1,250,874	1,250,874
Addiko Bank (Hypo Alpe Adria) III	2,086,463	2,086,463
Unicredit bank I	1,669,170	1,669,170
Unicredit bank II	6,666,667	6,666,667
Unicredit bank III	0	37,600,000
Sberbank	0	60,000,000
Nova Ljubljanska banka I	0	15,312,500
Nova Ljubljanska banka II	0	11,153,846
Total principals	199,823,451	367,661,227

b. On 31 December 2016, interest accrued from long-term bank loans equalled EUR 6,958,244.

Short-term financial liabilities for interest are related to interest accrued up to 31 December 2016 and to interest calculated up to 31 December 2016. Interest rates and the interest calculation method for concluded transactions are contractually determined and on 31 December 2016 amounted between 0 and 4.8 per cent annually.

Short-term financial liabilities from bonds equalling EUR 3,410,736 are related to interest accrued up to 31 December 2016.

Other short-term financial liabilities in the amount of EUR 14,344,287 refer to:

in EUR (without cents)	31 December 2016	31 December 2015
Short-term portion of the Autovje Venete loan principal	3,184,955	3,184,955
Interest payable on derivative financial instruments	300,482	113,241
Liabilities from derivative financial instruments	10,858,850	7,387,146
Total	14,344,287	10,685,342

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 changing interest rates on the market to protect itself against interest rate risk. On 31 December 2016, 42 per cent of the company's portfolio value was exposed to a variable interest rate while 57 per cent was exposed to a fixed interest rate. Interest-free loans make up the remaining percentage.

Liabilities from derivative financial instruments in the amount of EUR 10,858,850 refer to liabilities arising from the valuation of derivative financial instruments on 31 December 2016.

Detailed description of derivative financial instruments, concluded as of 31 December 2016:

Interest Risk Insurance in the Amount of EUR 40 Million

In 2007, DARS d. d. concluded interest risk insurance in the amount of EUR 40,000,000 with three-year maturity. With this transaction, DARS d. d. partially insured the loan contracted with UniCredit Banka Slovenija. The loan was secured for a period of three years with a fixed interest rate and the option of extension for a further seven years. In 2010, the extension option was implemented for another seven years.

Interest Risk Insurance in the Total Amount of EUR 150 Million

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

Interest Risk Insurance in the Total Amount of EUR 100 Million

In 2016, DARS d. d. concluded two interest risk insurance transactions in the total amount of EUR 100,000,000 with ten-year maturity. With the individual EUR 50 million transactions, DARS d. d. partially insured the loans contracted with NLB (the NLB 50 loan) and with SKB (the SKB 50 loan). The loans were insured for ten years and with a fixed interest rate.

II.5.1.21. Short-term operating liabilities

in EUR (without cents)	31 December 2016	Share in %	31 December 2015	Index
Short-term liabilities to suppliers	27,095,216	42%	37,966,446	71
Short-term liabilities for advances	148,778	0%	32,394	459
Short-term liabilities to employees	4,250,630	7%	3,361,550	126
Short-term liabilities to the State:	31,173,603	48%	23,330,532	134
– corporate income tax liability	8,194,895	13%	1,181,805	693
– VAT liability	7,236,902	11%	7,286,574	99
– liabilities for contributions of the payer	501,032	1%	359,654	139
– short-term liability for the right of superficies	14,984,606	23%	14,187,520	106
– other liabilities to the State	256,168	0%	314,979	81
Short-term liabilities to others	1,766,576	3%	823,792	214
Total	64,434,803	100%	65,514,714	98

The liabilities of the company to the suppliers comprise unpaid liabilities for performed and charged works in the construction of motorways, performed by local and foreign suppliers (including contractually-retained amounts), liabilities from indemnifications in the acquisition of land for transactions for the benefit and for the account of the Republic of Slovenia, operating liabilities from the management and maintenance of motorways, and other short-term operating liabilities.

Contractually-retained funds represents 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 per cent of the contractual value. Retained funds of concluded contracts with contractors belong to the contractors and are remitted once the contractor fulfils the contractual obligation, delivering the investor the required documentation. As of 31 December 2016, liabilities on the basis of retained funds amounted to EUR 21,042,827 and represented a 78 per cent share of total trade payables.

Short-term operating liabilities also include the short-term part of the long-term liability for the compensation for the right of superficies, which for 2017 amounts to EUR 14,984,606 in accordance with the annual implementation contract for the performance of contracts on the basis of Article 4 of the MCRSA -1.

Overview of Short-Term Operating Liabilities by Maturity

in EUR (without cents)	Unmatured	Up to 60 days	Over 60 days	Total
Short-term trade payables (current liabilities)	9,404,213	54,137	-88,548	9,369,801
Short-term trade payables (retained amounts)	17,725,415	0	0	17,725,415

Liabilities to suppliers as of 31 December 2016

in EUR (without cents)	31 December 2016	Share
SCT, d. d., Ljubljana, Slovenia – in bankruptcy	3,468,677	13%
POMGRAD d. d.	2,714,909	10%
EURO – ASFALT d. o. o. Sarajevo – Slovenia subsidiary	2,301,484	8%
ALPINE BAU GMBH, Salzburg – Celje subsidiary – in bankruptcy	2,126,134	8%
VOC Celje, d. d.	1,236,223	5%
CPM, d. d., in bankruptcy	960,737	4%
DRI, upravljanje investicij, d. o. o.	798,598	3%
Werkos d. o. o. subsidiary in the Republic of Slovenia	711,316	3%
PETROL d. d., Ljubljana	651,636	2%
CGP, d. d.	551,270	2%
Other suppliers	11,574,233	43%
Total	27,095,216	100%

The company's liabilities to employees predominantly represent calculated December salaries and compensation for salaries and reimbursement of costs to employees in connection to work, paid out in January 2017.

II.5.1.22. Current accrued costs and deferred revenues

in EUR (without cents)	31 December 2016	Share	31 December 2015	Index
Short-term accrued costs	686,511	2%	610,713	112
Short-term deferred revenues	27,828,401	98%	25,259,157	110
Total	28,514,913	100%	25,869,870	110

The company's liabilities comprise costs or expenses calculated in advance, and these refer mostly to expenses for the auditing of financial statements for 2016 calculated in advance in the amount of EUR 17,174, the costs for the implementation of the actuarial calculation of provisions for jubilee premiums and severance pay on 31 December 2016 in the amount of EUR 475, expenses for the variable income of the Management Board calculated in advance in the amount of EUR 322,394 and the variable part of the salaries paid to employees according to individual contracts in the amount of EUR 346,468.

Short-term deferred revenue arises when services to be rendered in the future have already been invoiced or even paid. Short-term deferred revenue was formed for revenue from tolls collected in the form of top-ups on electronic toll media (ABC tags, DARS cards and DARS Transporter cards) invoiced and paid in 2016 but not used in the same year. These will be recognised as deferred revenue until they have actually been used by road users. Short-term deferred revenue also included revenue from vignettes charged in 2016, which will be valid in 2017, and from half-yearly vignettes, which will be partly or entirely valid in 2017 (a half-yearly vignette is valid six months from the date of purchase, and the annual vignette for 2017 is valid from 1 December 2016 until 31 January 2018).

Short-term deferred revenue comprises:

- Revenue from annual vignettes charged that will be valid in 2017 and from half-year vignettes that will be partly or entirely valid in 2017 in the total amount of EUR 15,121,153 (a half-year vignette is valid six months from the date of purchase, and the annual vignette for 2016 is valid from 1 December 2015 until 31 January 2017);

- Revenue from the credit on electronic prepaid toll media (DARS cards, ABC tags) that was charged and paid in 2016 but not used in the same year, in the amount of EUR 12,627,824. These will be recognised as deferred revenue until they have actually been used by road users.
- other short-term deferred revenue in the amount of EUR 79,424.

Off balance-sheet items

The amount of EUR 122,500,241 refers to potential cash or receivables from obtained guarantees or other security instruments, e.g. performance guarantees or guarantees for the rectification of defects within the warranty period.

EUR 274,283 represents contingent liabilities towards municipalities based on unjustified calculations and collection of fees for the use of building land, together with default interest.

The value of the inventories of vignettes for the use of toll roads in the Republic of Austria which were also sold by DARS d. d. amounted to EUR 1,140,339.

On the reporting date, the company had EUR 83,737,598 of lawsuits (principals) filed against it, of which 99% were related to the field of motorway construction and renovation. Based on the acquired legal advice, we formed provisions for lawsuits in the amount of EUR 32,450,981 (explanatory note II.5.1.12, Provisions and Long-Term Accrued Costs and Deferred Revenue).

II.5.2. Notes to the Income Statement

II.5.2.1. Net sales revenues

in EUR (without cents)	2016	Share	2015	Index 2016/2015
Revenue from tolls	361,269,595	97%	349,925,047	103
– revenue from vignette sale	170,262,417	47%	161,834,841	105
– revenues from freight traffic tolls	191,007,178	53%	188,090,206	102
Revenue from rest stop leases	7,296,256	2%	7,071,880	103
Revenue from closure and overweight load transports	652,445	0%	908,124	72
Revenue from easements for base stations and others	594,426	0%	856,090	69
Revenues from lease of optical fibres	1,021,585	0%	771,393	132
Revenue from agency contracts	383,902	0%	407,016	94
Other sales revenues	943,430	0%	940,544	100
Total net sales revenue	372,161,638	100%	360,880,094	103

Revenue from tolls in 2016 amounted to EUR 361,269,595 and represented 97 per cent of total sales revenue, which is three per cent higher than in 2015. Revenue from the tolling of vehicles with a maximum weight under 3.5 tonnes (vignette system) amounted to EUR 170,262,417 and represented 47 per cent of the revenue, while revenue from the tolling of vehicles with a maximum weight exceeding 3.5 tonnes amounted to EUR 191,007,178 or 53 per cent.

Revenue from tolls is followed by revenue from leases for rest stops, which amounted to EUR 7,296,256 in 2016. Revenue is earned from the leasing of land alongside motorways for the provision of catering services and the erection of petrol service stations. Revenue from leases increased by three per cent compared to 2015.

Sales revenues also include revenues from road closures and overweight road transports in the amount of EUR 652,445, revenues from optical fibre leases in the amount of EUR 1,021,585, and revenues from easements in the amount of EUR 594,426.

Revenue from performance contracts in 2016 amounted to EUR 383,902. This revenue refers to the implementation of tasks performed by DARS d. d. under the annual implementation contract for the Republic of Slovenia pursuant to Article 4 of the MCRSA-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 EUR 943,430 includes revenue from the commission from the sale of Austrian vignettes, revenue from the sale of ETC tags, revenue from towing, snow ploughing and clearing road accidents, revenue from rentals for holiday facilities and apartments, revenue from the sale of waste material, and other sales revenue.

Net sales revenue was earned entirely in the domestic market.

II.5.2.2. Capitalised own products and services

In 2016, the company capitalised its own investment services in relation to motorways, which it did not charge to external contractors who provide motorway reconstruction services. In 2016, revenues arising from capitalised own services amounted to EUR 1,022,313.

II.5.2.2. Other operating revenues

in EUR (without cents)	2016	Share	2015	Index
Revenue from the reversal of long-term provisions	18,165,810	75%	2,386,104	761
Revenue from insurance benefits	2,145,476	9%	2,048,259	105
Revenues from the consumption of long-term deferred revenues	3,372,501	14%	3,013,606	112
Profit from equipment and real estate sales	336,187	1%	316,453	106
Other operating revenues	45,346	0%	128,396	35
Total other operating revenue	24,065,320	100%	7,892,818	305

The revenue from the reversal of long-term provisions in the amount of EUR 18,165,810 also includes the reversal of provisions for lawsuits, the reversal of provisions for unused annual leave in 2015, the reversal of provisions for severance pay for redundant employees upon the implementation of electronic toll collection in the free-flow traffic system, and the reversal of long-term deferred revenue for electronic tag sales.

Revenue from insurance benefits includes revenue from received insurance benefits for the repair of damage on motorway sections and facilities along motorways. In 2016, this revenue amounted to EUR 2,145,476.

Revenues from the consumption of long-term deferred revenues in the amount of EUR 3,372,501 refer to the consumption of 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) as well as 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 2016, the company transferred to revenue EUR 2,711,011 of the 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 EUR 641,897 of the long-term deferred revenues it received from the municipalities (City of Ljubljana), ELES and other project co-financing providers.

II.5.2.4. Costs and operating expenses

Overview of Costs and Expenses

in EUR (without cents)	2016	Share	2015	Index
Cost of materials	8,838,553	4%	9,283,845	95
Cost of services	27,901,879	12%	26,588,563	105
Labour costs	37,910,486	16%	35,832,067	106
Amortisation	154,106,846	66%	149,570,864	103
Operating expenses for revaluation of intangible assets and property, plant and equipment	80,143	0%	125,189	64
Operating expenses from the revaluation of operating current assets	518,761	0%	182,658	284
Other operating expenses	4,309,555	2%	29,333,817	15
Total operating expenses	233,666,223	100%	250,917,003	93

Breakdown of costs of materials

in EUR (without cents)	2016	Share	2015	Index
Cost of materials	3,201,432	36%	3,476,088	92
Energy costs	3,936,947	45%	4,128,627	95
Costs of spare parts	508,438	6%	445,707	114
Write-offs of piece inventories	999,343	11%	1,065,348	94
Other costs of materials	192,392	2%	168,075	114
Total	8,838,553	100%	9,283,845	95

The cost of materials represents a four per cent share of all operating expenses and is lower by five per cent in comparison with 2015.

Breakdown of costs of services

in EUR (without cents)	2016	Share	2015	Index
Costs of the supervising engineer	654,846	2%	644,191	102
Cost of maintenance of operating fixed assets	6,386,673	23%	6,505,736	98
Leases	1,235,381	4%	1,121,846	110
Cost of payment transactions and insurance premiums	2,975,514	11%	2,783,646	107
Commissions for sold vignettes	6,667,445	24%	6,301,440	106
Costs of other services	9,982,020	36%	9,231,704	108
Total	27,901,879	100%	26,588,563	105

Cost of services represents a 12 per cent share of all operating expenses. Other major services in 2016 included commissions for sold vignettes (24 per cent share), the cost of maintenance of fixed assets (23 per cent share) and the cost of payment transactions and insurance premiums (11 per cent share).

Due to the nature of the company's operation, costs by functional groups are not shown.

II.5.2.5. Labour costs

Labour costs represent a 16 per cent share in total operating expenses of DARS d.d. In 2016, they were six per cent higher than in 2015.

Type of labour costs	2016	Share	2015	Index
Costs of wages and salaries	27,575,205	73%	26,414,827	104
Pension insurance costs	3,096,964	8%	2,987,171	104
Other social security costs	2,351,681	6%	2,225,916	106
Other labour costs	4,886,636	13%	4,204,153	116
Total	37,910,486	100%	35,832,067	106

Labour costs include costs of supplementary pension insurance premiums in the amount of EUR 853,182.

As of 31 December 2016, there were 1,247 workers employed by the company. The average staff count in 2016 was 1,198 (computed on the basis of working hours).

In 2016, wages and salaries were paid in line with the General Collective Agreement for Economic Activities and 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 (ZPPOGD – Official Gazette of the Republic of Slovenia, No. 21/2010).

The average salary in DARS d.d. in 2016 (in euros)

Average gross salary	Year 2016	Year 2015
DARS, d.d.	1,887	1,827
Republic of Slovenia	1,585	1,556

The number of employees and the employee educational structure as of 31 December 2016 are presented in the Business Report of the Annual Report, under the chapter Human Resources Management (Section I.15.3).

The total gross earnings of the members of the Management Board of DARS d.d. in 2016 amounted to EUR 430,454. The table below presents the earnings of the members of the Management Board of DARS d.d. by individual members.

in EUR (without cents)	Matjaž Knez, Chairman of the Manage- ment Board to 12 Febr. 2016	Tine Svoljšak, Management Board member to 31 January 2015	Franc Skok, Management Board member to 12 Febr. 2016	Gašper Marc, Management Board member	Marjan Sisinger Management Board member/ Labour Director	Tomaž Vidic, PhD Chairman of the Manage- ment Board as of 13 January 2016	Vili Žavrlan, Management Board member as of 7 October 2016	TOTAL
Gross salary	13,335	0	12,002	98,658	86,658	105,263	22,689	338,604
Long-service bonuses	0	0	0	0	679	905	0	1,584
Payment of variable income	23,041	9,280	21,056	6,855	10,015	0	0	70,247
Benefits	381	0	771	5,862	5,170	1,808	1,248	15,241
Reimbursement of costs	84	0	80	894	919	847	228	3,052
Supplementary pension insurance	0	0	76	456	581	455	159	1,727
TOTAL	36,841	9,280	33,985	112,725	104,021	109,278	24,324	430,454

The gross earnings of staff employed under employment contracts not subject to the Tariff Section of the Collective Agreement amounted to EUR 728,111 in 2016.

The earnings of the Supervisory Board members in 2016 are shown below.

in EUR (without cents)	Remuneration for being a member of the Supervisory Board	Supervisory Board meeting fees	Remuneration for being a member of the Audit Committee	Audit Committee meeting fees	Remuneration for being a member of the Remuneration Committee	Remuneration Committee meeting fees	Travel expenses	Benefits	Total
Vito Meško	3,683	1,540	0	0	921	836	0	9	6,989
Rožle Podboršek	12,720	4,840	0	0	2,035	616	15	279	20,505
Marjan Mačkošek	19,500	4,840	0	0	0	0	934	279	25,553
Miha Juhart, PhD	13,433	4,620	2,573	2,200	3,927	1,716	184	183	28,836
Tatjana Colnar, MSc	13,000	4,565	4,063	2,200	2,437	1,716	69	183	28,232
Igor Pirnat, MSc	13,000	4,840	3,250	2,200	0	0	515	183	23,988
Darko Kodrič	9,317	3,300	0	0	0	0	831	272	13,720
Mojca Lahajner	0	0	3,250	2,200	0	0	152	0	5,602
Total	84,653	28,545	13,135	8,800	9,321	4,884	2,699	1,387	153,425

Other earnings of the Supervisory Board members were not recorded.

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

II.5.2.6. Write-downs

in EUR (without cents)	2016	Share	2015	Index
Depreciation of intangible assets	616,930	0.40%	457,582	135
Amortisation of property, plant and equipment	153,489,916	99.21%	149,113,282	103
Operating expenses for revaluation of intangible assets and property, plant and equipment	80,143	0.05%	125,189	64
Operating expenses from the revaluation of operating current assets	518,761	0.34%	182,658	284
Total	154,705,750	100.00%	149,878,711	103

The amortisation of tangible fixed assets in 2016, which includes the amortisation of the right of superficies, amounted to EUR 3,926,830. The right of superficies was established pursuant to the MCRSA-1 for the benefit of DARS d. d. on land owned by the Republic of Slovenia, where motorways are considered as buildings that had been constructed or the construction of which had commenced prior to the enforcement of the MCRSA-1. The right of superficies was established for the period of 50 years.

Operating expenses from revaluation of operating current assets are comprised mostly of the adjustments of the value of trade receivables in the amount of EUR 378,890; write-offs of receivables in the amount of EUR 48,905; and the revaluation of inventories of vignettes for 2016, the sales of which ended on 30 November 2016, i.e. in the amount of EUR 88,978.

II.5.2.7. Other operating expenses

Other operating expenses of EUR 4,309,555 include:

- long-term accrued costs of contingent losses, calculated in advance, on claims related to motorway construction and reconstruction in the amount of EUR 3,884,664 for lawsuits, on claims related to the motorway management and maintenance in the amount of EUR 72,256, and on claims by employees under labour disputes in the amount of EUR 35,805;
- other operating expenses in the amount of EUR 316,830.

II.5.2.8. Financial Revenue from Loans to Others

Financial revenue from loans to others in the amount of EUR 1,919,171 includes revenue from short-term surplus liquid funds deposited in banks in the form of deposits in the amount of EUR 152,235 and revenue from revaluation of financial investments in the amount of EUR 1,765,767.

II.5.2.9. Financial revenue from operating receivables due from other entities

Financial revenue from operating receivables due from others in the amount of EUR 32,970 refers to financial revenue from operating receivables and includes calculated default interest and positive exchange rate differences.

II.5.2.10. Financial expenses from impairments and write-offs of investments

Financial expenses from the impairment of financial investments in the amount of EUR 665,286 are related to the revaluation of financial investments.

II.5.2.11. Financial revenue from loans received from banks

Financial expenses in the amount of EUR 29,204,680 represent interest calculated for long-term loans. The average weighted interest rate of long-term loans as of 31 December 2016 was 1.6 per cent.

II.5.2.12. Financial expenses from issued bonds

Financial expenses in the amount of EUR 7,348,296 represent interest calculated for long-term securities issued. The average weighted interest rate of long-term loans as of 31 December 2016 was 4.35 per cent.

II.5.2.13. Financial expenses from other financial liabilities

Financial expenses from other financial liabilities in the amount of EUR 4,419,263 refer to among other things:

- the amount of EUR 4,265,100 which includes negative interest on derivative financial instruments, which present the difference between the variable interest rate of an insured loan and the fixed interest rate on the derivative instrument;
- the amount of EUR 113,313 which calculated interests of long-term loans received from others; and
- the amount of EUR 38,926 which consists of net interests for provisions for jubilee premiums and severances.

II.5.2.14. Finance expenses from operating liabilities

Financial expenses from operating liabilities in the amount of EUR 791,730 include, among other things, charged default interest arising from late-settled liabilities in the amount of EUR 791,688.

II.5.2.15. Other revenue

Other revenues amounting to EUR 99,123 include revenue from indemnities under court judgements, revenue from invoiced contract penalties, and revenue from bonuses for exceeding the quota of disabled employees, etc.

II.5.2.16. Other expenditure

Other expenses in the amount of EUR 734,733 primarily include the payment of damages arising from 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). Income tax is payable on the taxable profit generated during the tax period and, for 2016, comprised 17 per cent.

in EUR (without cents)		2016	2015
1	Revenue	399,300,535	373,067,610
2	Expenditure	276,830,211	300,621,245
3	Total profit (1 – 2)	122,470,324	72,446,365
4	Decrease in revenue	7,321,564	265,812
5	Increase in revenue	0	0
6	Decrease in expenses for the formation of provisions and revaluation of receivables	842,388	174,907
7	Decrease in expenses, other non-deductible expenses	1,998,608	1,663,894
8	Increase in deductible expenses	1,362,713	68,401
9	Difference between revenues and expenses recognised for tax purposes (1 – 2 – 4 + 5 + 6 + 7 – 8)	116,627,044	73,950,953
10	Tax base (9)	116,627,044	73,950,953
11	Change in the tax base due to modification of accounting policies and correction of errors	-96,118	-216,985
12	Increase in tax base by the amount of tax relief used	1,231	3,770
13	Tax relief for investments	2,341,269	1,895,726
14	Relief for employing persons with disabilities	280,566	278,241
15	Relief for carrying out practical work as part of professional education	2,391	0
16	Tax relief for supplementary pension insurance	853,182	819,586
17	Tax relief for donations	93,120	100,878
18	Tax base (10 + 11 + 12 – 13 – 14 – 15 – 16 – 17)	112,961,629	70,643,306
19	Corporate income tax	19,203,477	12,009,362

Net profit for the period is the amount of 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)		2016	2015
Calculated taxes		-19,203,477	-12,009,362
Deferred taxes		-818,838	19,691
Taxes		-20,022,315	-11,989,671

in EUR (without cents)		2016	2015
Pre-tax profit or loss		122,470,324	72,446,365
Taxes		-20,022,315	-11,989,671
Effective tax rate		16.35%	16.55%

Deferred tax receivables are the amounts of income tax recoverable in future periods. The calculation of the deferred taxes takes into account the change in the corporate income tax rate, which was on 1 January 2017, raised from 17% to 19%.

The effective tax rate for 2016 calculated as a quotient of total tax and total pre-tax profit or loss for 2016 amounted to 16.35 per cent.

II.6. Business Risks

Operating risks are presented in the Business Report of the Annual Report under Section I.7.

II.7. Transactions with owners and companies related to them

The sole founder and shareholder of DARS d. d. is the Republic of Slovenia, which, in accordance with the Slovenian Sovereign Holding Act (SSHA-1/Official Gazette of the Republic of Slovenia, No. 25/2014), is represented by the SSH.

Other companies related to owners include companies in which the Republic of Slovenia and the SSH have a total of minimum 20% ownership share. The list of these companies is available at the website of the SSH (<http://www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb>).

In 2016, DARS d. d., has made transactions with companies in which the country has indirectly or directly a predominant influence in the amount of EUR 119,675,183; specifically from sales to these companies in the amount of EUR 105,459,412 and from procurement in the amount of EUR 14,215,771. Most of the sales referred to the services related to tolling; the largest procurements referred to the expense of the supervising engineer for the construction and renovation of motorways, energy, commission for sold vignettes and insurances. On 31 December 2016, the company has towards these companies shown receivables in the amount of EUR 13,597,050 and liabilities in the amount of EUR 2,225,325.

All transactions between related entities are performed under market prices.

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

II.8. Post balance-sheet events

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

February

At its regular session, the Supervisory Board of DARS d. d. adopted the Strategy of DARS d. d. 2017–2020 and the Corporate Governance Policy of DARS d. d.

March

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

Events that emerged after the balance sheet date did not impact the financial statements of DARS d. d. for 2016.

II.9. Auditing of the Annual Report for 2016

The contractual price of the audit of the 2016 Annual Report of DARS d. d. amounted to EUR 21,468 (exclusive of VAT). The audit was carried out by the company KPMG SLOVENIJA d. o. o., Ljubljana.

II.10. Auditor's Report



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Independent Auditor's Report¹

To the owners of DARS d.d., Celje

Opinion

We have audited the accompanying financial statements of the DARS d.d., Celje (»the Company«), which comprise the balance sheet as of 31 December 2016, the income statement, the statement of other comprehensive income, the statement of cash flows, and the statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give true and fair view of the financial position of the Company as at 31 December 2016, 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). Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of 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.

KPMG Slovenija, podjetje za revidiranje, d.o.o. - slovenska družba
z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb,
kateri, ki so povezane s svetovnim združenjem KPMG International
Cooperative ("KPMG International")

Številka: SI 94 2000 0000 1001 102
KPMG - mreža registriranih članic mreže neodvisnih družb
in mreža članic SI 94 2000 0000 1001
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KPMG mreža članic SI 94 2000 0000 1001



Recognition of revenue

Income from tolls and user charges in 2016: EUR 361,269,595 (2015: EUR 349,925,047).

We refer to the financial statements: Note II.3. Significant accounting policies, Income from accruals and deferrals (accounting policies), Note II.5.2.1. Revenue and Note II.5.1.22. Short-term accruals and deferrals (notes to the financial statements).

Key audit matter	Our response
<p>Company's key income and revenue are generated through the tolls and user charges, whereby a portion of tolls include revenue from vignettes and the other part income from freight transport.</p> <p>Income from tolls for freight transport are recognised on the basis of actual use of highways. Given the payment method (pre- and post-payment system), the Company defers income on a monthly basis in order to reflect the actual use of highways.</p> <p>The Company uses an information system for recording of truck toll station transitions, which concurrently ensures input data for accounting toll and user charges and for deferral of related income.</p> <p>In view of the aforesaid elements, the recognition of revenue was classified as a key audit matter.</p>	<p>Our audit procedures included following:</p> <ul style="list-style-type: none"> • acquaintance with the process and internal controls that are set up in the field of revenue recognition, including assessing the compliance of accounting policies with the relevant accounting reporting standards; • assisted by our IT auditors, we have checked the access controls of the IT system, which support the accounting reporting of truck toll station transitions; • an independent estimate of the annual income from truck tolls and user charges on the basis of the traffic volume data gained from the recording of truck toll station transitions and the publicly accessible data on the estimated kilometres run for each cargo vehicle; • obtaining independent confirmations on balances of outstanding receivables as at 31 December 2016 for the selected sample and studying the reasons for possible deviations; • reviewing the sample of payments and credit notes after the balance sheet date in order to establish whether income on truck tolls and user charges are accounted within the proper accounting period and whether the related accruals and deferrals are suitable; • reviewing the manual accounting entries after the balance sheet date, including the support documentation.



Provisions for contingent liabilities for claims relating to construction and renovations	
<p>Carrying amount of provisions for claims arising under construction and renovations as at 31 December 2016: EUR 31,864,621 (2015: EUR 48,447,799); contingent liabilities for claims under lawsuits as at 31 December 2016: EUR 67,186,267 (2015: EUR 80,603,497).</p> <p>We refer to the financial statements: Note II.3. Significant accounting policies, Provisions and long-term accrued costs and deferred income (accounting policies), Note II.5.1.12. Provisions and long-term accrued costs and deferred income, Note Off balance sheet items (notes to the financial statements).</p>	
Key audit matter	Our response
<p>In performing its business operations, the Company is among others exposed to claims arising under construction and renovations.</p> <p>A great deal of uncertainty exists while assessing on whether it is a contingent liability or provision, hence the Company uses significant assumptions and judgements. The amounts of claims are material, while the assessment of whether there is need for creating provisions is largely subjective. Settling of claims and lawsuits is a long-term process during which the assessed outcomes and estimated amounts of relevant impacts change. Accordingly, the claims arising under construction and renovations were classified as a key audit matter.</p>	<p>Our audit procedures included following:</p> <ul style="list-style-type: none"> • reading of minutes of sessions held by the Supervisory Board, the Audit Committee and the Management; • we have obtained and evaluated independent confirmations by Company's legal representatives and studied the outstanding cases and matters; • independently assessed the suitability of judgements and assumptions, which the Company applied in connection with recognizing provisions and disclosing contingent liabilities for claims. During the respective assessment, we focused on the Management's estimate on the individual claim's possible unfavourable outcome and on the reliability of the claim's estimated amount.

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.

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 they include the disclosures required by the Company's Act («legal provisions»).

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 with the financial statements; and
- the Business Report have 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.



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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Slovenian Accounting Standards (2016), and for such internal control as management determines is necessary to enable the preparation of 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

On behalf of the audit company

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

Dejan Kurat
Certified Auditor

Katarina Sitar Šuštar, MBA
Certified Auditor
Partner

Ljubljana, 14 April 2017

KPMG Slovenija, d.o.o.
1

¹ The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene and is not to be signed. This translation is provided for reference purposes only.





