



ANNUAL REPORT 2016



ANNUAL REPORT 2016

Slovenske železnice, d. o. o.
and the Slovenske Železnice Group

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STATEMENT OF THE DIRECTOR-GENERAL



Dear owners, colleagues, users and business partners,

The financial year 2016 was very successful for Slovenske železnice on several levels. By using well-thought-out measures we further improved operations, realised the planned strategic objectives and continued to lower our debt. In 2016 we operated at a profit, and expect the same trend to continue in the future.

At the beginning of the year, by way of a strategic plan that we plan to implement until 2020, we set ambitious objectives, selected strategic projects and made major steps towards their realisation. Our performance analysis has already shown the first encouraging results which will significantly change the image of Slovenske železnice, logistics and public transport in Slovenia in the coming months and years.

Our successful restructuring process has increased our sales and cost efficiency

Slovenske železnice operated according to the adopted business plan. The plan foresees a decrease in operating revenues, primarily on account of the lower volume of work of SŽ-Železniško gradbeno podjetje. This shortfall was successfully compensated for by improvements in other business segments. We cut costs significantly and generated EUR 25.1 million in profit at the group level.

We continued the restructuring of the operations of Slovenske železnice, which began a few years ago, and increased our sales and cost efficiency. Through our multi-year strategy that focuses on reducing our debt, we managed to lower our net financial liabilities from EUR 379 million to EUR 92 million over the last five years, thereby providing a basis for development and for successfully overcoming future challenges.

We increased our productivity

The year 2016 was also marked by staff restructuring. In order to cut costs the Group downsized its staff, lowered the average employee age and increased productivity. Greater attention in the coming years will be devoted to professional employee training and maintaining the high level of qualifications of our operations staff.

Success in maintaining growth in the volume of freight transported

We continued to increase returns and the volume of freight transported in the freight transport segment, and exceeded last year's figures by just over

3%. According to the projections relating to work volume, we will transport more than 23 tonnes of freight in 2020, up 20% on the figure for 2016, and complete 35% more net tonne kilometres. We put a large amount of effort in providing services along longer transport routes and key European corridors. We are planning to further increase the Company's presence on international markets and plan to upgrade our rolling stock.

Despite the solid year-end results, the freight transport segment faced major issues throughout the year. At the beginning of the year the provision of logistical services was still impeded by the increased flow of migrants into Slovenia. These logistical issues were successfully resolved through good cooperation with our business partners.

Major improvements in public rail transport

At the beginning of the school year we introduced a major new feature, integrated public rail transport. Secondary-school and college students were given the option of selecting an operator and means of transport for their travel to school or college, and the fares for these trips were loaded onto a standardised ticket. Travel, transfers and searching for the best routes was therefore simplified and made more passenger-friendly. Over the next few years we are planning to expand integrated public rail transport to all passengers.

This year we have started testing internet access on trains and at stations and preparing the documentation for a public tender for the purchase of new trains. Due to several factors, ridership was down by just over 3% in year-on-year terms. We are however planning to significantly increase the total number of passengers by 2020. We will strive to increase passenger satisfaction as much as possible through the diversification of our operations, expansion within the public transport segment and the provision of a wide range of modern services.

Effective management of the public rail infrastructure

In 2016 we signed an important long-term agreement with the Government of the Republic of Slovenia on the provision of services as a public rail infrastructure

manager until the end of 2020, which helps us better plan the maintenance of the rail infrastructure and manage it in a more efficient manner. SŽ-Infrastruktura, d. o. o., took over additional manager functions that are required by EU law from the Public Agency for Rail Transport, i.e. the allocation of train paths, the formulation of the train timetable, the charging of infrastructure fees and the provision of an efficiency management system. We continued to maintain all of the 1,207 kilometres of lines throughout Slovenia this year with due diligence and performed the public service obligation without interruption. The condition of the rail lines is improving and their capacities are constantly increasing through investments that the government has increasingly earmarked for the public rail infrastructure and the upgrades to it. Once the investment projects are completed, operators will have access to an even more competitive transport route through Slovenia. Among other things, the electrification of the Pragersko-Hodoš section of the line was completed this year. Our lines are also equipped with the GSM-R system and certain sections have been upgraded to comply with the requirements applying to European transport corridors.

Another very successful financial year

Slovenske železnice made several important steps forward in key work areas in the 2016 financial year of which I am especially proud.

In the future we will focus our efforts on the computerisation and digitalisation of operations, enabling us to continue to provide even higher quality services to our business partners and passengers in a more cost-efficient manner.

I would like to take this opportunity and thank all our colleagues and everyone that we do business with for their trust and excellent cooperation. I am convinced that due to the dedication of our employees and the support of our business partners, we will continue to achieve our strategic objectives.

Dušan Mes
Director-General of Slovenske železnice



We are concerned with the efficient supply of goods and services, and we contribute to increasing public mobility in a safe, reliable and environmentally acceptable manner.



Slovenske železnice is a passenger and freight transport operator and the manager of the rail infrastructure in Slovenia.

STATEMENT OF RESPONSIBILITY OF THE MANAGEMENT BOARD

The Management Board of Slovenske železnice, d. o. o., is responsible for the compilation of the Annual Report of the Slovenske Železnice Group and of Slovenske železnice, d. o. o., for 2016. The members of the Management Board ensure to the best of their knowledge that the annual report and all the constituent parts thereof were compiled in accordance with the Companies Act and the International Financial Reporting Standards as adopted by the EU.

The Management Board also confirms that the appropriate accounting policies were consistently applied in compiling the financial statements, that accounting estimates were made according to the principles of prudence and due diligence, and that the financial statements present a true and fair picture of the financial assets and operating results of the Slovenske Železnice Group and of Slovenske železnice, d. o. o., for 2016.

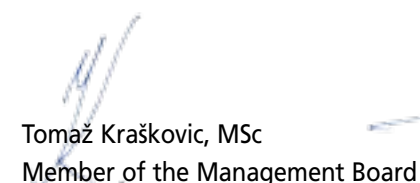
The Management Board is also responsible for ensuring that accounting is conducted correctly and that appropriate measures are taken to secure property and other assets, and confirms that the financial statements, together with the notes, have been compiled on a going concern basis in relation to Slovenske železnice, d. o. o., and its subsidiaries, and in line with current legislation and the International Financial Reporting Standards (IFRS).

The Management Board is responsible for taking measures to prevent and detect fraud and irregularities, and for securing the value of the Slovenske Železnice Group's assets.

The Management Board of Slovenske železnice, d. o. o., approved the financial statements on 22 June 2017.



Dušan Mes
Director-General



Tomaž Kraškovic, MSc
Member of the Management Board



Albert Pavlič
Workers' Director

REPORT OF THE SUPERVISORY BOARD FOR 2016

Composition and functioning of the Supervisory Board

In accordance with the Articles of Association of Slovenske železnice, d. o. o., the Supervisory Board comprises six members, of whom four are appointed and dismissed by the founder, while the remaining two members who represent employee interests are appointed and dismissed in accordance with the Workers Participation in Management Act.

The Supervisory Board that began its term of office on 11 September 2015 comprising Bojan Brank, Aleksander Nagode and Mitja Križaj, who were all appointed by the founder, and Silvo Berdajs and Jože Pavšek, who were appointed by the Works Council, was joined by the fourth member appointed by the founder, Jože Oberstar, on 22 March. Bojan Brank was appointed chairman of the Supervisory Board, and Aleksander Nagode as his deputy, on 31 March 2016.

The Supervisory Board comprises members who through their diverse knowledge, skills and experience constitute a body that effectively oversees and monitors the operations of the Company and the Slovenske Železnice Group. The Supervisory Board of Slovenske železnice, d. o. o., carried out its work at meetings and via the audit and HR committees of the Supervisory Board in accordance with the Rules of Procedure of the Supervisory Board, the Articles of Association of Slovenske železnice, d. o. o., and the applicable regulations.

The work of the Supervisory Board and its committees was professional and focused on the effective performance of their function. The Supervisory Board supervised the operations of the Company and the Group in a diligent and responsible manner, and through its resolutions and decisions supported the realisation of the planned business objectives.

The Supervisory Board held a total of 12 sessions in 2016, 11 of which were regular sessions (from the

sixth to the sixteenth session) and one a correspondence session (second correspondence session). The Supervisory Board held no extraordinary sessions in 2016. Sessions were held at the Company's registered office. All members of the Supervisory Board attended all the sessions held in 2016, except for the 12th regular session at which member of the Supervisory Board Jože Pavšek was justifiably absent.

At each session the Supervisory Board reviewed the unimplemented resolutions from the last session, and also conducted a quarterly review of all the resolutions adopted over the cumulative period.

Most important topics of Supervisory Board sessions in 2016

After prior discussion at the December 2015 session, the Supervisory Board of Slovenske železnice, d. o. o., approved the strategic business plan of the Slovenske Železnice Group for 2016–2020 in the beginning of January 2016. At the end of January 2016 it also approved the proposed business plan of the Slovenske Železnice Group and the proposed business plan of Slovenske železnice, d. o. o., for 2016, including a projection of the Company's operations for 2017–2018.

The Supervisory Board of Slovenske železnice, d. o. o., unanimously reappointed Dušan Mes, who managed the Company for the last four years, to a new four-year term as Director-General of the Company on 23 March 2016. The Supervisory Board explained the reasons for the reappointment in detail and published them on the Company's website. It appointed Tomaž Kraškovic as member of the Management Board of Slovenske železnice, d. o. o., on 31 March 2016. After these appointments were made, the Management Board of Slovenske železnice, d. o. o., functioned in the following composition during the 2016 financial year: Director-General Dušan Mes, Management Board members Milan Jelenc and Tomaž Kraškovic, and Workers' Director Albert Pavlič.

Based on the monthly data regarding operations and the quarterly reports, and information regarding the borrowing and liquidity situation that was prepared by the Management Board, the Supervisory Board was briefed regularly on the operating results and the liquidity situation of the Slovenske Železnice Group, the controlling company and individual subsidiaries, and on the realisation of the business objectives. The Management Board also notified the Supervisory Board of other issues related to operations, and drafted the required additional clarifications and reports with regard to any ambiguities and unresolved matters in connection therewith.

At its 12th session of 7 July 2016 the Supervisory Board of Slovenske železnice, d. o. o., approved the audited Annual Report of Slovenske železnice, d. o. o., and of the Slovenske Železnice Group for 2015, and proposed to the founder of Slovenske železnice, d. o. o., that the Management Board's proposal regarding the use of distributable profit be approved. The Supervisory Board of Slovenske železnice, d. o. o., was briefed on the auditor's Letter to the Management Board regarding its findings during the audit of financial statements for 2015, and on the Management Board's response to the auditor's findings and recommendations, and on the criteria for separate accounts to be created for revenues and expenses relating to the public service obligation, and on other activities carried out by SŽ-Infrastruktura, d. o. o., and SŽ-Potniški promet, d. o. o.

The Supervisory Board approved the proposal that the founder adopt a resolution on the transition to financial reporting in accordance with the International Financial Reporting Standards. The reporting period that ends on 31 December 2016 and all subsequent periods was defined as the transition date.

In addition to discussing and adopting resolutions relating to issues regarding current operations, the Supervisory Board also discussed materials that cover the implementation of strategic projects from the strategic business plan.

It discussed the strategy of developing the rolling stock of SŽ-Tovorni promet, d. o. o., and was briefed

on the activities that focus on the procurement of new rolling stock for SŽ-Tovorni promet, d. o. o., until 2020.

It also familiarised itself with the draft Agreement on the discharge of the public service obligation in in-land and cross-border regional transport of passengers by rail for the period 2017–2031. The agreement provides for the long-term regulation of the system for financing the regular performance of the public service obligation of the carriage of passengers and the system of securing development funds to modernise the rolling stock within the passenger transport segment. As a result, an investment programme for the procurement of new rolling stock for rail passenger transport is also attached as an annex to the agreement.

It was also regularly apprised of the work on the strategic partnership project in freight transport and on efforts made regarding any diversification of operations and potential acquisitions in the logistics and passenger transport segments. It also participated in decision-making regarding projects relating to real estate management, giving its consent to the sale of commercial buildings with appurtenant land in the area of the freight railway station in the Moste district of Ljubljana.

The Supervisory Board closely monitored the work on the complex project Upgrade of the Slovenske železnice information system, which will continue in 2017. In order to be fully apprised of this extensive and crucial project for the Company, it also sought additional opinions from independent and distinguished experts in this field.

In December 2016 the Supervisory Board of Slovenske železnice, d. o. o., was briefed on the draft business plan of the Slovenske Železnice Group for 2017, together with the operations forecast for 2018–2019, and gave its consent to the resolution of the Management Board of Slovenske železnice, d. o. o., regarding the recapitalisation of SŽ-VIT, d. o. o., by way of a non-cash contribution for the coverage of the entire loss brought forward and for the increase in share premium.

The work of the Supervisory Board was effectively complemented, in terms of content, by the conclusions and proposals made by the relevant Supervisory Board committees. The more important topics discussed by the Supervisory Board after they had been covered in advance by the relevant Supervisory Board committees are included in the sections relating to the work of the individual committees.

Work of the Supervisory Board's audit committee

The Supervisory Board's audit committee functioned in the following composition from 11 September 2015: chairman Mitja Križaj and members Aleksander Nagode and Silvo Berdajs. Barbara Nose was appointed as external member on 19 September 2015.

All the materials tabled for discussion by the Supervisory Board, which relate to the work of the audit committee in accordance with the Rules of Procedure of the Supervisory Board Committees, were discussed in advance by the audit committee, which reported its findings to the Supervisory Board on a regular basis.

The audit committee discussed various materials in 2016, particularly in the area of financial reporting, internal auditing and the risk management system. In the recommendations that followed from its findings, the audit committee proposed specific solutions to resolve individual issues.

The four-member audit committee met at nine sessions in 2016, at which it:

- communicated actively with the representatives of the audit firm Deloitte revizija, d. o. o., with respect to areas and the progress of the external audit of financial statements, monitored the independence of the external auditor and discussed the auditor's letter to the Management Board;
- approved the work plan of the internal audit department for 2016 and 2017, and the long-term work plan, discussed the register of unimplemented recommendations for the period 2012–2016, and apprised itself of the summaries of the final reports of the internal audit department

regarding the regular and extraordinary internal audits;

- was apprised of the financial reporting procedures and system, the implemented internal controls and with the revision of the regular reports within the Slovenske Železnice Group;
- was briefed on the information regarding the operations of Slovenske železnice during the cut-off period 2015–2016, the audited and unaudited financial statements of individual group companies and on their annual reports;
- discussed mutual lending of funds between the companies in 2016 and the expectations in that area in 2017 within the scope of managing funds within the group;
- was briefed on the development of a comprehensive risk management system, the risk management policy, procurement and risk management procedures, and discussed periodic risk management reports and issued recommendations;
- was briefed on the corporate integrity and compliance system, in particular on the procedures for the reporting of suspected irregularities within the group, and monitored regular reports in this regard;
- approved the appointment of the head of the IAD, the compliance and integrity officer and the selection of the external IT expert;
- discussed the new proposed Rules of Procedure of the Audit Committee and the Guidelines for Ensuring the Independence of the Auditor of Financial Statements within the Group;
- was briefed on the public information and thus with the associated reports on the agreements published on the website of group companies;
- discussed the progress report on the audit drawn up by the Court of Audit, reports on the status of updating the Business Information System (BIS), the report on the status of the project focusing on the introduction of compliance and integrity, and the report on the reporting of breaches of corporate integrity;
- conducted a self-assessment of its work.

Work of the Supervisory Board's human resources committee

A new human resources committee was established on 31 March 2016 comprising the chairman Jože Oberstar and two members, Bojan Brank and Jože Pavšek. The human resources committee met at six sessions in 2016.

The most significant matters discussed by the HR committee related to the powers of the Supervisory Board in appointing members of the Management Board of Slovenske železnice, d. o. o., issuing approvals of the appointment and dismissal of the management board members of subsidiaries, issuing approvals of the appointment of the head of the IAD, and in issuing approvals of the rules for the concluding of individual employment contracts. In accordance with the aforementioned, the HR committee also discussed the following matters: the appointment of Tomaž Kraškovic as member of the Management Board of Slovenske železnice, d. o. o., the appointment of Metod Podkrižnik as managing director of Fersped, d. o. o., the appointment of Dr Peter Verlič as managing director of Prometni institut, d. o. o., the appointment of Andreja Istenič as head of the Internal Audit Department, the appointment of Alenka Pavlič as member of the management board of Ferit, s. r. l., the appointment of Drago Savič to the position of workers' director of SŽ-Tovorni promet, d. o. o., the appointment of Remzija Cinac to the position of workers' director of SŽ-Potniški promet, d. o. o., the appointment of Zdravko Skrbiš to the position of workers' director of SŽ-VIT, d. o. o., and the appointment of Pavel Piškur as workers' director of SŽ-ŽGP, d. d.

The committee also discussed on several occasions the rules and elements for the concluding of individual contracts, in particular regarding their alignment with the new Articles of Association of Slovenske železnice, d. o. o., and in accordance with the rules and Act Governing the Earnings of Management Staff at Companies Under the Majority Ownership of the Republic of Slovenia and Self-Governing Local Communities also the basis for the payroll calculation under individual employment contracts for 2016.

Approval of the annual report and the proposed use of the distributable profit for 2016

The members of the Supervisory Board discussed the content of the 2016 annual report in advance at two sessions of the Supervisory Board and at two sessions of the audit committee. The unaudited annual report of Slovenske železnice, d. o. o., and of the Slovenske Železnice Group for 2016 was discussed by the Supervisory Board's audit committee on 29 May 2017 and 28 June 2017, and was discussed by the Supervisory Board at two of its sessions, i.e. on 31 May 2017 and 29 June 2017.

The certified auditors Deloitte revizija, d. o. o., Dunajska cesta 165, 1000 Ljubljana, which audited the financial statement and disclosures for 2016 for all group companies and for the Slovenske Železnice Group, reported on their findings and the progress of the audit for 2016.

The Management Board discussed the audited annual report of Slovenske železnice, d. o. o., and the consolidated audited annual report of the Slovenske Železnice Group for 2016 at its session of 10 July 2017 in accordance with paragraph 3 of Article 272 of the ZGD-1, and submitted it to the Supervisory Board for review and verification together with the independent auditor's report. The members of the Supervisory Board and the audit committee received the audited annual report for 2016 on 10 July 2017 and discussed it at their sessions of 13 July 2017. The certified auditors reported to that committee and the Supervisory Board.

In the auditor's opinion the financial statements of Slovenske železnice, d. o. o., and the consolidated financial statements of the Slovenske Železnice Group present a true and fair picture of the financial position of Slovenske železnice, d. o. o., and of the Slovenske Železnice Group as at 31 December 2016, and of its operating result and cash flows for the year then ended, in accordance with the International Financial Reporting Standards that have been adopted by the EU.

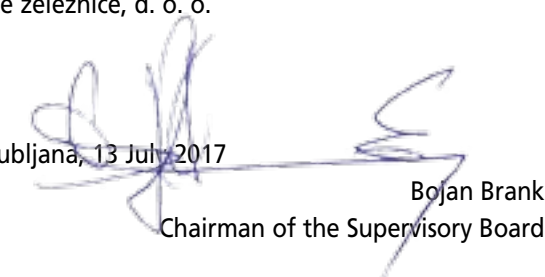
After the audit committee's review and verification of the business and financial reports for 2016, the Supervisory Board found that the audited annual report and the consolidated annual report for the 2016 financial year were compiled in a clear and transparent manner and in accordance with the provisions of the Companies Act based on the findings presented by the audit committee. The business report complies with the audited financial statements. After the final verification of the audited annual report the Supervisory Board of Slovenske železnice, d. o. o., had no comments regarding the report and adopted a favourable position on the auditor's report.

In addition to the annual report, the Supervisory Board also verified and approved the proposed use of distributable profit. Slovenske železnice,

d. o. o., generated a net operating profit of EUR 14,892,068.54 in 2016, while the distributable profit totalled EUR 28,301,786.57 as at 31 December 2016.

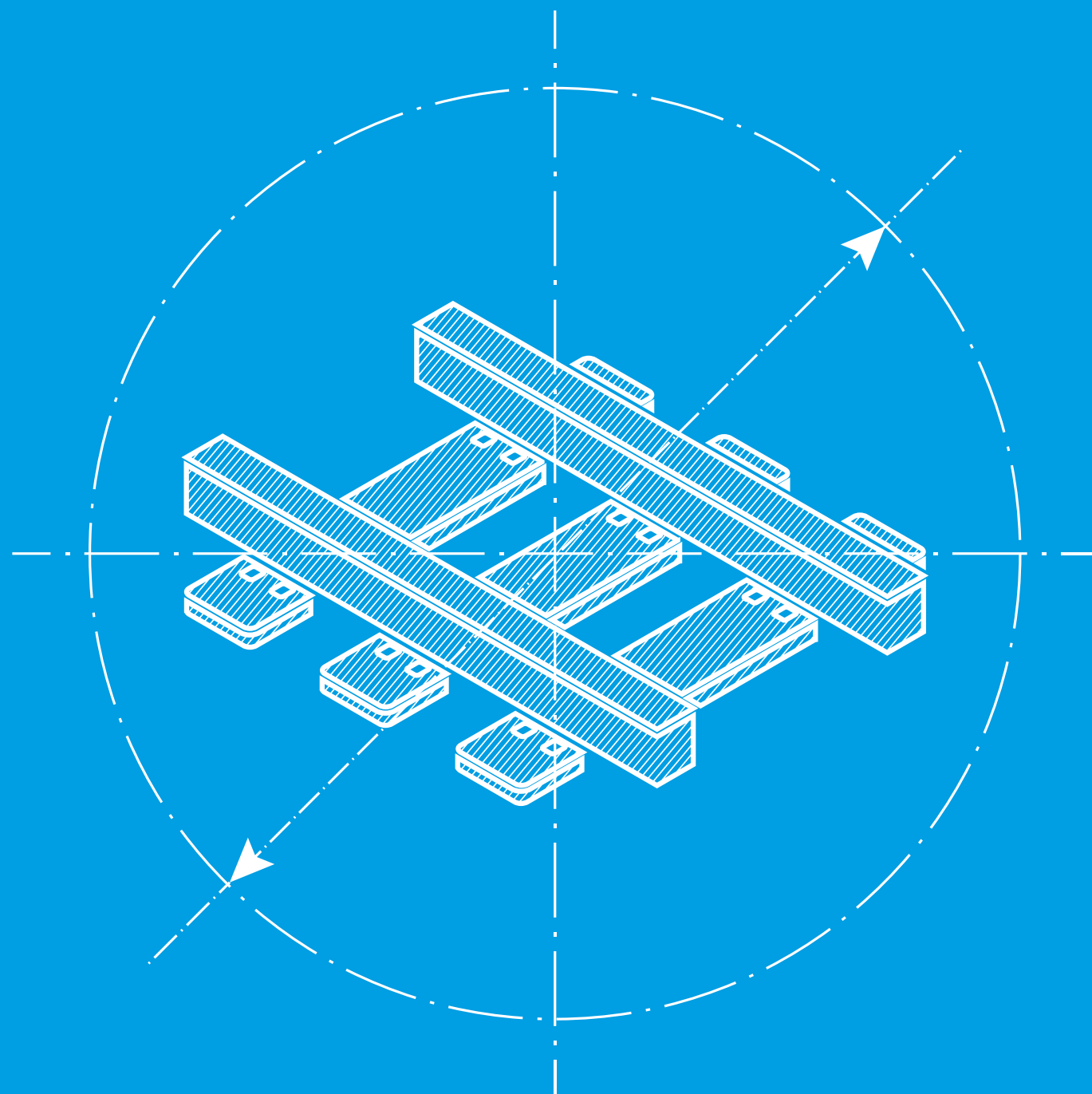
Based on the review of the annual report and the proposed use of distributable profit for 2016 the Supervisory Board established that the Annual Report of Slovenske železnice, d. o. o., and of the Slovenske Železnice Group for 2016 were approved in accordance with the provisions of Article 282 of the ZGD-1 and the Articles of Association of Slovenske železnice, d. o. o.

Ljubljana, 13 July 2017



Bojan Brank
Chairman of the Supervisory Board

FROM OUR VISION TO COMPREHENSIVE SERVICES



Slovenske železnice aims to become a major rail carrier in the region and a provider of comprehensive logistics services in central and south-eastern Europe. In terms of passengers and the infrastructure, we strive to supply comprehensive and user-friendly passenger services as the backbone of integrated public transport in both Slovenia and the wider region, and efficiently manage the PRI, maintain a rail infrastructure that is both safe and modern, and manage the rail services provided thereon.

INTRODUCTION

GENERAL INFORMATION REGARDING THE CONTROLLING COMPANY

COMPANY NAME:

Slovenske železnice, d. o. o.

ADDRESS:

Kolodvorska ulica 11
1506 Ljubljana
Slovenia

Telephone: +386 1 291 40 00

Email:

info@slo-zeleznice.si

Website:

www.slo-zeleznice.si

MANAGEMENT BOARD:

Director-General:

Dušan Mes

Member of the Management Board:

Tomaž Kraškovic

Workers' Director:

Albert Pavlič

MEMBERS OF THE SUPERVISORY BOARD

Chairman:

Bojan Brank

Deputy Chairman:

Aleksander Nagode

Members:

Silvo Berdajs
Mitja Križaj
Jože Oberstar
Jože Pavšek

OTHER DATA REGARDING THE COMPANY

Core activity:

70.100 Activities of head offices

Quality management certificate:

ISO 9001:2008, December 2015

Environmental certificate:

ISO 14001:2004, December 2014

Entry number:

10537000

Company registration no.:

5142733000

VAT no.:

SI18190995

Contact for information regarding the annual report:

Slovenske železnice, d. o. o.
Kolodvorska ulica 11
1506 Ljubljana
Central Corporate Office for
Marketing and Public Relations

GENERAL INFORMATION REGARDING SUBSIDIARIES

| | SŽ-Tovorni promet, d. o. o. | SŽ-Potniški promet, d. o. o. | SŽ-Infrastruktura, d. o. o. |
|-------------------|--|--|---|
| Address | Kolodvorska ulica 11 1000 Ljubljana | Kolodvorska ulica 11 1000 Ljubljana | Kolodvorska ulica 11 1000 Ljubljana |
| Core business | 49.200 Freight rail transport | 49.100 Passenger rail transport | 68.320 Management of real estate on a fee or contract basis |
| Entry number: | / | / | / |
| Registration no. | 6017231000 | 6017274000 | 6017177000 |
| VAT no. | SI84667044 | SI89393686 | SI94995737 |
| Senior management | Melita Rozman Dacar Drago Savič (workers' director) | Boštjan Koren Remzija Cinac (workers' director) | Matjaž Kranjc Matjaž Skutnik (workers' director) |
| Supervisory board | / | / | Darja Kocjan Matej Čepeljnik Nikola Knežević |
| General meeting | Founder SŽ, d. o. o. | Founder SŽ, d. o. o. | Founder SŽ, d. o. o. |

| | SŽ-VIT, d. o. o. | SŽ-ŽIP, storitve, d. o. o., Ljubljana | SŽ-Železniško gradbeno podjetje Ljubljana d. d. |
|-------------------|--|--|--|
| Address | Zaloška cesta 217 1000 Ljubljana | Kolodvorska ulica 11 1000 Ljubljana | Ob zeleni jami 2 1000 Ljubljana |
| Core business | 33.170 Repair and maintenance of other transport equipment | 80.100 Private security activities | 42.120 Construction of railways and underground railways |
| Entry number: | 12596100 | 12501700 | 10011300 |
| Registration no. | 5865824000 | 5824290000 | 5143004000 |
| VAT no. | SI99181762 | SI61613223 | SI46621474 |
| Senior management | Dušan Žičkar Zdravko Skrbiš (workers' director) | Vojka Martinčič Vesna Berdajs (workers' director) | Dušan Mes ¹⁾ Pavel Piškur |
| Supervisory board | / | / | Gorazd Podbevšek Dušan Mes ¹⁾ Silvo Berdajs |
| General meeting | Founder SŽ, d. o. o. | Founder SŽ, d. o. o. | General meeting of shareholders |

¹⁾Dušan Mes was appointed interim director of SŽ-Železniško gradbeno podjetje, d. d., whose function as member of the supervisory board of SŽ-Železniško gradbeno podjetje, d. d., is suspended until the appointment of the new managing director of SŽ-Železniško gradbeno podjetje, d. d.

| | Prometni institut Ljubljana, d. o. o. | SŽ-Železniška tiskarna Ljubljana, d. d. | Fersped, d. o. o. |
|-------------------|---|---|--|
| Address | Kolodvorska ulica 11 1000 Ljubljana | Hladilniška pot 28 1000 Ljubljana | Parmova ulica 37 1000 Ljubljana |
| Core business | 72.200 Research and experimental development on social sciences and humanities | 18.120 Other printing | 52.290 Other transportation support activities |
| Entry number: | 11645100 | 10004600 | 10125000 |
| Registration no. | 5674522000 | 5142881000 | 5069084000 |
| VAT no. | SI34722645 | SI41764544 | SI76557995 |
| Senior management | Peter Verlič | Janez Brezovar | Metod Podkrižnik |
| Supervisory board | / | Boštjan Koren Istok Puš Miran Parkelj | / |
| General meeting | Founder SŽ, d. o. o. | General meeting of shareholders | Founder SŽ, d. o. o. |

KEY PERFORMANCE INDICATORS

| Statement of profit or loss items (in EUR thousand) | Slovenske Železnice Group | | | Slovenske železnice, d. o. o. | | |
|---|---------------------------|------------------|-------|-------------------------------|------------------|-------|
| | 2016 | 2015 | Index | 2016 | 2015 | Index |
| Operating revenues | 501,923 | 584,332 | 85.9 | 33,814 | 62,540 | 54.1 |
| Transport revenues | 187,971 | 191,975 | 97.9 | | | |
| Revenues under contracts with the Slovenian Government | 160,141 | 154,002 | 104.0 | | | |
| Other operating revenues | 153,811 | 238,355 | 64.5 | 33,814 | 62,540 | 54.1 |
| Operating expenses | 477,281 | 543,257 | 87.9 | 27,078 | 38,824 | 69.7 |
| EBITDA | 58,886 | 75,353 | 78.1 | 7,695 | 24,679 | 31.2 |
| Earnings before interest and taxes (EBIT) | 24,642 | 41,075 | 60.0 | 6,736 | 23,716 | 28.4 |
| Pre-tax profit or loss (EBT) | 24,755 | 28,471 | 86.9 | 14,517 | 20,536 | 70.7 |
| Net profit or loss (E) | 25,056 | 25,831 | 97.0 | 14,892 | 18,737 | 79.5 |
| Statement of financial position items (in EUR thousand) | 31 December 2016 | 31 December 2015 | Index | 31 December 2016 | 31 December 2015 | Index |
| Assets | 554,748 | 561,473 | 98.8 | 530,193 | 516,965 | 102.5 |
| Equity | 305,586 | 283,246 | 107.9 | 286,650 | 274,606 | 104.4 |
| Financial liabilities | 138,986 | 144,050 | 96.5 | 224,175 | 206,694 | 108.5 |
| non-current financial liabilities | 125,178 | 134,634 | 93.0 | 122,918 | 133,424 | 92.1 |
| current financial liabilities | 13,808 | 9,416 | 146.6 | 101,257 | 73,270 | 138.2 |
| Net financial debt | 92,344 | 81,851 | 112.8 | 43,184 | 22,379 | 193.0 |
| Current operating receivables | 109,272 | 105,725 | 103.5 | 5,849 | 3,926 | 149.0 |
| Current operating liabilities | 80,461 | 103,422 | 77.9 | 10,111 | 14,012 | 72.2 |
| Investments, volume of work and personnel | | | | | | |
| Investments (in EUR thousand) | 33,270 | 24,191 | 137.5 | 3,038 | 2,128 | 142.8 |
| Goods transported (in thousand tonnes) | 19,239 | 18,595 | 103.5 | | | |
| Net tonne kilometres (in million NTKM) | 4,552 | 4,363 | 104.3 | | | |
| Number of passengers carried (in thousand) | 14,008 | 14,559 | 96.2 | | | |
| Passenger kilometres (in million PKM) | 680 | 709 | 95.9 | | | |
| Number of employees | 7,559 | 7,741 | 97.6 | 459 | 456 | 100.7 |
| Average headcount | 7,547 | 7,907 | 95.4 | 451 | 459 | 98.3 |
| Ratios | | | | | | |
| EBITDA margin as a % of operating revenues | 11.7 | 12.9 | 90.7 | 22.8 | 39.5 | 57.7 |
| EBIT margin (%) | 4.9 | 7.0 | 70.0 | 19.9 | 37.9 | 52.5 |
| Value added per employee (in EUR) | 40,931 | 43,733 | 93.6 | 56,023 | 112,489 | 49.8 |
| Labour costs as a % of operating revenues | 48.7 | 42.7 | 114.1 | 49.4 | 23.7 | 208.4 |
| Financial debt to assets ratio (%) | 25.1 | 25.7 | 97.7 | 42.3 | 40.0 | 105.8 |
| ROE (%) | 8.5 | 12.0 | 70.8 | 5.3 | 8.9 | 59.6 |
| ROA (%) | 4.5 | 4.5 | 100.0 | 2.8 | 3.5 | 80.0 |
| Return on equity invested (ROCE; %) | 5.7 | 9.5 | 60.0 | 1.4 | 4.9 | 28.6 |
| Net financial debt/EBITDA | 1.6 | 1.1 | 145.5 | 5.6 | 0.9 | 622.2 |
| Net financial debt/equity | 0.3 | 0.3 | 100.0 | 0.2 | 0.1 | 200.0 |

List of ratios:

Pre-tax profit or loss = EBIT + net finance income

Net profit = pre-tax profit or loss – corporate income tax

Value-added per employee = difference between operating revenues and sum of the costs of goods, material, services and other operating costs per average number of employees based on hours worked

ROE = net profit or loss/average equity

ROA = net profit or loss/average assets

ROCE = EBIT/average equity + average financial liabilities (debt)

Net financial debt = financial liabilities – cash and cash equivalents

Net financial debt of SŽ, d. o. o. = financial liabilities – cash and cash equivalents – current and non-current financial receivables from group companies

SIGNIFICANT EVENTS IN 2016

JANUARY

At the request of the Management Board and based on a resolution of the Supervisory Board of Slovenske železnice, d. o. o., the management board of SDH, d. d., as the founder and sole partner of Slovenske železnice, d. o. o., approves the strategic business plan of the Slovenske Železnice Group for the period 2016–2020.

The Supervisory Board of Slovenske železnice d. o. o., approves the proposed business plan of the Slovenske Železnice Group and the proposed business plan of Slovenske železnice, d. o. o., for 2016, including a forecast of the Company's operations for 2017–2018.

Major delays are caused by two 48-hour closures on the lines. A meeting is scheduled with the Port of Koper and key customers in order to find a joint solution to rectify the situation.

SŽ-Tovorni promet launches its new product with its own haulage in Austria.



The results of the pilot project that tested internet access on trains and at train stations were presented. During the pilot project trial internet access was enabled between the Kranj and Ljubljana stations. The testing of technologies used during the pilot project



was successful, and users could access the internet freely at stations and on trains. The technology will be gradually installed throughout the entire railway network in Slovenia.

A start-up meeting relating to the SEESARI initiative, which was organised by Slovenske železnice, Prometni institut Ljubljana, Srbske železnice and the International Union of Railways (UIC), was held at the registered office of Srbske železnice in Belgrade.

Slovenske železnice signed a letter of intent with the Austrian Federal Railways (ÖBB) for enhanced cooperation in rail freight transport in the geographic region of Slovenia, Hungary, Italy and south-eastern Europe, whose purpose is to improve the quality of services for customers and partners in various sectors.

FEBRUARY

An agreement is signed on business cooperation between SŽ-Potniški promet, the Municipality of Radovljica and the Turizem Radovljica public institution in order to develop new tourism opportunities through the use of public rail transport.

The Supervisory Board of Slovenske železnice, d. o. o., unanimously reappoints Dušan Mes, who managed the Company for the last four years, to a new four-year term as Director-General. The members of the Supervisory Board find that the performance of Slovenske železnice was successful during this time, thereby validating his reappointment.

Slovenske železnice, the Municipality of Pivka and the Pivka Public Heritage Management and Tourism Institute conclude a partnership agreement that constitutes the basis for the development of new opportunities in tourism and in the use of public rail transport.



MARCH

The international transport that was stopped at the border crossings with Croatia, Austria and Hungary due to the refugee crisis began operating again at the beginning of March.

The transportation of ore and coal declined due to the unplanned overhaul of the furnace at our largest customer.

The executive director of the Community of European Railway and Infrastructure Companies (CER) Dr Libor Lochman visited Slovenske železnice. The CER, also called the Voice of European Railways, represents the interests of its members in the formation of EU policy and provides support for an improved business and regulatory environment for European railway operators and railway infrastructure companies.

Despite the terrorist attacks in Brussels, the international train service operated smoothly between Slovenia, Austria and Germany. Users were informed of their options to travel by train to Brussels, as flights between international airports were cancelled.

A long-term agreement was signed with the Slovenian Government for the provision of services by the manager of the public rail infrastructure for the period from 1 January 2016 to 31 December 2020.

The management board of the Slovenski državni holding, d. d., appoints Jože Oberstar as member of the Supervisory Board of Slovenske železnice, d. o. o.

The Supervisory Board of Slovenske železnice appoints Tomaž Kraškovic as member of the Management Board of Slovenske železnice, d. o. o.

Stricter safety measures are implemented at Slovenske železnice, which also re-launches a preventive campaign that warns of the dangers of crossing the tracks.



APRIL

Slovenske železnice, d. o. o., SŽ-Tovorni promet, d. o. o., and Mercator, d. d. sign an agreement on the sale of land for the construction of the new Mercator logistics and distribution centre.



SŽ-Tovorni promet begins transporting containers from the Port of Koper with its own haulage along the entire route, even when crossing into Austria. In addition it starts preparing the new organisation of longer trains for the transportation of cars via the terminal in Celje.

Together with our key customers and in cooperation with the Slovenian Forest Service, the Company plants more than 10,000 trees in the Prestranek region, which was most affected by the ice storm in 2014.



Slovenske železnice and Arriva sign a cooperation agreement on services that the two operators SŽ-Potniški promet and the Arriva Group provide in Slovenia using their own rolling stock. The objective of the agreement is to ensure the higher quality of transport services within the scope of the integration of public rail transport in Slovenia.

The position of general manager of Fersped, d. o. o., is assumed by Metod Podkrižnik, who was appointed to a four-year term of office.

Slovenske železnice opens a modern parking lot for motorhomes and caravans at the Bohinjska Bistrica train station. The parking lot is managed by SŽ-ŽIP, storitve, d. o. o. Its construction also generated new jobs for disabled persons, and further expanded the wide range of its activities. The construction of the parking lot and other infrastructure also resulted in the marked improvement of the image of the Bohinjska Bistrica train station.



MAY

The new internal organisational structure of the Slovenske Železnice Group is implemented.

Annex 21 to Agreement No. 3/2010-2019 on the discharge of the public service obligation in in-land and cross-border regional transport of passengers by rail for the period 2010-2019 is signed for the period from 1 January 2016 to 31 December 2017.

Annex 1 to the Agreement on the Provision of Services by the Manager of the Public Rail Infrastructure for the period from 1 January 2016 to 31 December 2020 is signed with the Slovenian government for the period from 1 January 2016 to 31 December 2016.

JUNE

The project Reconstruction, electrification and upgrade of the Pragersko-Hodoš line is completed. In addition to the electrification, a series of other projects were carried out within the scope of the entire project that covers a 109-kilometre section of the rail line: the rearrangement of 78 level crossings of roads and rail lines which were considered a traffic safety problem, the construction of 40 kilometres of connecting roads, the implementation of anti-noise measures through the erection of fences, the implementation of passive barriers at specific nearby residential buildings and reconstruction of stations, stops and line sections, and various other projects.

A ceremony was held in Celje on the occasion of the 170th anniversary of the arrival of the first train in Celje, which was attended by government officials and representatives of local communities and the corporate sector. Awards were also presented to employees for 30 years of service on the railway. A travelling exhibition called Here Comes the Iron Road was opened, and will visit different places along the railway line between Slovenia and Austria until autumn.



The European Train Control System (ETCS) project and preparations for the takeover of devices from the manager is completed, and the devices are put into operation. Testing of an electric locomotive and the monitoring of the implementation of the project are carried out by the investment control committee, which is co-financed from the EU development funds.

A delegation from the global logistics operator Nippon Express makes a business visit to Slovenske železnice. The services and capacities of SŽ-Tovorni promet were presented to them.

JULY

Due to the work stoppage of employees at the Port of Koper, the transport of trains to and from the Koper freight station is suspended from 9 am on 1 July 2016 until 10 pm on 5 July 2016.

The modernisation of the Divača–Koper (phase D) line project is completed.



The Supervisory Board of Slovenske železnice, d. o. o., confirms the audited annual report of Slovenske železnice, d. o. o., and of the Slovenske Železnice Group for 2015.

The Government of the Republic of Slovenia is briefed on the final report on the recording, determination and calculation of eligible costs and loss of income associated with the organisation and operation of railway transport between the renovation and re-establishment of electrical traction from 1 February 2014 to 31 October 2015 on the Borovnica–Pivka section of the line. SŽ-Infrastruktura, d. o. o., had to submit its request for the reimbursement of costs to the Ministry of Infrastructure by 30 November 2016. The government also approved the agreement on the reimbursement of eligible costs, loss of income of operators associated with the organisation and operation of railway transport between the renovation and re-establishment of electrical traction on the Borovnica–Pivka section, and authorised Damir Topolko, the Director of the Infrastructure Directorate of the Republic of Slovenia, to sign the agreement.

AUGUST

Based on the Railway Transport Act and the Decree on the Assignment of Train Paths, the Formulation of the Network Timetable, the Charging of Operating Fees and the Ensuring of Performance on Public Rail Infrastructure, the duties set out in Article 11b of the Act were transferred from the Public Agency for Rail Transport to SŽ-Infrastruktura, d. o. o., as the manager of the public rail infrastructure. These duties involve the allocation of train paths, the setting and charging of infrastructure fees, the drafting, adopting, bringing into force and publishing of the train timetable, ensuring the efficiency of international train paths and ensuring the competitiveness of international freight transport.

We obtained a licence for freight transport in Croatia.

Due to a large fire on multiple sections of the Divača–Koper line, the line itself was closed from 1.15 pm on 7 August 2016 to 11.30 am on 8 August 2016.

Slovenski državni holding, d. d., as the founder and sole partner of Slovenske železnice, d. o. o., adopted resolutions in connection with the audited Annual Report of Slovenske železnice, d. o. o., and of the Slovenske Železnice Group for 2015, as proposed by the Supervisory Board and Management Board of Slovenske železnice, d. o. o. The new Articles of Association of Slovenske železnice, d. o. o., which replaced the currently applicable Articles of 8 September 2015, were also adopted.

A press conference was held at the registered office of Slovenske železnice which included a presentation of the IPRT project and the introduction of the subsidised IPRT ticket for the 2016/2017 school year as a new IPRT product.



Amendments to the company's articles of association that changed the single-tier to a two-tier governance system were adopted at the general meeting of SŽ-Železniško gradbeno podjetje, d. d. Appointment of the company's bodies – management board: managing director Anton Žagar, workers' director Pavel Piškur; and the supervisory board comprising Dušan Mes, Gorazd Podbevšek and Silvo Berdajs.

SEPTEMBER

SŽ-Tovorni promet, d. o. o., presented its wagon transportation services and transport of small consignments at the International Trade and Business Fair in Celje, which was attended by more than 1,500 exhibitors from 38 countries. SŽ-Potniški promet, d. o. o., also presented its range of products and services at the fair.



We appeared on the Croatian market as an independent operator for the first time and began running trains on Croatian tracks in this role for the first time on 29 September 2016.

Dr Peter Verlič was appointed to a new four-year term of office as the managing director of Prometni institut Ljubljana, d. o. o.

President of the Republic of Slovenia Borut Pahor and other guests took the heritage train ride to mark the 110th anniversary of the Solkan Bridge and the Bohinj line.



OCTOBER

Two drills were carried out at the Maribor station and between the Šmartno ob Paki and Šoštanj stations in order to comprehensively verify the readiness of civil protection, disaster relief and assistance teams in the event of a train accident in inaccessible areas. More than 350 participants took part in the drills, including firefighters, rescue personnel, mountain rescue personnel, divers, guides with rescue dogs, policemen, railway workers, and members of the civil protection service (including a Slovenian Army helicopter).



NOVEMBER

We acquire ten state-of-the-art SGGRRS freight wagons with twenty containers manufactured by InnoFreight that included the RockTainer system for the carriage of bulk cargo.



The project Introduction of Integrated Public Transport in the Republic of Slovenia is completed.

DECEMBER

Our new timetable provides passengers with attractive new options for travel to Zagreb, Belgrade and Budapest.



The Supervisory Board of Slovenske železnice, d. o. o., approves the resolution of the Management Board of Slovenske železnice, d. o. o., regarding the recapitalisation of SŽ-VIT, d. o. o., by way of a non-cash contribution of EUR 10.5 million for the coverage of the total loss brought forward in the amount of EUR 5.6 million and the increase in share premium.

The Government of the Republic of Slovenia adopts a resolution on the recapitalisation of the 2TDK state-owned project firm for preparatory work for the construction of the Divača–Koper second track.

SIGNIFICANT EVENTS AFTER THE END OF THE 2016 FINANCIAL YEAR

JANUARY

Slovenske železnice is acknowledged for its Integrated Public Passenger Transport project and receives the Transport Ticketing Global Award 2017 for Most Innovative Customer Serving Operator. Slovenske železnice wins first prize among fierce global competition.



The Forum Train Europe (FTE) conference for the preparation of timetables for international transport in the 2017/2018 season is held in Ljubljana.



FEBRUARY

The Supervisory Board of Slovenske železnice, d. o. o., approves the appointment of Melita Rozman Darar to the position of managing director of SŽ-Tovorni promet, d. o. o., as of 15 February 2017 for a four-year term of office, approves the appointment of Dušan Žičkar to the position of managing director of SŽ-VIT, d. o. o., as of 18 February 2017 for a four-year term of office, and on the proposal of the works council of companies linked through capital investments within the system of Slovenian Railway Companies appoints Albert Pavlič to the position of member of the Management Board – Work-

ers' Director as of 15 February 2017 for a four-year term of office. The four-year term of office of member of the Management Board of Slovenske železnice, d. o. o., Milan Jelenc expired on 13 February 2017, who on the same day assumed the position of adviser to the Management Board of Slovenske železnice, d. o. o.

In accordance with indent 1 of paragraph 2 of Article 15 of the Articles of Association of Slovenske železnice, d. o. o., the Supervisory Board of Slovenske železnice d. o. o., approves the proposed business plan of the Slovenske Železnice Group and the proposed business plan of Slovenske železnice, d. o. o., for 2017, including a forecast of the Company's operations for 2018–2019.

The Government of the Republic of Slovenia adopts a resolution on the conclusion of the Agreement on the discharge of the public service obligation in in-land and cross-border regional transport of passengers by rail for the period 2017–2031.

MARCH

The Agreement on the discharge of the public service obligation in in-land and cross-border regional transport of passengers by rail is signed for the period from 1 January 2017 to 31 December 2031, during which funds were earmarked for the financing of liabilities arising from the public service obligation, and the maximum amount of investment costs included in the compensation for the public service obligation.

The transportation of grains is reorganised, including the optimisation of train movements and ensuring a higher quality of services.

Representatives of SŽ-Potniški promet, d. o. o., met in Trieste with the presidency of the Italian Confederation of Sustainable Mobility to focus on the need of train connections between Ljubljana and Trieste. A representative of the Austrian Federal Railways (ÖBB) also attended the event. Today there are ten Slovenske železnice trains running daily between Ljubljana and Opicina, and four daily bus connections that are organised by SŽ-Potniški promet, d. o. o., between the Ljubljana and Trieste train stations.

APRIL

Slovenske železnice is visited by a delegation from Republika Srpska Railways, which is planning company

restructuring in cooperation with the World Bank, and is gathering experience from other railway companies.

The season of heritage train rides from Celje to Podčetrtek opens. Take the Train Across the Celje Region is a joint project of Slovenske železnice, the Celeia Institute of Cultural Events and Tourism and 21 municipalities in this region of Slovenia.



Slovenske železnice, Chamber of Publishing and Book-selling (CCIS) and Transport Association (CCIS) hosted the EU Commissioner for Transport Violeta Bulc as part of the Reading is the Best Journey event). The Commissioner reads to random passengers together with some well-known Slovenian writers aboard the train between Ljubljana and Postojna. The event was organised as part of the Slovenia Reads campaign.



MAY

The Ljubljana Container Terminal receives a Holland Container Innovations certificate regarding the qualifications needed to work with their containers.

The Government of the Republic of Slovenia and SŽ-Infrastruktura, d. o. o., concluded Annex 3 for the period 1 January 2017 to 31 December 2017 to the Agreement on the Provision of Services by the Manager of the Public Rail Infrastructure for the Period 2016–2020.

The Divača station is included in the remote control system from the Postojna Traffic Control Centre (CVP Postojna). The traffic remote control system is implemented on the entire line from the Ljubljana station to the Koper freight station.

SŽ-Tovorni promet and SŽ-VIT make presentations at the joint exhibition stall at the Transport Logistic fair in Munich. That is one of the most important business events in the railway and logistics sector, bringing together more than 2,000 exhibitors from over 60 countries. A large majority of the companies with whom we already cooperate attended the fair, but we also had the opportunity to establish contact with potential buyers of our services. We attended more than 90 business meetings over four days covering a variety of topics. We also signed several agreements on strategic partnerships, both with customers and other operators. Fersped, a company in the Slovenske Železnice Group, also made a presentation under the auspices of the Spirit Public Agency.



In cooperation with the Ljubljana Festival, a now-traditional special train ride is held for the press, during which presentations are made about train trips to Štanjel and packages for travelling by train to the Ljubljana Festival events.





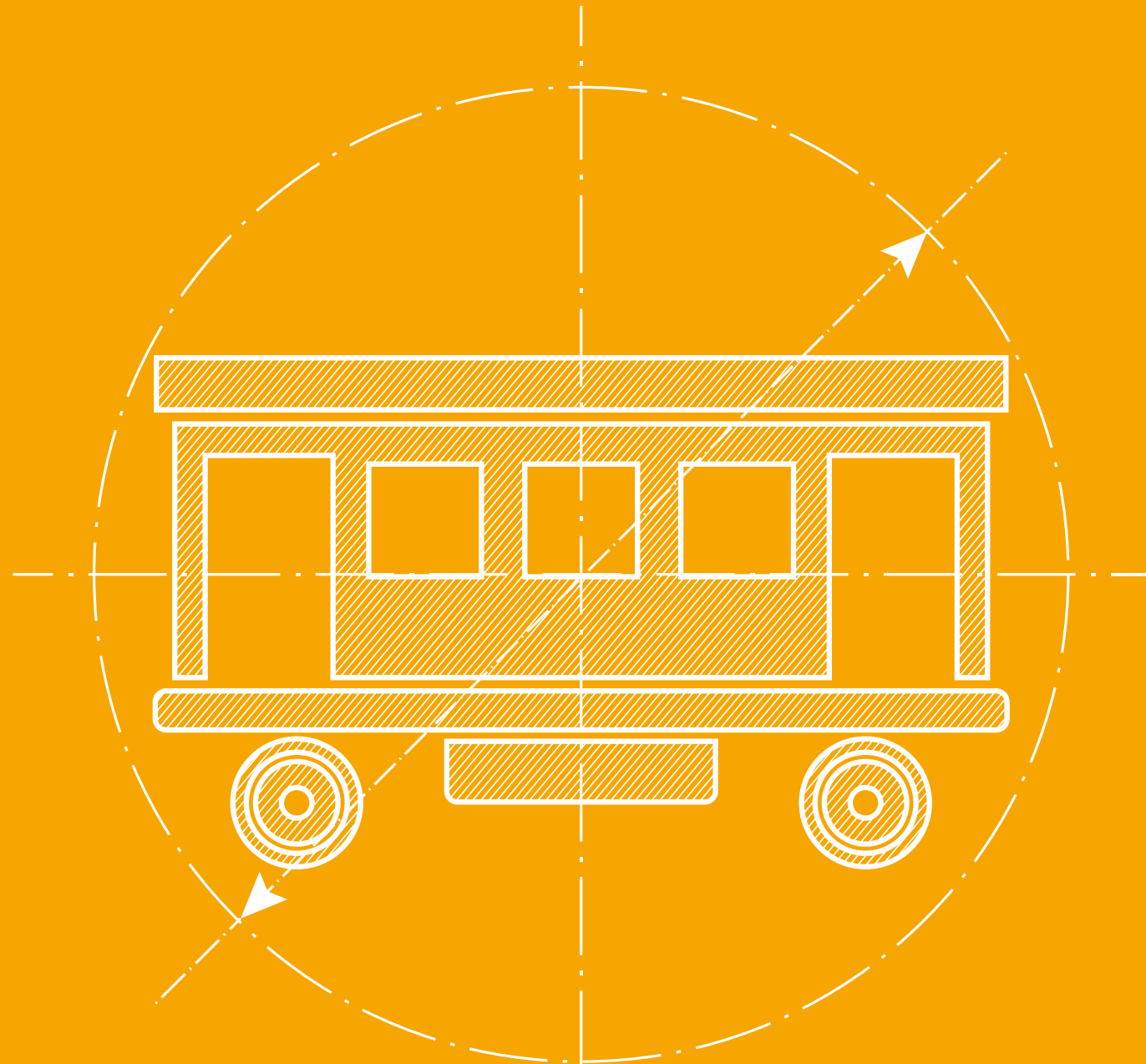
Increasing the volume of freight transported



28.7%

SŽ-Tovorni promet accounts for the largest proportion of income and cash flows between the SŽ Group companies. The company recorded 18.9% growth in the freight transportation volume (in tonnes) and 28.7% growth in volume sold (net TKM), which is an extraordinary achievement compared to other EU operators/carriers.

FOCUS ON INTERNATIONAL MARKETS AND DEVELOPMENT



- Internationalisation and diversification of operations, upgrade of rolling stock, development of a network of logistics and freight forwarding services, development of logistics (rail-road) terminals, strategic and capital integration in the region.
- More services for passengers, such as wireless internet on trains and stations, online sale of tickets and maintenance of mobile applications, single ticket, comprehensive IPRT service, renovation of stops.
- Increasing efficiency and performance through technological modernisation of production processes and computerisation of operations.
- High-quality integrated maintenance services through introduction of advanced technologies and processes, and modernisation of equipment.

BUSINESS REPORT

CORPORATE GOVERNANCE STATEMENT

In accordance with the provision of the fifth paragraph of Article 70 of the Companies Act (ZGD-1) and the Corporate Governance Code for Companies with Capital Assets of the State, the Company hereby issues a corporate governance statement as part of its business report.

REFERENCE TO THE CORPORATE GOVERNANCE CODE

The Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding applied to the Company from 1 January to 31 December 2016.

The Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding are available on the website of Slovenski državni holding, d. d.

Statement of compliance with the Corporate Governance Code for Companies with Capital Assets of the State and deviations from that Code, and deviations from the Recommendations and Expectations of Slovenski državni holding.

a. The Management Board and the Supervisory Board of the Company hereby declare that the Company (with specific deviations that are explained below) complies with the Corporate Governance Code for Companies with Capital Assets of the State and the Recommendations and Expectations of Slovenski državni holding in its work and operations.

Point 3.2:

The Company has no management policy in place, and operates in accordance with regulations, the Company's Articles of Association and the State Assets Management Strategy. The management policy is being prepared and is expected to be adopted in 2017 at the Slovenske Železnice Group level.

Point 6.1:

The Supervisory Board did not formally draft a succession plan for members of the Management Board, although it did start a discussion regarding its formulation. Any succession plan must take into account, in particular, the Company's status and the duties set out in the regulations and the Articles of Association.

Point 6.1.1:

The Management Board does not have a balanced structure in terms of the representation of both genders.

Point 6.1.6:

The Articles of Association or resolution of the Supervisory Board does not specify the mandatory consent of the Supervisory Board to the establishment or closure of branches. Consent to the acquisition, disposal or closure of material parts of a company or plant is provided for merely indirectly in the obligation to secure other consents (to corporate status or capital changes at the company). The appointment of procurators falls within the powers of the founder in accordance with the Companies Act.

Point 6.4:

Members are appointed to the Supervisory Board who through their diversity ensure that the board as a whole contains the required knowledge, skills and experience to control and monitor Company operations. However, the board does not have a balanced structure in terms of gender representation or international elements. The diverse

composition in terms of gender was taken into account by the Supervisory Board in the composition of the audit committee, which also includes an external female member.

Points 6.5.1, 6.7 and 6.8:

The Company is 100% owned by the Slovenian Government, meaning that the appointment of Supervisory Board members lies exclusively within the domain of the Company's founder, i.e. Slovenski državni holding, and not the General Meeting. The founder appoints Supervisory Board members in accordance with the relevant regulations and its bylaws, thereby not requiring the establishment of a nomination committee within the Supervisory Board.

Point 6.12.2:

The audit committee held nine sessions in 2016 due to the required adoption of relevant decisions.

Point 7.3:

The Company adopted no remuneration policy as a formal act of the founder. However, the Supervisory Board apprised the founder in 2015 of the fact that the Company adopted bylaws that substantively determine the remuneration policy of members of management bodies of Slovenske železnice, d. o. o., and the Slovenske Železnice Group's subsidiaries.

Point 7.4.2:

The Company has no formally specified obligations for a member of the Company's Management Board who

assumes the position of member of the supervisory board of a company outside the Slovenske Železnice Group to obtain the consent of the Company's Supervisory Board. The Company's Articles of Association specify that a member of the Management Board cannot be a member of the supervisory board of other companies, except on the supervisory boards of companies in which Slovenske železnice, d. o. o., holds a minimum 25% stake. The Supervisory Board is informed of the assumption of such function in practice in order to align the positions on adhering to the interests of the Slovenske Železnice Group.

Point 7.5:

The Company currently has no individual development plans for each employee but will introduce SAP-HCM information support in 2017. We decided to add support for human resources development during its implementation at Slovenske Železnice Group companies. The new information support will help us implement a new HR process in 2018, i.e. the management of employee development plans in which the career path of a specific employee and his/her critical abilities will be defined.

b. Slovenske železnice, d. o. o., (with the specific deviations that are set out below) adheres to the adopted Recommendations and Expectations of Slovenski državni holding which are published on the website of Slovenski državni holding, d. d.

Point 3.6:

The Company does not publish data on its website regarding the total value of transactions that by their legal nature are mandate contracts or work contracts or whose subject is intellectual work, but does publish data in accordance with the applicable regulations regarding specific contracts in a manner that makes it possible to determine the data regarding total value from individual publications. The Company concluded two flat-rate agreements with two law firms to ensure effective and long-term legal protection.

Point 4.2:

A performance-based incentive under an agreement concluded with social partners was paid out in 2016. The conclusion of the agreement took into account the growth in operating revenues, an increase in the net operating result, a decrease in financial liabilities, an increase in EBIT, an increase in the volume of goods transported, a decrease in the number of employees and an increase in value-added per employee, all in the period 2009–2015, and the generated EBIT in the period January–September 2016, and the total operating profit in the period January–September 2016.

Point 5:

The EFQM excellence model, an extremely complex project, has not been introduced within the Slovenske Železnice Group. Due to the number of other projects being carried out, no decision has been made on the introduction of this model.

Description of the main features of the Company's internal control and risk management systems in relation to the financial reporting process

A comprehensive risk management system (the trial period for which was completed in 2016) is being developed within the Slovenske Železnice Group that also ensures the appropriate management of books of account. A system has been created that ensures the functioning of internal controls at all levels of operation of the Slovenske Železnice Group. The system of internal controls provides sufficient assurance for the identification and assessment of significant risks, the definition of risk management measures and the reporting on risks.

The Slovenske Železnice Group is establishing a comprehensive risk management system.

The Management Board of Slovenske železnice, d. o. o., and the senior management of Slovenske Železnice Group companies which ensure that internal controls are systemically installed in the business processes are responsible for the commencement of the operation of the system of internal controls.

The aim of the functioning of internal accounting controls is therefore to ensure a fair and true presentation of the operations of the Slovenske Železnice Group, while at the same time pursuing the following objectives:

- accuracy, reliability, completeness and timeliness of financial reports;
- compliance of operations with the law, standards, agreements and the Company's bylaws;
- achievement of effectiveness and successful performance that is reflected in an increase in the assets of the Slovenske Železnice Group;
- achievement of the Slovenske Železnice Group's strategic objectives.

In order to achieve these objectives the Slovenske Železnice Group:

- is responsible for the transparent organisational structure of the Slovenske Železnice Group;
- is introducing a standardised accounting and business information system at the parent company and at subsidiaries;
- ensures the standardised management of books of account through a mostly centralised accounting function;
- reports on operations in accordance with the International Financial Reporting standards (IFRS); clear and transparent accounting policies have been adopted for the entire Slovenske Železnice Group;
- conducts regular internal audits;
- is responsible for the independent approval of the fair presentation of the financial position of the Slovenske Železnice Group through the external auditing of financial statements;
- conducts other independent assessments, such as the assessment of the quality management system according to the ISO 9001 standard, etc.

Risk management and risk assessment by specific area are presented more accurately in the Risk management section of this business report. We believe that the system of internal controls that are the subject of continuous improvements within the Slovenske Železnice Group is primarily an effective and successful instrument for the achievement of both short-term and strategic business objectives.

Data in accordance with point 4 of the fifth paragraph of Article 70 of the Companies Act

The Company is established as a limited liability company. The sole partner (owner) is the Republic of Slovenia, which holds the entire participating interest. In accordance with the first paragraph of Article 2 of the Slovenske Železnice Act (Official Gazette of the Republic of Slovenia, Nos 106/10, 43/11, 40/12 – ZUJF, 25/14 – ZSDH-1 and 30/16), the Republic of Slovenia may not divide its participating interest in the company or transfer it to another person. The Republic of Slovenia as the sole partner has no restrictions on its voting rights.

The Company is managed by its Management Board which in accordance with the Articles of Association is comprised of the Director-General, two members of the Management Board (managing directors) and the workers' director. Members of the Management Board are appointed and dismissed by the Company's Supervisory Board; the workers' director is appointed and dismissed on the proposal of the Works Council. The Director-General has the right to propose to the Supervisory Board the appointment of two members of the Management Board (the managing directors). However, the Supervisory Board is not legally bound to comply with that proposal. The Supervisory Board may recall a member of the Management Board if they commit a serious breach of

obligations, if they are incapable of conducting business, if the founder passes a vote of no confidence in them – unless such vote of no confidence is clearly unfounded – or for other economic and business reasons.

The Company has a Supervisory Board comprising six members. Four members that represent the interests of the founder are appointed and dismissed by the founder, i.e. Slovenski državni holding. Two members that represent the interests of employees are appointed and dismissed in accordance with the Worker Participation in Management Act (Official Gazette of the Republic of Slovenia, Nos 42/07 and 45/08 – ZArbit).

The Articles of Association and the amendments thereto are adopted by the founder, i.e. Slovenski državni holding.

The managers and Management Board manage the Company's operations at their own risk. Individual members of the Management Board are allocated their respective work area together with the Rules of Procedure of the Management Board. The workers' director represents the interests of workers as they relate to human resource and social issues in accordance with the Articles of Association.

The Director-General represents the Company independently and without restrictions. The two Management Board members (managing directors) and workers' director represent the Company together with the Director-General.

Due to the legal prohibition of division or transfer of a participating interest to another person, the Management Board cannot be granted any powers for the issuance or purchase of own shares in treasury.

Functioning of the general meeting and its key powers, the description of the rights of shareholders and the manner of exercising their rights

The Company is established as a limited liability company. The sole partner (owner) is the Republic of Slovenia, which holds the entire participating interest.

In accordance with the Companies Act, all the major corporate decisions in single-partner limited liability companies that are set out in the Companies Act and in the Articles of Associations are taken by the founder. The function of the founder of the Company is performed by Slovenski državni holding, d. d. (hereinafter: SDH).

The founder therefore holds all the powers of the general meeting, while making independent decisions on changes and amendments to the Articles of Association, the adoption of the annual report and consolidated annual report (if they are not approved by the Company's Supervisory Board or if the Management Board and Supervisory Board leave the decision on their adoption to the founder), the use of distributable profit and coverage of loss, the conferral of official approval upon the Supervisory Board and

Management Board or to an individual member of these two bodies, the repayment of subsequent payments, the remuneration policy for members of the Management Board on the proposal of the Supervisory Board and upon prior approval of the Government as the general meeting of the founder, corporate status changes and the dissolution of the Company, changes to share capital, the appointment and dismissal of Supervisory Board members, except those that were appointed by the Works Council, payments to members of the Supervisory Board, the appointment of the auditor of the Company on the proposal of the Supervisory Board, representation of the Company in court proceedings against managers and other matters in accordance with its powers, as derived from the applicable laws and Articles of Association of Slovenske železnice, d. o. o.

The sessions of the founder are held in accordance with its bylaws.

COMPOSITION AND FUNCTIONING OF MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES

The Company is governed by the founder directly and through its governing bodies, namely the Supervisory Board and the Management Board (two-tier governance system). The powers of the Company's bodies are set out in the Companies Act and in Slovenske železnice, d. o. o.'s Articles of Association, Rules of Procedure of the Supervisory Board and Rules of Procedure of the Management Board.

Composition of the Supervisory Board

In accordance with the Articles of Association of Slovenske železnice, d. o. o., the Supervisory Board of Slovenske železnice, d. o. o., comprises six members. Four members are appointed by the founder and two by the Works Council. The composition of the Supervisory Board changed in 2016 with the appointment of Jože Oberstar as its sixth member.

The Supervisory Board comprised the following members at the end of 2016:

| First name and surname | Term of office | | Function |
|------------------------|------------------------|----------------------|--|
| Bojan Brank | from 11 September 2015 | to 11 September 2019 | Chairman since 31 March 2016, Deputy Chairman prior to that date |
| Silvo Berdajs | from 11 September 2015 | to 11 September 2019 | Member |
| Mitja Križaj | from 11 September 2015 | to 11 September 2019 | Member |
| Aleksander Nagode | from 11 September 2015 | to 11 September 2019 | Deputy Chairman since 31 March 2016 |
| Jože Pavšek | from 11 September 2015 | to 11 September 2019 | Member |
| Jože Oberstar | from 22 March 2016 | to 11 September 2019 | Member |

Work of the Supervisory Board

The legal basis for the work of the Supervisory Board comprises the Companies Act, Slovenske železnice, d. o. o.'s Articles of Association, Rules of Procedure of the Supervisory Board and Rules of Procedure and Remuneration of Supervisory Board Committees and Rules of Procedure of the Supervisory Board's Audit Committee.

The Supervisory Board exercises its powers and performs its duties at sessions and with the help of its committees.

The most important powers of the Supervisory Board are as follows: the supervision of the operations of Slovenske železnice, d. o. o., the review and verification of the Company's books of account and documentation, its cash drawers, securities in safekeeping and inventories of merchandise, supervision of the activity of the Slovenian Railway Companies Concern and implementation of the adopted annual and strategic plan on the basis of Management Board reports, verification and approval of annual reports and review of the proposed use of distributable profit, the appointment and dismissal of the Management Board of Slovenske železnice, d. o. o., the appointment of the audit committee and other Supervisory Board committees, the conclusion of employment contracts with Management

Board members, monitoring the appropriateness of procedures and effectiveness of internal controls and internal auditing, and approval of the business plan of the Slovenian Railway Companies Concern, the purchasing or selling of capital assets and real estate above the amount set out in the Articles of Association, investments and divestment that are not included in the Company's annual plan or the strategic business plan of the Slovenian Railway Companies Concern above the amount set out in the Articles of Association, the raising of loans and credit, and providing guarantees and sureties to third parties above the amount set out in the Articles of Association.

The Supervisory Board also decides and gives consent in matters set out in Article 15 of the applicable Articles of Association of Slovenske železnice, d. o. o.

Supervisory board committees

An audit committee functioned within the Supervisory Board in 2016, which holds the power set out in Article 280 of the Companies Act and in the Rules of Procedure of the Audit Committee. The audit committee functioned in the following composition: Mitja Križaj (chair), Aleksander Nagode, Silvo Berdajs (members) and Barbara Nose (external member).

An HR committee was established on 31 March 2013 comprising the following members: Jože Oberstar (chair), Bojan Brank and Jože Pavšek (members). The human resources committee met at six sessions in 2016. The most significant matters discussed by the HR committee related to the powers of the Supervisory Board in appointing members of the Management Board of Slovenske železnice, d. o. o., approval of the appointment and dismissal of the management board members of subsidiaries, approval of the appointment of the head of the IAD, and approval of the rules for the conclusion of individual employment contracts.

The content of the discussions of the Supervisory Board committees is presented in the Report of the Supervisory Board for 2016.

MANAGEMENT BOARD

In accordance with the applicable Articles of Association of Slovenske železnice, d. o. o., the Company's operations are managed by its Management Board comprising the Director-General, two members of the Management Board (managing directors) who represent the Company only in concert with the Director-General, and the workers' director.

The Company Management Board in 2016: Director-General Dušan Mes, members Milan Jelenc and Tomaž Kraškovic, and Workers' Director Albert Pavlič.

The Company was managed by the following persons in 2016:

- Director-General Dušan Mes, who after completing his four-year term of office, to which he was appointed on 22 March 2012, was re-appointed to the position for a new four-year term on 23 March 2016;
- Member of the Management Board Milan Jelenc, who was appointed on 14 February 2013;
- Member of the Management Board Tomaž Kraškovic, who was appointed on 1 April 2016, and
- Workers' Director Albert Pavlič, who was appointed on 14 February 2013.

The managers and Management Board manage the Company's operations at their own risk. During the management of operations of Slovenske železnice, d. o. o., the managers and the Management Board adopt all decisions that do not rest with the Supervisory Board and the founder in accordance with regulations and the Articles of Association. Individual members of the Management Board are allocated their respective work area together with the Rules of Procedure of the Management Board. The workers' director represents the interests of work-

ers as they relate to human resource and social issues in accordance with the Articles of Association. The Management Board functions as a collegiate body when adopting the most important decisions for Slovenske železnice and for the Slovenian Railway Companies Concern.

The Director-General represents the Company independently and without restrictions. The two Management Board members (managing directors) and workers' director represent the Company together with the Director-General.

MANAGEMENT OF SUBSIDIARIES

The Management Board and Supervisory Board also hold key roles in managing the subsidiaries.

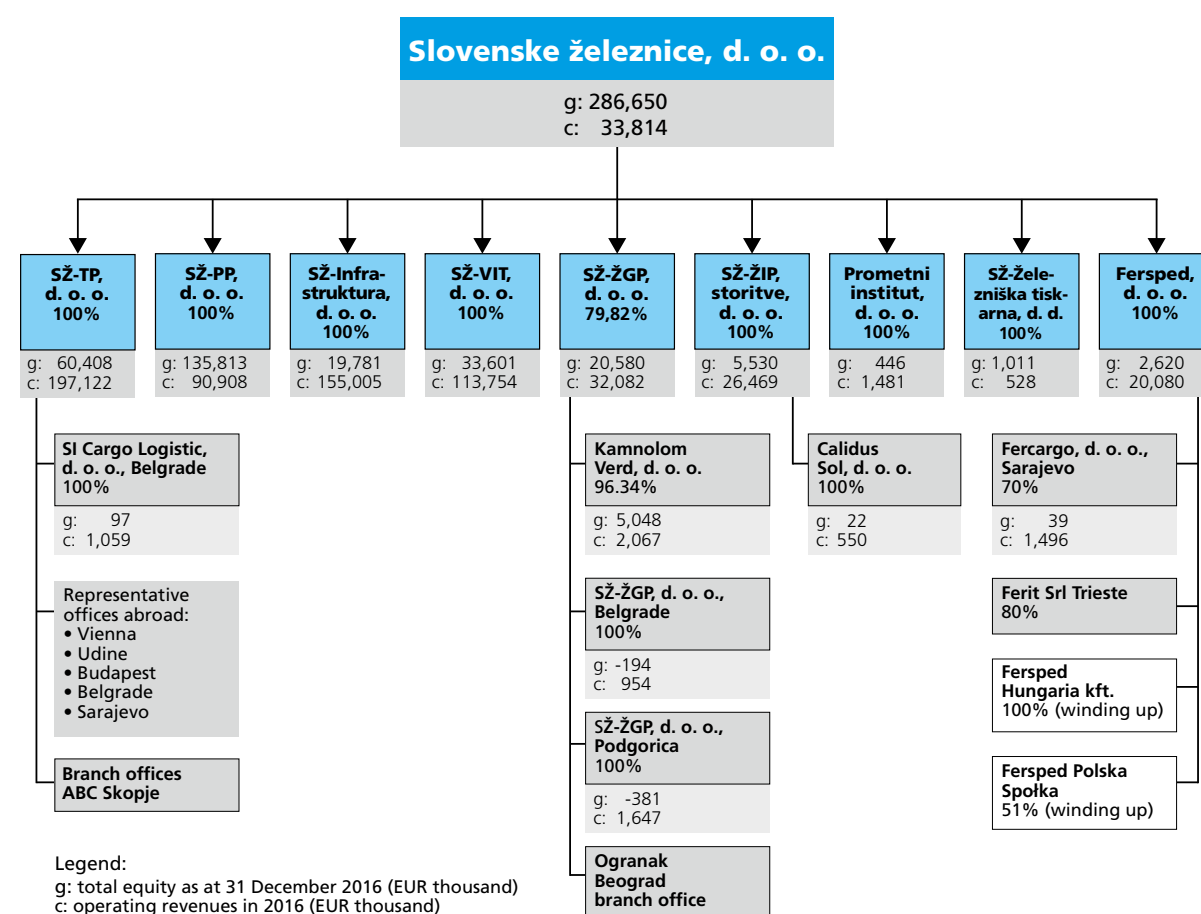
In addition to Slovenske železnice, d. o. o., the Slovenske Železnice Group comprises the following subsidiaries: SŽ-Infrastruktura, d. o. o., SŽ-Potniški promet, d. o. o., SŽ-Tovorni promet, d. o. o., SŽ-VIT, d. o. o., SŽ-ŽIP, storitve, d. o. o., Prometni institut, d. o. o., SŽ-Železniško gradbeno podjetje, d. d., SŽ-Železniška tiskarna, d. d., and Fersped, d. o. o., in which Slovenske železnice, d. o. o., has a 100% participating interest or majority holding, and subsidiaries in which the aforementioned subsidiaries have a 100% participating interest or majority holding.

These companies are engaged in the maintenance and management of the public rail infrastructure, rail traffic management, operation of rail passenger and freight services on the public rail infrastructure, train traction and wagon inspection as core activities, and other services, supplementary and complementary activities required for the continuous and/or quality provision of the core activities.

Given that Slovenske železnice, d. o. o., based on the required corrective measure issued by the Slovenian Court of Audit, eliminated the disclosure of non-current financial investments in SŽ-Železniški zdravstveni dom (investment in shares or participating interests) on 31 December 2011 and temporarily disclosed a financial receivable in that respect, SŽ-Železniški zdravstveni dom was excluded from the consolidated financial statements of the Slovenske Železnice Group.

Subsidiaries that are 100% owned by the founder are managed by the founder (Slovenske železnice, d. o. o.) directly and through the company's Management Board, except at SŽ-Infrastruktura, d. o. o., at which a three-member supervisory board was established in accordance with the Railway Transport Act. SŽ-Železniško gradbeno podjetje, d. d., (since 22 September 2016 when the single-tier governance system was transformed into a two-tier governance system) and SŽ-Železniška tiskarna, d. d., are managed by the Company's Management Board and their operations supervised by the Company's Supervisory Board.

ORGANISATIONAL STRUCTURE



Note:
Slovenske železnice, d. o. o., holds participating interests in the following associates: Adria Kombi, d. o. o., (33.72%) and Terme Olimia, d. d., (23.87%), and indirectly in CKTZ Zagreb, d. d., (29.14%).

In the aforementioned subsidiaries that have no Supervisory Board, the founder has the role and powers of the general meeting, while deciding independently on the following issues, in particular on:

- amendments to the Articles of Association;
- the use of the distributable profit and the coverage of losses;
- the discharging of the management board or of individual members of the management board;
- changes to the share capital;
- the appointment and discharge of members of the management board;
- the appointment of an auditor.

CONTROLLING AGREEMENT

The controlling agreement sets out the conditions and method for the management of operations in the contractual concern, and the other mutual rights and obligations of Slovenske železnice, d. o. o., as the controlling company and the subsidiaries. This agreement enables the subsidiary to subject the governance and management of the company to Slovenske železnice, d. o. o., as the controlling company. Controlling agreements have been

concluded with subsidiaries SŽ-Infrastruktura, d. o. o., SŽ-Potniški promet, d. o. o., SŽ-Tovorni promet, d. o. o., SŽ-VIT, d. o. o., SŽ-ŽIP, storitve, d. o. o., Prometni institut, d. o. o., and Fersped, d. o. o.

With this agreement Slovenske železnice, d. o. o., as the controlling company within the contractual concern acquired the right to give instructions to the subsidiary for the management of operations and the right of direct supervision over the subsidiary, as well as assuming the obligation to cover its losses.

The aim of concluding these agreements is to ensure effective business decision-making in order to achieve the best possible operating results at all companies within the Slovenske železnice Group and at each separate company, and based on this unite the companies linked through capital investments under a contractual concern.

Regardless of the fact that this is a contractual concern, the subsidiary companies are independent legal entities liable for their own liabilities with all their own assets.

Mutual relations between the controlling company Slovenske železnice, d. o. o., and the subsidiaries, and those

between the individual subsidiaries themselves, are, in addition to the regulations contained in the Articles of Association, also governed by separate service level agreements.

DESCRIPTION OF THE CORPORATE INTEGRITY SYSTEM

Slovenske železnice Group companies have a corporate integrity system in place which includes adherence to the company's ethics code, the system of reporting alleged breaches of corporate integrity, internal auditing and the compliance and risk management department, and this system is constantly upgraded.

Within the scope of the reorganisation process, the Company established a new central department in May 2016 for compliance and risk management which is appropriately positioned within the Company's organisational structure, is independent and has funds for uninterrupted and effective work. It began operating in its full complement of personnel in August 2016, when it took over the management of the comprehensive risk management project within the Slovenske železnice Group, which was introduced in March 2016.

Two separate measurements of risks were conducted in 2016 (in March and September). All Slovenske železnice

Group companies established their own registers of risks. In addition to the assessments the registers also include a plan of activities for the management of critical risks, which are risks with a score of six or higher. A comprehensive system has been drawn up for reporting on risk management system activities, as the compliance and risk management department attends monthly management board meetings of the subsidiaries. Reports are drafted for each separate company and a summary report for the entire group for management and supervisory bodies is

drafted on a quarterly basis. In 2017 we will assess all the recorded risks twice, supplement the risk register with risks relating to information security and hold two training courses for the responsible risk holders within the entire group. Activities for the management of critical risks are monitored monthly and evaluated quarterly.

An effective communication channel has been put in place between two of the Company's fundamental defence systems, i.e. the internal audit department and the compliance and risk

management department. Senior management teams of all companies and responsible critical risk holders are also actively involved in risk management. Management of critical risks has become a compulsory part of the monthly meetings at all companies at which the plan of activities for their management was reviewed.

The senior management teams of all companies and responsible critical risk holders are actively involved in risk management.

INTERNAL AUDITING

Internal auditing at Slovenske železnice, d. o. o., is organised as a central office (independent organisational unit) that reports directly to the Company's Management Board. The head of internal auditing administratively reports directly to the Management Board, and functionally reports to the Supervisory Board.

On the basis of risk assessments, internal auditing provides objective assurances for areas subject to auditing and advises on all the technical and business areas of Slovenske železnice Group companies. The internal audit department implements the objectives that are set out within the scope of comprehensive risk management within the Slovenske železnice Group, in particular:

- the achievement of the Company's strategic objectives;
- successful and efficient operations;
- ensuring the reliability of the financial reporting process;
- compliance with external and internal regulations;
- the protection of funds.

The internal audit department operated under an annual work plan and on the basis of the resolutions of the Management Board and the approval of the Supervisory Board in 2016. With a combination of internal and external resources, a total of nine audits were conducted in 2016, and four internal audits continued into 2017. The IAD communicates its findings and proposals for improvements that are derived from internal

audits directly and simultaneously to the Management Board, the audit committee and the Supervisory Board. It reports to supervisory bodies quarterly on the implementation of measures for improvements, while reporting semi-annually and annually on the implementation of IAD's work plan.

With the aim of successfully and effectively managing risks in the Slovenske železnice Group and taking into account its organisational positioning and powers, the IAD regularly cooperates with other organisational units within the group, in particular with units responsible for compliance, risk management, internal control, quality assurance and environmental protection.



BASIC DEVELOPMENT POLICIES

VISION

To become a major rail carrier in the region and a provider of comprehensive logistics services in central and south-eastern Europe. In terms of passengers and the infrastructure, to strive to supply comprehensive and user-friendly passenger services as the backbone of integrated public transport in both Slovenia and the wider region. To manage the PRI efficiently within the framework of the national programme for the development thereof, to maintain a safe and modern rail infrastructure and to manage the rail services provided thereon in accordance with legislation and EU guidelines, and to comprehensively manage and operate integrated public transport in Slovenia.

MISSION

Slovenske železnice provides transport and other logistics services in the transport of freight and passengers under market terms, also performing the tasks of the public service obligation (maintenance of infrastructure, management of traffic on the infrastructure, passenger transport in domestic and cross-border regional rail transport), and services as the manager of the public rail infrastructure. It is thereby concerned with the efficient supply of goods and services, and contributes to increasing public mobility in a safe, reliable and environmentally acceptable manner.

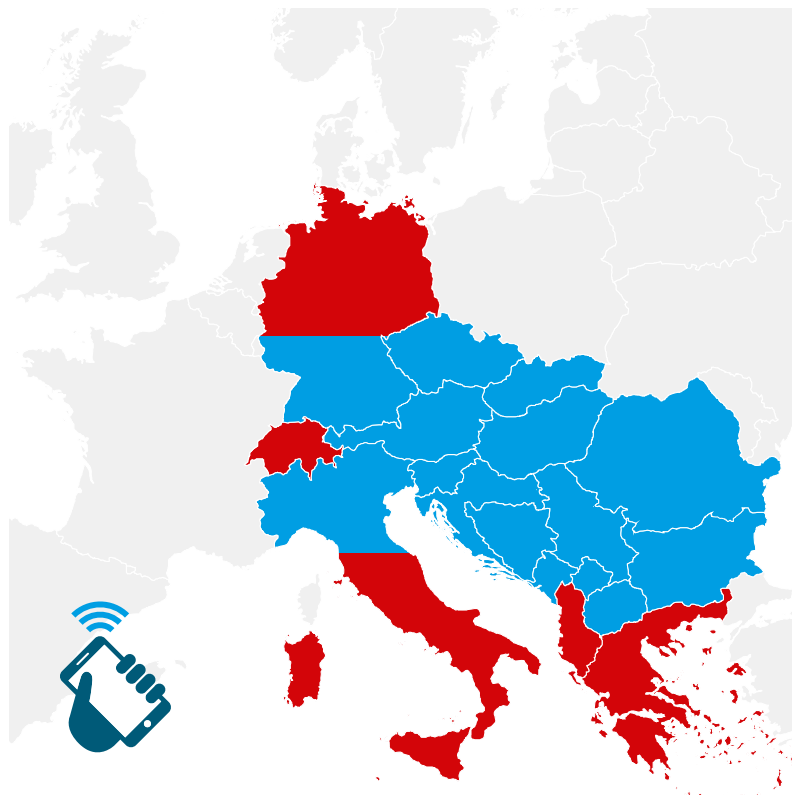
STRATEGIC ACTIVITIES OF THE SLOVENSKE ŽELEZNICE GROUP

Logistics and mobility

Freight transport: freight transport (conventional, combined transport), logistics (freight forwarding, freight terminals and distribution);

Passenger transport: rail passenger transport, bus transport;

Traction and engineering: traction, inspection and maintenance of rail vehicles.



Management of PRI (public rail infrastructure) / IPRT (integrated public rail transport): maintenance of infrastructure, rail transport management, IPRT management.

Construction: engineering, upgrades, new construction.

Support for strategic activities: business support services, real estate management, maintenance of facilities, cleaning, security, print media, research and development.

Strategic policies and objectives

In the target region, which in addition to Slovenia encompasses key markets in freight and passenger transport in central and south-eastern Europe, we will:

- achieve growth in the volume of freight transport on the following European corridors: Mediterranean RFC 6, the Baltic-Adriatic

RFC 5, Alps-Western Balkans (corridor X);

- become the largest operator in integrated public transport in Slovenia and the wider region;
- ensure public mobility through efficient and reliable operation of integrated public transport;
- ensure the effective and reliable maintenance and management of rail infrastructure, and the management of rail traffic on it;
- become a reliable and efficient provider of rail vehicle maintenance, and provider of traction for trains;
- develop effective support activities in the Group and other sustainable development activities.

Strategies in individual areas

Freight transport: growth in revenues and profitability by increasing the Company's presence on international markets and by diversifying business: upgrade of rolling stock, market positioning in the 500 km gravitational area from northern Adriatic ports and other freight origins/destinations, development of a network of logistical and freight forwarding services, development of logistics (rail-road) terminals, strategic and capital integration in the region.

Passenger transport: growth in revenues and profitability through diversification of operations: upgrade of rolling stock, development of international, regional and local lines with optimal combination of rail and bus transport, renovation and upgrade of stations, additional services for

passengers such as the single ticket, comprehensive IPRT, wireless network on trains, stations and stops, a new ticketing system, and strong sales orientation (marketing of advertising space, sales of other services).

Traction and engineering: growth in revenues and profitability by increasing the Company's business on international markets, by increasing efficiency and performance through technological modernisation of production processes and computerisation of operations.

Management of infrastructure: assurance of availability of PRI, conditions for interoperability and increased throughput capacity of lines, timely and efficient provision of high-quality integrated maintenance services

through the introduction of advanced technologies and processes, modernisation of machinery and technology for traffic management on PRI.

Construction: growth in revenues and profitability by increasing the Company's presence on international markets and diversifying business: construction and upgrade of rail infrastructure, facilities and buildings.

Support activities: effective real estate management, sale of non-essential assets, reliable, high-quality and cost-effective performance of centralised business support functions, development of disabled worker employment programmes and other services, expansion of research and development activities.

IMPLEMENTATION OF SYSTEMIC MEASURES IN 2016

| Type of measure | Framework completion deadline | Implementation by the end of March 2017 |
|--|-------------------------------|---|
| The conclusion of a long-term agreement with the government to secure the stable funding of the public service obligation for the maintenance of the public rail infrastructure and traffic management. | 2016 | <ul style="list-style-type: none"> • In March 2016 a long-term agreement was signed with the Slovenian government for the provision of services of manager of the public rail infrastructure for the period from 1 January 2016 to 31 December 2020. |
| The conclusion of a long-term agreement with the government to secure the stable funding of the public service obligation for passenger transport, including the funding of development investments in the upgrading of the rolling stock. | 2016 | <ul style="list-style-type: none"> • The Government of the Republic of Slovenia adopted a resolution at the 123rd regular session of 23 February 2017 on the conclusion of the Agreement on the discharge of the public service obligation in in-land and cross-border regional transport of passengers by rail for the period 2017–2031. The agreement was signed on 13 March 2017. The total value of the compensation for the regular performance of the public service obligation is EUR 859.7 million, and EUR 174.8 million for development (excluding VAT). The mechanism for encouraging effective management must be determined in an annex by the end of 2017. |
| The formulation of a harmonised model and all bases for the establishment of strategic partnership in freight transport and diversification of operations through corporate M&As. | 2016–2017 | <ul style="list-style-type: none"> • SŽ-Tovorni promet: in accordance with the strategic plan activities were carried out in 2016 for the acquisition of a strategic partner, which are also continuing at an accelerated pace into 2017, based on the prior verification of interest and evaluation of tenders across Europe. |
| The Slovenian Government needs to ensure the proper maintenance and upgrading of infrastructure, which is a prerequisite for ensuring its throughput capacity. | 2016–2018 | <ul style="list-style-type: none"> • Infrastructure is also included among the priority tasks within the 2017–2018 budget framework. |

FULFILMENT OF OWN MEASURES IN 2016

| Type of measure | Framework completion deadline | Implementation by the end of March 2017 |
|---|-------------------------------|---|
| Technological and business upgrade of processes | 2016–2019 | <ul style="list-style-type: none">The project is underway, with the business upgrade of processes also being linked with the implementation of the business information system project. The centralisation of processes in finances and accounting has been completed, and a follow-up review of certain processes is planned, which will be followed by an upgrade of production processes. |
| Update of the business information system (BIS) | 2016–2017 | <ul style="list-style-type: none">Information support for each individual area is or will be provided through multiple projects from the group of projects focusing on the update of the business information system of the Slovenske Železnice Group. |
| Investments in the upgrade of rolling stock and the securing of a sustainable financial structure | 2016–2019 | <ul style="list-style-type: none">Preparation of investment documentation for upgrading the freight transport rolling stock.In the final phase a public tender will be announced for new passenger transport rolling stock in accordance with the investment programme Purchasing new rail passenger transport rolling stock, which serves as an annex to the long-term agreement 2017-2030. |
| Growth in the volume of transport on the domestic and foreign markets | 2016–2019 | <ul style="list-style-type: none">In total 19,239 thousand tonnes of freight were moved in 2016 and 4,552 million NTKM were completed. The results of both indicators exceeded the planned target (+2.3% and +2.6% respectively). The amount of freight moved in 2015 was exceeded by 3.5% (644 thousand tonnes), and volume sold by 4.3%. |
| Expansion to foreign markets | 2016–2019 | <ul style="list-style-type: none">We continued the expansion of our own transport services in Austria. We established a branch in Croatia and began providing transport services. Activities were also initiated to enter the Italian market. Development of target products and services for strategic freight, customers and routes. |
| Examining the possibilities and adoption of decisions regarding the diversification of operations in logistics, passenger transport and construction. | 2016–2018 | <ul style="list-style-type: none">Activities are under way for the acquisition of small logistics companies.The potential acquisition of bus services is being explored. |
| Achieving further growth of EBITDA through greater growth of operating revenues than operating expenses. | 2016–2019 | <ul style="list-style-type: none">The EBITDA generated in 2016 of EUR 58.9 million is up EUR 2.2 million or 3.8% on the EBITDA from the projection in the 2016 strategic business plan, while the EBITDA margin of 11.7% increased by 0.4 percentage points. |

ECONOMIC DEVELOPMENTS AND COMPETITION

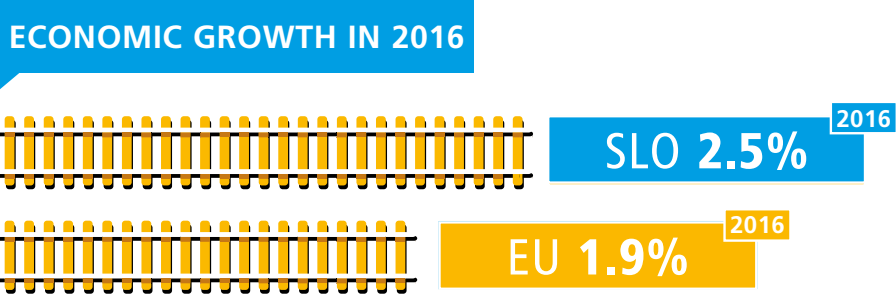
ECONOMIC DEVELOPMENTS

Economic growth in Slovenia gradually strengthened throughout 2016 and amounted to 2.5% in year-on-year terms, up 0.6 percentage points on the EU average and 0.8 percentage points on the euro area. Growth increased by 0.2 percentage points relative to 2015. Exports, encouraged by the growth in foreign demand and the improvement of our competitive position, increased to a slightly greater extent than in the previous year and this remained the main driver of economic growth.

There was also an increase in private and government consumption, as well as in private investments in equipment and machinery. The only deviations from the favourable trends were public investments, which fell significantly, mostly due to the modest disbursement of EU funds in the changeover to the new financial framework. Government investment is expected to increase in 2017 in the context of the planned increase in disbursement of EU funds in the financial framework 2014–2020, but the investments will remain at a lower level than in 2014 and 2015 when the disbursement of EU funds from the previous financial framework came to a close.

Growth in value-added continued in the majority of business activities in 2016. In the context of strong domestic production and increased private consumption, value-added also increased in most major marketable services. In some segments growth was also a result of increased service exports (e.g. transport). The decline in value-added in construction continued.

The IMAD's Spring Forecast of Economic Trends envisages the continuation of favourable economic developments for Slovenia. Economic growth in Slovenia is expected to increase significantly in 2017 (3.6%) and will hover around 3% in the coming years, which is above the euro zone average, where economic growth in the period 2017–2019 is expected to remain around 1.6% on the basis of the forecasts provided by international institutions. Exports will remain the main driver of growth during the entire forecast horizon. Investments are expected to increase, as further growth in investments in machinery and equipment will also revive housing and government investments. Increased growth is also expected in private consumption. A revival of the construction sector is also expected, including the continued gradual recovery of residential construction. Relatively high growth in value-added of marketable services will be encouraged by increased domestic demand, particularly in tourism and transport-related segments, and also by foreign demand.



COMPETITIVE POSITION

Competitive position of freight transport

Road and railway operators in Slovenia and operators that perform transport services on the corridors that pass through Slovenia and through other North Adriatic and North Sea ports compete with SŽ-Tovorni promet on the transport market.

Estimates indicate that a total of 99.3 million tonnes of freight was transported in Slovenia in 2016, on both roads and railways. Transport volume was up 5.1% on the previous year, with railway transport (6.1%) increasing more than road transport (4.8%). Rail transport as a proportion of total land transport in Slovenia increased by 0.2 percentage points and, according to estimates, stood at 21.7%.

Transport services in rail freight transport on Slovenian tracks are provided by three other operators in addition to SŽ-Tovorni promet, d. o. o., while some operators are still in the process of gaining the required documentation. Through state-of-the-art technology and cost-efficiency, competitive rail operators are continuing to strengthen their

position, resulting in a decline in SŽ-Tovorni promet's market share by 2.0% in 2016 (from 92.1% to 89.0%), despite the increase in the volume of SŽ-Tovorni promet's transport services by 3.5% relative to 2015.

SŽ-Tovorni promet is geographically positioned at the crossroads of the former V and X corridors. The EU introduced new Rail Freight Corridors that only apply to rail freight transport and pass through the territories of EU member states. Two RFCs run through Slovenia, i.e. RFC 6 (Mediterranean) that links Spain with the Ukrainian border and is already in effect, and RFC 5 (Baltic–Adriatic) that runs from Poland to northern Italy. Activities are also underway for the introduction of a new RFC (Alps–Western Balkans) across the countries that are situated along the former corridor X.

South-eastern Europe is linked with North Europe by RFC 7, but the link via the Balkans is one of the most crucial, as it links central Europe with the external members of the EU along a significantly shorter route. The economic significance of the remaining countries of the Western Balkans, in particular Serbia, will increase upon their accession to the EU, representing an opportunity to increase transport volumes.

With the introduction of the new European corridors Slovenia became the meeting point of two corridors, while the introduction of an additional corridor (along the route of the previous X corridor) enhances opportunities to redirect transport from RFC 7 and from roads to the railway, which definitely means at least a more environmentally-friendly transport system.

Competitive position of passenger transport

Railway passenger transport is operated by SŽ-Potniški promet, d. o. o., on the public rail transport market in Slovenia. The biggest competitors of railway transport with respect to domestic transport are private and public road transport, and low-cost airlines and low-cost bus service operators at the international level. The proportion of railway transport on the public operator market stood at 25.4% in 2016 (in PKM). The proportion of railway transport declined on account of an increase in the volume of air transport and public road transport. The volume of work in railway passenger transport remains low due to the closure of lines during maintenance and renovation work on the PRI. The decrease in the use of trains as a means of transport was also the result of an increase in delays and the introduction of bypass routes due to closed national borders, resulting in a deterioration in the quality of transport services as a result of migratory flows. In addition, the introduction of subsidized IPRT tickets for secondary-school and college stu-

dents shortened the transport routes, thereby reducing the amount of passenger kilometres (PKM).

Cars are still the preferred means of transport in Slovenia. The most recent figures indicate that the number of registered vehicles per 1000 inhabitants increased further in Slovenia in 2015, with 523 vehicles registered¹⁾ per 1000 inhabitants, which is a full 20% higher than 15 years ago. Each Slovenian household has an average of 1.3 cars, and every second inhabitant of Slovenia has a car.

Passengers carried in domestic passenger transport accounts for 94.5% of total passengers transported. This is mostly operated as a public service obligation that is regulated by an agreement signed with the Ministry of Infrastructure. Almost one half of all passengers carried are daily train users, mostly secondary-school and college students with subsidised tickets. Transport by car is the main competition to domestic rail transport. We are launching promotional campaigns in order to attract as many passengers as possible and encourage them to travel by train instead of by car, which, owing to falling prices of refined petroleum products and other factors that stimulate travelling by car, is especially difficult. International transport accounts for almost 17% of the number of passenger kilometres

and sales volume. By linking up with other foreign operators and tourist agencies we develop commercially attractive offers with which we try to convince passengers to travel more by train. These passengers travel abroad increasingly often with low-cost airlines that represent our fiercest competitors in international transport.

Competitive position of rail infrastructure

The development of a sustainable transport system is the first prerequisite for the development of a modern society. Mobility significantly impacts the competitiveness of national economies and the quality of life of citizens. Transport is becoming an increasingly important economic sector as it contributes to the functioning of the economy as a whole, is an important employer and guarantees citizens the fundamental right to mobility. The new EU transport policy outlined in the Transport White Paper on the future of transportation in 2050 contains a roadmap to a Single European Transport Area – towards a competitive and resource-efficient transport system.

Due to its geographic position, the main lines of Slovenia's PRI form a major constituent part of the Trans-European Railway Network. The adaptation of our rail infrastructure to the European infrastructure through the establishment of interoperability is a prerequisite for the proper evaluation of our geographic position and at the same time a condition for the equal inclusion

of Slovenia's railways in the European transport system. Considering that the proportion of international railway transport on Slovenian rail lines already exceeds 80% and that there is a strong interdependence between railway transport and rail infrastructure, adjustment to the circumstances dictated by the international environment is vital. This fact therefore serves as the basic guideline for the formation of the strategy for the development of the Slovenian rail infrastructure.

The Resolution on the National Programme for the Development of Transport of the Republic of Slovenia

Slovenia's strategic advantage due to its favourable transport position does not in itself guarantee that traffic flows actually pass through Slovenia. Our neighbouring countries also strive to implement projects that would direct as much traffic as possible, in particular transit traffic, through their own lines. Due to Slovenia's small size it is relatively easy to find an alternative route. Therefore the timely drafting of a national programme is that more vital and necessary.

The current infrastructure does not allow complete accessibility, interoperability and thus high-quality public rail transport services, as clock-face timetabling and thus more frequent passenger transport is not facilitated on certain frequently used sections. Due to the slow pace of upgrading the network, which has improved in recent years, there is still a risk of relocating the transit flow of goods to parallel networks through Italy, Austria, Hungary or Croatia. There is also increased risk of an outflow of freight goods via port transit to North Sea ports. Due to the inadequate maximum axle load on certain sections of the tracks, some cargo is already being redirected to routes bypassing Slovenia. In the rail freight corridors that run through Slovenia (Mediterranean, Baltic–Adriatic and Amber rail freight corridors), track load class D4 (with an axle load of 225 kN) has yet to be installed on a particular section of the line between Zidani Most and Šentilj, but current investments on this section promise an improvement to this situation in the coming years. The level of electrification of the PRI is relatively low, as only 613

until 2030 (Official Gazette of the Republic of Slovenia, No 75/2016), based on which a new national programme must be prepared for the development of the Slovenian rail infrastructure, provides the basis for the strategy for the development of the PRI in the Republic of Slovenia. That strategy will have to take into account that the existing railway lines in the Republic of Slovenia no longer comply with contemporary transport needs and current technical and economic development, and that the rail infrastructure is in poor condition due to the lack of investments in infrastructure.

km or 51% of all lines are electrified (following the electrification of the Pragersko–Hodoš line).

In addition we need to accelerate the drafting of national plans for the implementation of technical specifications for interoperability that have been adopted by the EU, and in particular ensure the conditions determined by Regulation (EU) No 1315/2013 of the European Parliament and of the Council of 11 December 2013 on Union guidelines for the development of the trans-European transport network, and thus implement the EU corridor policy. The first review of the situation will be carried out in 2023. If we fail to satisfy the aforementioned requirements by then, we could lose the corridors running through Slovenia, thus not only losing the possibility to secure EU grants but also causing a decline in the operations of the Port of Koper, Slovenske železnice as a group and Slovenia's logistics industry.

We should particularly take into account the threat of competition in relation to railway transport and its economics that can be foreseen in the planned railway bypass routes through Italy and Austria towards Budapest, and also in specific connections in the Republic of Croatia towards Hungary. In its strategy, the Republic of Slovenia emphasised the urgency of the upgrade and renovation of the lines in priority rail freight corridors RFC 5 and RFC 6, and the establishment of the new Amber corridor (RFC 11) on the proposed route, thereby ensuring Slovenia's long-term competitive strength.

The vision of the development of rail infrastructure in Slovenia is to establish a high-capacity, interoperable, safe, competitive, intermodal and environmentally-friendly railway network that encourages and facilitates the competitiveness of rail freight and passenger transport, and supports the sustainable and environmentally-friendly development of transport by redirecting the transport of freight and passengers from road to rail.

In 2016 we signed a multi-year agreement with the owner on the provision of services by the manager of the public rail infrastructure for the period from 1 January 2016 to 31 December 2020, which also follows from EU regulations. The agreement also includes the amount of funds earmarked for financing the public service obligation of the maintenance of public rail infrastructure and traffic management during that period. This enabled the harmonisation of the technical and financial planning that is required for more effective and rational operations of the providers of the public service obligation.

Investments in PRI were initiated, while current and foreseen investments in the coming years will allow the Republic of Slovenia to provide a high-capacity, interoperable, safe, competitive, intermodal and environmentally-friendly railway network.

¹⁾ Source: SORS, data for 2016 not yet available

Making public transport more appealing



Through targeted marketing activities, with the help of our partners, we are creating Slovenian and global marketing campaigns to increase the Company's reputation and the popularity of travelling by train.



PARTICIPATION IN THE INTERNATIONAL ENVIRONMENT

Slovenske železnice is also active internationally. The Company responds to initiatives from the international environment, cooperates with international railway organisations and associations, coordinates contacts with European railway operators and submits positions and proposals for the development of the common European railway policy.

The Community of European Railway and Infrastructure Companies (CER) is the only organisation in the EU that represents the entire European railway system in relation to EU institutions. It represents the interests

and a regulation establishing the European Railway Agency (the Agency Regulation)) entered into force in June, preparations got underway for its implementation. The most important achievement this year was the approval of the Market Pillar of the 4th Railway Package, whose aim was to open up the domestic rail passenger market to competition.

Slovenske železnice was visited in March by the executive director of the CER. He discussed the latest European issues regarding railway transport with his hosts. The participants at the meeting placed special emphasis on the impact of the 4th Railway Package on the management and operations of Slovenske železnice, including discussions on access to facilities that are crucial for the provision of transport services, while ultimately focusing on the railway freight transport corridors that pass through Slovenia, with an emphasis on establishing the new RFC 10 railway freight corridor (Alps–Western Balkans Corridor).

In cooperation with the International Union of Railways (UIC) and other stakeholders, the CER drafted a number of strategic documents or railway initiatives focusing on the future in 2016 (Plan for Digital Railways, Railways of Tomorrow, the Lugano declaration). All these initiatives and activities were condensed by the CER and UIC into the latest joint document entitled Strengthening Railways for the 21st Century that sets out the business priorities of the railway sector until 2020. These are presented in four clusters: legislation, digitalisation, railway corridors, and research and development. The CER also signed the Railway Sector Declaration on Boosting International Rail Freight, which was adopted at the Trans-European Transport Network (TEN-T) Days in Rotterdam in June 2016. The declaration identifies ten priority measures that will enhance the competitiveness of the Rail Freight Corridors and improve the quality, reliability and efficiency of transporting goods by rail across Europe.

The main task of the UIC remains the development of the union as a neutral technical platform of expertise that is recognised globally. The UIC has a strong presence in the area of standardisation, having worked for a long time now with the International Organization for Standardization, with which it signed a cooperation agreement. The core activities of the UIC also include research and projects in which the Slovenske Železnice Group companies are actively involved. A

total of 120 major events and conferences, including in the area of digitalisation, were held in key global services within the framework of the UIC (security, protection, sustainability, signalisation, freight corridors etc.). The UIC was also successful in European public tenders within the Horizon 2020 and Shift2Rail programmes.

Slovenske železnice regularly monitors the development of and changes to products that are prepared and updated by the International Rail Transport Committee (CIT) for its members in cooperation with other international associations and institutions. Through its practical application of transport law in accordance with the Convention concerning International Carriage by Rail (COTIF) and with its intention to simplify international rail freight and passenger transport, the CIT is responsible for the interoperability of various systems, not only in the legal area but also in technical and operational terms. It standardises and harmonises the relations between carriers (operators), the infrastructure, train wagon owners and customers, represents the interests of carriers to legislative bodies, and provides legal advice and training for its members. With the creation of preconditions for the use of electronic transport documents, the cooperation between railways in implementing digitalisation encourages the optimal utilisation of their advantages in international transport and increased competitiveness in comparison with other forms of transport.

A meeting of the G4 Directors General was held in Budapest at the end of September. Today the G4 Group comprises 14 members (railway operators and infrastructure managers) from Slovenia, Austria, Slovakia, Hungary, Croatia and Bosnia and Herzegovina, and operates as a regional interest association of the UIC and CER. The aim of the G4 Group is to harmonise the development of railways in the region between the Danube and the Adriatic. It operates as a platform for the exchange of opinions and experiences and enables the implementation of initiatives that are useful for the effective improvement of the railway system in the region. The meeting participants discussed the quality of the operation of passenger

transport services, the opening of the freight terminal in Vienna, the proposed amendments to the EU legislation concerning railways and exchanged experiences regarding the electrification of their railway networks.

Slovenske železnice was visited in 2016 by a delegation from the global logistics firm Nippon Express, one of the largest global logistics operators and forwarding agents in Japan and globally. The aim of the business meeting with the senior representatives of Nippon Express was to present the advantages of the Adriatic maritime route and the development of logistics solutions between eastern Asia and Europe through the Port of Koper and by using Slovenske železnice for this purpose.

Slovenske železnice is also active in the international organisation COLPOFER. COLPOFER is a special group within the UIC that deals with railway safety in Europe and is an important liaison between police authorities and railway organisations. Slovenske železnice hosted the 65th general meeting of COLPOFER in November. The general meeting was attended by experts in railway security from several countries, representatives from the Ministry of Infrastructure, the Ministry of the Interior and the European Commission, and by representatives of influential international organisations such as Railpol, CER and UIC. A

series of expert lectures and inspections of security conditions on European railways were carried out, which was followed by a presentation of the activities of international organisations in the area of railway security and the institutional frameworks within which this area is being developed, and the activities being carried out by specific working groups within the COLPOFER organisation.

The hosting of the COLPOFER general meeting is a significant contribution to the research and provision of safety on European railways. This is an area that has been developing rapidly in recent times. It is also positive to note that Slovenske železnice has assumed an active role in the exchange of information and cooperation in the safety structures at the international level.

Slovenske železnice is also active in the international organisation COLPOFER.

The Director-General of Slovenske železnice began his second two-year term of office in the CER Management Committee.

of its members, actively contributes to the formation of European rail policy and strives to improve the business and regulatory environment for European railway operators and railway infrastructure companies. The Director-General of Slovenske železnice began his second two-year term of office in the CER Management Committee.

The work area of the CER is very extensive. Some of the main priority tasks in 2016, which will also be of interest to Slovenske železnice in the coming years, include the following: implementation of the technical pillar of the 4th Railway Package, improvement of the ticketing system and exchange of data between operators of railway passenger transport and ticket vendors, innovations and digitalisation (ERTMS system, interoperability, free flow of data), strengthening the development of railway freight corridors in the central network, making efforts for the introduction of fair competitive terms between various means of transport (intermodal bundling, passenger rights, emissions trading scheme), safety and protection of the railway system. The CER responded regularly to the proposals of the European Commission for the revision of regulations and directives and to the latter's draft implementing and delegated acts, while also publishing documents on its positions and participating in public consultations.

After the technical pillar of the 4th Railway Package, which includes amendments to three current legislative acts (two interoperability and safety directives

RISK MANAGEMENT

The business processes within the Group are categorised by management method as centralised (managed by the controlling company), combined (where two or more companies collaborate), and decentralised (implemented exclusively at the level of an individual company). That is why risk management within the Slovenske Železnice Group is a complex business process that is managed by the controlling company and covers the entire scope of operations of all system companies.

Risk management and control of risks was taken over by the central compliance and risk management department within the Slovenske Železnice Group in 2016. That department was established within the controlling company and operates at the Slovenske Železnice Group level. Risk management has been significantly upgraded. Senior management at all subsidiaries appointed responsible business process risk holders, who discuss risk management activities at senior management meetings with the support of the compliance and risk management department. The greatest progress was made in raising awareness of the importance of risk management, the development of a culture that monitors activities that manage key risks and the establishment of a system of monthly reporting.

The upgraded risk management system mitigates the level of risks to acceptable levels, regularly processing critical risks through controls and measures put in place to mitigate them. The risk management model is developed and adjusted so that it complies with the business needs and objectives of the entire Slovenske Železnice Group, raising awareness among the responsible risk holders of the fact that risk management is an integral part of all processes and ensuring that they perform their work and tasks in line with the relevant risk management policies.

With the inclusion of other mechanisms, such as the integrity plan, the update of the process of filing reports on suspected breaches of corporate integrity, the monitoring of the register of resolutions adopted by the senior management of subsidiaries, and the continuous cooperation of the IAD, we solidified the bases for risk management within the scope of compliance.

The development of risk management is categorised among the strategic projects of the Slovenske Železnice Group in the period 2016–2020 and comprises a part of the 2017 Business Plan.

RISK MANAGEMENT MODEL

Each company has its own register of recorded risks that is assessed in accordance with the adopted policies. In addition, a register of risks for the entire Slovenske Železnice Group is kept, in which the overall risk assessment score is comprised of the risk assessment scores of the individual companies. The weighted proportion of the individual risk assessment scores of the individual companies to the overall score of the Slovenske Železnice Group depends on whether the processes are executed on a centralised, combined or decentralised basis. The registers of key risks of all group companies are updated on the basis of monthly activities.

REGISTER OF RISKS

The Slovenske Železnice Group has a register of risks that is broken down into five categories of level I risks: strategic risks, operational risks, financial risks, regulatory/compliance risks and information security risks.

The number of recorded risks varied during the year with the development of the risk management system and the introduction of new strategic projects.

The five level I risks are further broken down into 35 level II risks and a total of 128 recorded risks were therefore included in the register at the end of the year.

At the beginning of 2016 the register of risks contained four types of level I risks that were further divided into 24 level II risks. A total of 88 risks were identified.

Development of the number of risks at the Slovenske Železnice Group level

| | March 2017 | September 2016 | March 2016 |
|---------------------------|------------|----------------|------------|
| Number of level I risks | 5 | 4 | 4 |
| Number of level II risks | 35 | 24 | 24 |
| Number of level III risks | 128 | 88 | 88 |

Intensive management of risks has increased the number of risks that have been identified primarily due to the inclusion of a new level I risk – information security risk. At the same time, the new work method had reduced the proportion of key risks by the end of 2016.

Change to the number of key level II risks

| | March 2017 | September 2016 | March 2016 |
|---------------------------------------|------------|----------------|------------|
| Number of key level II risks | 19 | 13 | 15 |
| Percentage of critical level II risks | 54% | 54% | 63% |

RISK ASSESSMENT FOR THE SLOVENSKE ŽELEZNICE GROUP AND INDIVIDUAL SLOVENSKE ŽELEZNICE GROUP COMPANIES

The average level of risk for the entire Slovenske Železnice Group declined during the year, re-emerging at the end of the year due to the inclusion of the category of risks related to information security.

Breakdown of critical, key and recorded risks at the Slovenske Železnice Group level and by individual company

| Level II risks | SŽ Group | SŽ, d. o. o. | TP | PP | Infra | VIT | ŽGP | ŽIP | Fersped | PI | Tiskarna |
|---|----------|--------------|-----|-----|-------|-----|-----|-----|---------|-----|----------|
| S 1 Strategy | | | | | | | | | | | |
| S 2 Market risks | | | | | | | | | | | |
| S 3 Investment risk | | | | | | | | | | | |
| S 4 Corporate governance | | | | | | | | | | | |
| O 1 Risks associated with the condition of state-owned infrastructure | | | | | | | | | | | |
| O 2 Risks associated with the condition of company-owned infrastructure/equipment | | | | | | | | | | | |
| O 3 Risk of damage/destruction of property | | | | | | | | | | | |
| O 4 Security risks | | | | | | | | | | | |
| O 5 IT risks | | | | | | | | | | | |
| O 6 Human resource risks | | | | | | | | | | | |
| O 7 Purchasing risks | | | | | | | | | | | |
| O 8 Production risks | | | | | | | | | | | |
| O 9 Sales risks | | | | | | | | | | | |
| O 10 Process risks | | | | | | | | | | | |
| O 11 Information and communication | | | | | | | | | | | |
| O 12 Fraud risks | | | | | | | | | | | |
| O 13 Legal risks | | | | | | | | | | | |
| F 1 Credit risk | | | | | | | | | | | |
| F 2 Interest rate risk | | | | | | | | | | | |
| F 3 Currency risk | | | | | | | | | | | |
| F 4 Liquidity risk | | | | | | | | | | | |
| RS 1 Regulatory risks | | | | | | | | | | | |
| RS 2 Risks associated with amendments to legislation/regulations | | | | | | | | | | | |
| RS 3 Compliance risks | | | | | | | | | | | |
| K 1 Information security | | | | | | | | | | | |
| K 2 Organisation of information security | | | | | | | | | | | |
| K 3 Management of assets | | | | | | | | | | | |
| K 4 Human resource security | | | | | | | | | | | |
| K 5 Physical and environmental security | | | | | | | | | | | |
| K 6 Management of communications and operations | | | | | | | | | | | |
| K 7 Access control | | | | | | | | | | | |
| K 8 Purchasing, maintenance and development of IT systems | | | | | | | | | | | |
| K 9 Management of security incidents | | | | | | | | | | | |
| K 10 Business continuity planning | | | | | | | | | | | |
| K 11 Compliance with legal requirements | | | | | | | | | | | |
| Average level of risk | 6.2 | 6.1 | 4.9 | 5.2 | 4.1 | 4.3 | 4.9 | 4.2 | 4.6 | 3.5 | 1.8 |

- recorded risks (1–4)
- key risks (6–9)
- critical risks (12–16)

CRITICAL RISKS

These risks relate to ensuring business continuity at the Slovenske Železnice Group level and at the level of the controlling company Slovenske železnice, d. o. o. The condition of state-owned infrastructure is categorised among critical risks at the level of individual companies. The management of critical risks is discussed monthly by the companies' senior management in accordance with the risk management policy.

KEY RISKS

The majority of key risks relate to operational risks (eight categories), which is entirely expected given the wide range of services provided within the Slovenske Železnice Group. The same applies to information security risks, which, given the diversity of the system of operations of the Slovenske Železnice Group, is crucial for the management of risks.

Breakdown of key level II risks within the entire Slovenske Železnice Group

| Level II risks | March 2017 | | | September 2016 | | | March 2016 | | |
|---|--------------|------------------|------------|----------------|------------------|------------|--------------|------------------|------------|
| | Actual level | Acceptable level | Difference | Actual level | Acceptable level | Difference | Actual level | Acceptable level | Difference |
| S 3 Investment risk | 7.4 | 5.6 | 1.8 | 7.4 | 7.4 | 0.0 | 7.4 | 7.4 | 0.0 |
| O 1 Risks associated with the condition of state-owned infrastructure | 9.8 | 5.0 | 4.8 | 12.0 | 6.0 | 6.0 | 12.0 | 6.0 | 6.0 |
| O 2 Risks associated with the condition of company-owned infrastructure/equipment | 6.6 | 4.0 | 2.6 | 5.9 | 3.1 | 2.8 | 5.9 | 3.1 | 2.8 |
| O 4 Security risks | 7.0 | 4.0 | 3.0 | 5.0 | 4.0 | 1.0 | 5.0 | 4.0 | 1.0 |
| O 5 IT risks | 7.6 | 3.8 | 3.8 | 7.6 | 3.8 | 3.8 | 7.6 | 3.8 | 3.8 |
| O 6 Human resource risks | 6.7 | 4.0 | 2.7 | 6.2 | 4.0 | 2.2 | 6.2 | 4.0 | 2.2 |
| O 7 Purchasing risks | 9.0 | 5.4 | 3.6 | 8.4 | 5.4 | 3.0 | 8.4 | 5.4 | 3.0 |
| O 10 Process risks | 9.0 | 5.4 | 3.6 | 9.0 | 5.4 | 3.6 | 9.0 | 5.4 | 3.6 |
| O 12 Fraud risks | 8.0 | 3.7 | 4.3 | 6.5 | 3.7 | 2.8 | 6.5 | 3.7 | 2.8 |
| RS 2 Risks associated with amendments to legislation/regulations | 6.0 | 4.0 | 2.0 | 8.0 | 4.0 | 4.0 | 8.0 | 4.0 | 4.0 |
| RS 3 Compliance risks | 6.0 | 4.0 | 2.0 | 6.0 | 4.0 | 2.0 | 8.0 | 4.0 | 4.0 |
| K 1 Information security | 8.0 | 4.0 | 4.0 | | | | | | |
| K 2 Organisation of information security | 8.0 | 4.0 | 4.0 | | | | | | |
| K 4 Human resource security | 8.7 | 4.9 | 3.8 | | | | | | |
| K 5 Physical and environmental security | 7.0 | 5.2 | 1.8 | | | | | | |
| K 7 Access control | 7.1 | 4.0 | 3.1 | | | | | | |
| K 8 Purchasing, maintenance and development of IT systems | 8.1 | 4.5 | 3.6 | | | | | | |
| K 10 Business continuity planning | 12.0 | 6.0 | 6.0 | | | | | | |
| K 11 Compliance with legal requirements | 6.0 | 4.0 | 2.0 | | | | | | |
| Average | 6.2 | 3.9 | 2.3 | 5.9 | 3.8 | 2.1 | 6.1 | 3.8 | 2.3 |

PERFORMANCE ANALYSIS

PLAN FOR 2017

We tested the appropriateness of the selected assessment method in 2016. The assessment system proved to be appropriate in terms of the selected criteria of impact and frequency, but needs to be upgraded in terms of evaluating the assessments of the subsidiaries that participate in combined and centralised processes.

Breakdown of activities in terms of key operational risks and IT risks to which we will devote the greatest amount of attention in 2017:

| Operational risks | | | Measures in 2017 | |
|---|------------------|------------|------------------|--|
| 0.1 Risks associated with the condition of state-owned infrastructure | | | Change ↓ | <ul style="list-style-type: none">• conclusion of a long-term agreement on the financing of the public service obligation (completed)• increase the impact of the manager on the scope of investments in the public rail infrastructure• carrying out monitoring of the condition of the public rail infrastructure• securing the necessary financial resources for the maintenance of the public rail infrastructure |
| Actual level | Acceptable level | Difference | | |
| 9.8 | 5.0 | 4.8 | | |
| 0.5 IT risks | | | Change = | <ul style="list-style-type: none">• updating and standardisation of the IT system within the Group |
| Actual level | Acceptable level | Difference | | |
| 7.6 | 3.8 | 3.8 | | |
| 0.7 Purchasing risks | | | Change ↑ | <ul style="list-style-type: none">• updating the umbrella act for centralised purchasing• screening and seeking new suppliers• links between various software tools of group companies |
| Actual level | Acceptable level | Difference | | |
| 9.0 | 5.4 | 3.6 | | |
| 0.10 Process risks | | | Change = | <ul style="list-style-type: none">• monitoring the quality of processes• upgrading the risk management system for continuous process improvements• re-engineering of business processes as a result of the significantly reduced number of employees |
| Actual level | Acceptable level | Difference | | |
| 9.0 | 5.4 | 3.6 | | |
| 0.12 Fraud risk | | | Change ↑ | <ul style="list-style-type: none">• reviewing the appropriateness of internal controls and activities |
| Actual level | Acceptable level | Difference | | |
| 8.0 | 3.7 | 2.8 | | |
| Information security risks | | | Measures in 2017 | |
| K.4 Human resource security | | | Change | <ul style="list-style-type: none">• seeking additional human resources• upgrade of human resource management procedures (training) |
| Actual level | Acceptable level | Difference | | |
| 8.7 | 4.9 | 3.8 | | |
| K.10 Business continuity planning | | | Change | <ul style="list-style-type: none">• back-up location for ensuring business continuity• business continuity plan for all key areas of operations |
| Actual level | Acceptable level | Difference | | |
| 12.0 | 6.0 | 6.0 | | |

Risks will be assessed twice a year, and the success of the activities for the management of key risks will be assessed quarterly. The reporting system will be updated and integrated into the business information system.

The project for the development and implementation of the methodology used for the mathematical evaluation of risks and their impact on cash flow, the balance sheet and the statement of profit or loss will also be categorised among the most significant objectives in 2017.

PERFORMANCE INDICATORS

Since 2012, when the impact of the global financial and economic crisis could still be strongly felt, key performance indicators have been improving within the Slovenske Železnice Group. A positive EBIT of EUR 24,642 thousand was generated in 2016 (EUR 12,062 thousand in 2012), value-added per employee increased in absolute terms by EUR 7,414, while the number of employees decreased by 720 workers by the end of 2016. The financial indicators that were achieved are not directly comparable to 2015 due to last year's significant increase in turnover at ŽGP (completion of the projects in the

previous financial framework), increased turnover at SŽ-Infrastruktura, d. o. o., (renovation after the ice storm) and the increased one-time impact of other revenues and expenses.

The key objective of the management of state-held capital assets is the generation of returns on state-held capital assets amounting to 8% of the carrying amount of the share capital in 2020. The target ROE for the Slovenske Železnice Group in 2016 was set at 7.0%, which was also aligned with the adopted business plan.

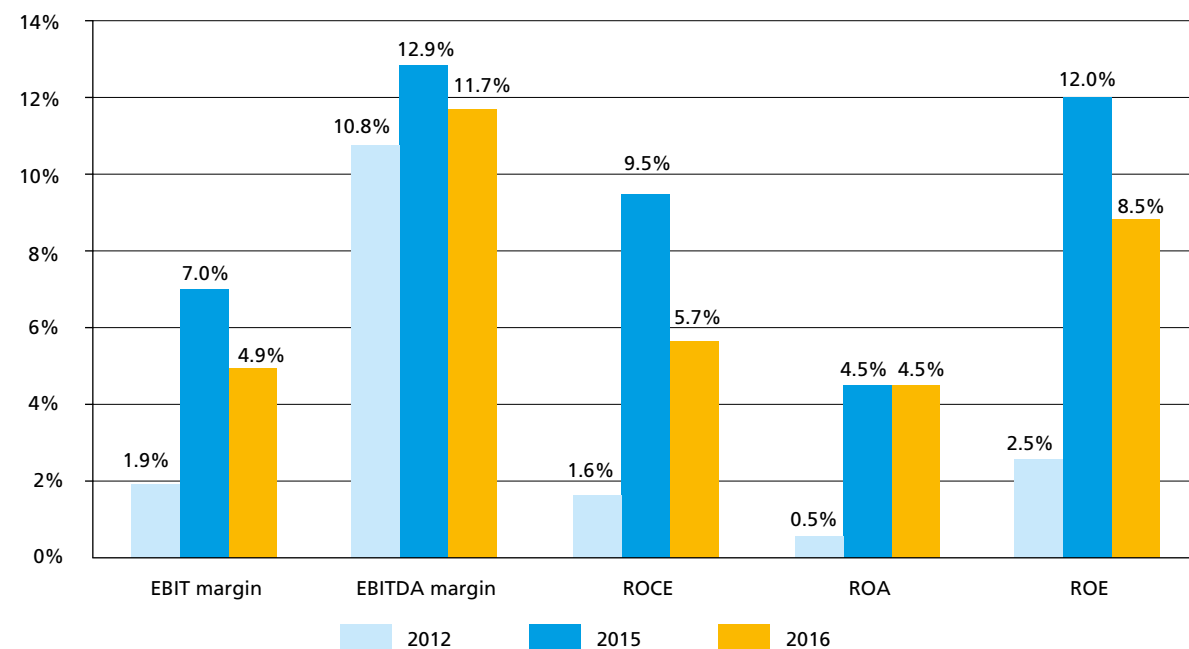
| | Unit | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|----------------------|--------|--------|--------|--------|--------|
| Financial indicators | | | | | | |
| EBIT – Operating profit or loss | EUR thousand | 12,062 | 20,022 | 24,165 | 41,075 | 24,642 |
| EBITDA | EUR thousand | 52,133 | 57,129 | 59,110 | 75,353 | 58,886 |
| Net profit/loss | EUR thousand | 3,479 | 18,714 | 14,550 | 25,831 | 25,056 |
| Operating efficiency | ratio | 1.027 | 1.041 | 1.045 | 1.076 | 1.052 |
| EBIT margin | % | 2.7 | 4.0 | 4.3 | 7.0 | 4.9 |
| Revenues under contracts with the Slovenian Government as a proportion of operating revenues | % | 36.4 | 30.7 | 26.3 | 26.4 | 31.9 |
| Return on Equity (ROE) | % | 2.5 | 12.7 | 9.1 | 12.0 | 8.5 |
| Return on Assets (ROA) | % | 0.5 | 2.9 | 2.3 | 4.5 | 4.5 |
| Financial liabilities/equity | ratio | 2.673 | 2.404 | 1.781 | 0.509 | 0.453 |
| Value added per employee | in EUR | 33,517 | 34,262 | 38,270 | 43,733 | 40,931 |
| Net financial debt/EBITDA | ratio | 7.3 | 6.4 | 4.4 | 1.1 | 1.6 |
| Leverage (assets/equity) | ratio | 4.5 | 4.2 | 3.7 | 2.0 | 1.8 |
| Labour costs as a proportion of operating revenues | % | 50.1 | 43.0 | 43.8 | 42.7 | 48.7 |
| Non-financial indicators | | | | | | |
| Headcount as at 31 December | | 8,279 | 8,099 | 8,069 | 7,741 | 7,559 |
| Average headcount | | 8,543 | 8,221 | 8,088 | 7,907 | 7,547 |
| No. of extraordinary events | | 46 | 35 | 39 | 28 | 39 |
| Duration of renovation and upgrading of lines | in km | 18.65 | 17.40 | 15.39 | 24.12 | 3.48 |
| Freight transport delays | min/100 km | 49.1 | 62.6 | 122.3 | 103.2 | 84.0 |
| Passenger transport delays | min/100 km | 2.0 | 2.9 | 4.8 | 4.4 | 2.3 |
| Volume sold | | | | | | |
| Goods transported | (in thousand tonnes) | 16,181 | 17,648 | 18,783 | 18,595 | 19,239 |
| Net tonne kilometres | (in million NTKM) | 3,538 | 3,896 | 4,278 | 4,363 | 4,552 |
| Passengers carried | in thousand | 15,512 | 16,421 | 14,837 | 14,559 | 14,008 |
| Passenger kilometres | (in million PKM) | 742 | 760 | 697 | 709 | 680 |

Note:

The shaded indicators comprise indicators for monitoring the management of capital assets of the state (SDH).

Net financial debt = financial liabilities – cash and cash equivalents

Performance indicators – Slovenske Železnice Group



The target ROE was achieved.

The performance analysis includes data for the Slovenske Železnice Group and Slovenske železnice, d. o. o., while the comments mostly relate to the operations (performance) of the Group. The Slovenske Železnice Group gener-

ated EUR 501,923 thousand in operating revenues in 2016 and EUR 477,281 thousand in operating expenses. Net profit/loss for the accounting period amounted to EUR 25,056 thousand. This figure is comprised of a positive operating profit of EUR 24,642 thousand, a positive net financial result

of EUR 113 thousand, current tax of EUR 576 thousand and deferred taxes in the amount of EUR 877 thousand.

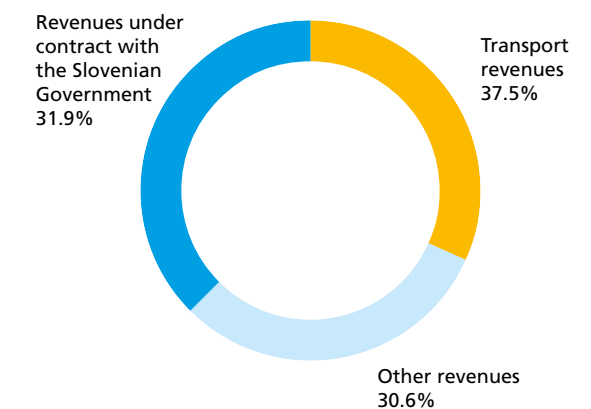
Profit/loss

| EUR thousand | Slovenske Železnice Group | | | Slovenske železnice, d. o. o. | | |
|--|---------------------------|----------------|--------------|-------------------------------|---------------|-------------|
| | 2016 | 2015 | Index | 2016 | 2015 | Index |
| Operating revenues | 501,923 | 584,332 | 85.9 | 33,814 | 62,540 | 54.1 |
| Operating expenses | 477,281 | 543,257 | 87.9 | 27,078 | 38,824 | 69.7 |
| Operating profit or loss | 24,642 | 41,075 | 60.0 | 6,736 | 23,716 | 28.4 |
| Finance income | 4,809 | 5,202 | 92.4 | 14,281 | 18,534 | 77.1 |
| Finance costs | 4,696 | 17,806 | 26.4 | 6,500 | 21,714 | 29.9 |
| Net finance income | 113 | -12,604 | | 7,781 | -3,180 | |
| Pre-tax profit or loss | 24,755 | 28,471 | 86.9 | 14,517 | 20,536 | 70.7 |
| Current tax | 576 | 3,351 | 17.2 | 453 | 1,799 | 25.2 |
| Deferred taxes | -877 | -711 | 123.3 | -828 | 0 | |
| Net profit/loss for the accounting period | 25,056 | 25,831 | 97.0 | 14,892 | 18,737 | 79.5 |

INCOME ANALYSIS

Operating revenues of the Slovenske Železnice Group were down 14.1% on the previous year and amounted to EUR 501,923 thousand (in 2015: EUR 584,332 thousand). The largest decrease in revenues was seen in the construction sector, primarily due to the lower volume of work on projects and due to the extension of the completion deadlines on certain projects. This was the result of a decline in government investments in connection with the changeover to the new European financial framework. The amount of revenues in 2016 is not comparable with the previous year also because of the increased turnover in the management of public rail infrastructure (renovations after the ice storm) and the one-time impact of other revenues. Due to lower revenues, revenues per employee fell by 10.0% despite the decrease in the average number of employees by 360 workers.

Operating revenues



| Operating revenues by strategic activity EUR thousand | 2016 | 2015 | Index |
|--|----------------|----------------|-------------|
| Logistics and mobility | | | |
| SŽ-Tovorni Promet Group | 197,373 | 193,300 | 102.1 |
| Fersped Group | 21,234 | 21,182 | 100.2 |
| SŽ-Potniški promet, d. o. o. | 90,908 | 90,459 | 100.5 |
| SŽ-Vleka in tehnika, d. o. o. | 113,754 | 104,780 | 108.6 |
| PRI management | | | |
| SŽ-Infrastruktura, d. o. o. | 155,005 | 184,406 | 84.1 |
| Construction | | | |
| SŽ-Železniško gradbeno podjetje Group | 34,364 | 82,153 | 41.8 |
| Support activities | | | |
| consolidation | -173,097 | -184,502 | |
| Slovenske Železnice Group | 501,923 | 584,332 | 85.9 |

The highest proportion of the Slovenske Železnice Group's revenues were generated in the logistics and mobility sector (62.7% of unconsolidated revenues), with SŽ-VIT, d. o. o., providing the majority of services for the group companies. The management of public rail infrastructure generated 23.0% of the total unconsolidated revenues, while the construction sector generated 5.1% of those revenues. Support activities perform their services primarily for the Slovenske Železnice Group companies.

REVENUES – LOGISTICS AND MOBILITY

SŽ-Tovorni Promet Group

| EUR thousand | 2016 | 2015 | Index |
|---------------------------------------|----------------|----------------|--------------|
| Goods transported (in million tonnes) | 19,239 | 18,595 | 103.5 |
| Operating revenues | 197,373 | 193,300 | 102.1 |
| transport revenues | 159,943 | 160,298 | 99.8 |
| on domestic market | 6,586 | 7,398 | 89.0 |
| on foreign market | 153,357 | 152,900 | 100.3 |
| other operating revenues | 37,430 | 33,002 | 113.4 |

Transport revenues on the foreign market (95.9% of the total transport revenues) increased, while revenues on the domestic market were down due to the lower volume of transport for the construction of the hydroelectric power plants on the River Sava and lower volume of scrap iron transport.

Fersped Group

| EUR thousand | 2016 | 2015 | Index |
|---------------------------|---------------|---------------|--------------|
| Operating revenues | 21,234 | 21,182 | 100.2 |
| on domestic market | 10,430 | 9,781 | 106.6 |
| on foreign market | 10,658 | 11,242 | 94.8 |
| other operating revenues | 146 | 159 | 91.8 |

SŽ-Potniški promet, d. o. o.

| EUR thousand | 2016 | 2015 | Index |
|--|---------------|---------------|--------------|
| Number of passengers carried (in thousand) | 14,008 | 14,559 | 96.2 |
| Operating revenues | 90,908 | 90,459 | 100.5 |
| contracts with the Slovenian Government | 43,836 | 41,989 | 104.4 |
| transport revenues | 35,824 | 39,297 | 91.2 |
| other operating revenues | 11,248 | 9,173 | 122.6 |

SŽ-VIT, d. o. o.

| EUR thousand | 2016 | 2015 | Index |
|---------------------------------|----------------|----------------|--------------|
| Operating revenues | 113,754 | 104,780 | 108.6 |
| revenues on the domestic market | 101,259 | 94,090 | 107.6 |
| revenues on the foreign market | 10,696 | 8,877 | 120.5 |
| other operating revenues | 1,799 | 1,813 | 99.2 |

REVENUES – PRI MANAGEMENT**SŽ-Infrastruktura, d. o. o.**

| EUR thousand | 2016 | 2015 | Index |
|---|----------------|----------------|-------------|
| Operating revenues | 155,005 | 184,406 | 84.1 |
| contracts with the Slovenian Government | 116,305 | 112,013 | 103.8 |
| other operating revenues | 38,700 | 72,393 | 53.5 |

REVENUES – CONSTRUCTION**SŽ-Železniško gradbeno podjetje Group**

| EUR thousand | 2016 | 2015 | Index |
|---------------------------------|---------------|---------------|-------------|
| Operating revenues | 34,364 | 82,153 | 41.8 |
| revenues on the domestic market | 29,817 | 78,449 | 38.0 |
| revenues on the foreign market | 3,040 | 3,024 | 100.5 |
| other operating revenues | 1,507 | 680 | 221.6 |

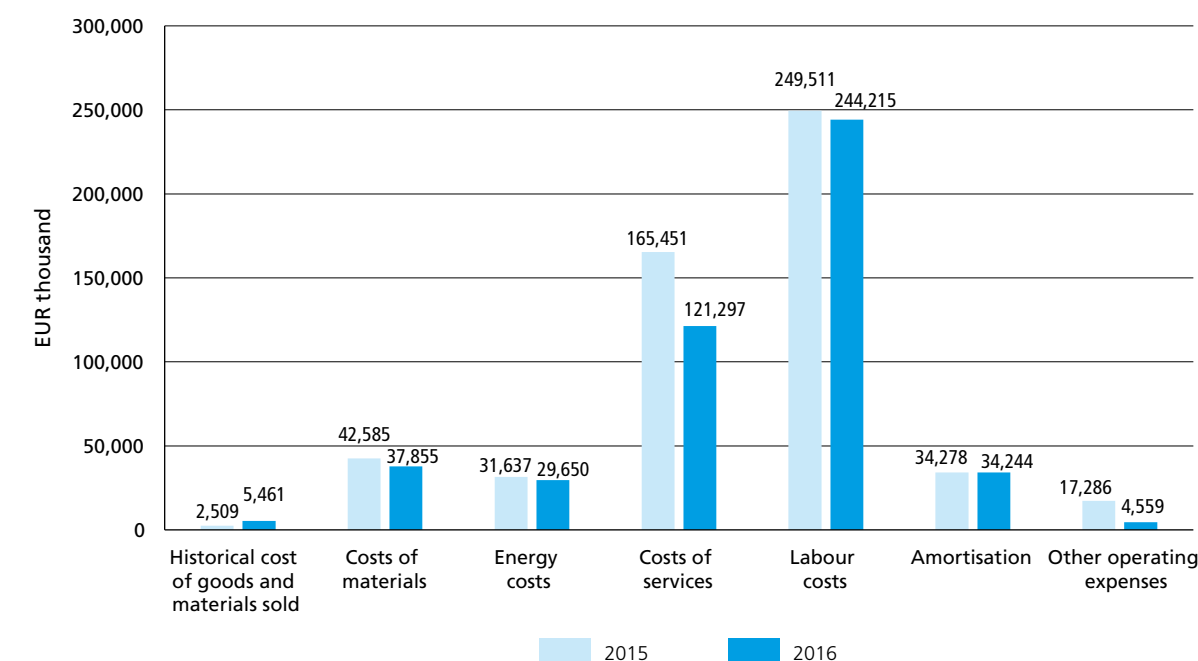
The Fersped Group generates the majority of its revenues through rail, road and maritime transport, and also through storage services. These activities collectively account for almost 90% of the total revenues. Sales to existing customers increased on the domestic market, while revenues were also generated with new customers. Revenues on the foreign market dropped as a result of the discontinuation of the transportation of steel and the loss of a major business partner.

Operating revenues generated by passenger transport were up on 2015 mainly as a result of other operating revenues which comprise revenues from the project Introduction of Integrated Public Transport in the Republic of Slovenia and revenues from the transportation of migrants from January to March 2016.

SŽ VIT, d. o. o., provides most of its services within the Slovenske Železnice Group, primarily for SŽ-Tovorni promet, d. o. o., and SŽ-Potniški promet, d. o. o. It ensures the availability of rail vehicles and provides traction and wagon inspection services. The company generated 9.4% of the operating revenues on the foreign market in 2016. The main product for clients outside the Slovenske Železnice Group was wheelset repair, followed by overhauling of freight wagons and cisterns.

Management of the PRI includes the maintenance of the public rail infrastructure and management of railway traffic. Revenues were down in 2016 primarily due to 19.8% lower revenues from PRI maintenance. Other operating revenues in 2015 included compensation for the ice storm which were not included in 2016.

The main reasons for the significant reduction in operating revenues were the conclusion of major construction projects in 2015 and a delay in the completion deadlines for certain projects.

ANALYSIS OF EXPENSES**Comparison of the operating expenses of the Slovenske Železnice Group**

Operating costs declined in 2016. The largest category was accounted for by labour costs which were reduced by 2.1% due to the downsizing of employees. The costs of the redundant employees programme had a negative impact on labour costs. The average cost per employee amounted to EUR 32,359 (in 2015: EUR 31,556).

The costs of materials were down

11.1% and mostly related to the maintenance of rolling stock and the rail infrastructure. Lower energy costs were also a result of lower diesel fuel prices. Lower service costs connected with the construction sector, maintenance and transport primarily led to lower total service costs.

The net financial result was positive and amounted to EUR 113 thousand.

Finance income mainly comprised income from exchange rate gains from loans, income from participating interests in associated companies, and income from default interest on current receivables, while finance costs mainly comprised interest on loans received and negative foreign exchange differences.

OPERATING RESULTS BY ACTIVITY

LOGISTICS AND MOBILITY

Breakdown of operating results of SŽ-Tovorni Promet Group

| EUR thousand | 2016 | 2015 | Index |
|--------------------|---------|---------|-------|
| Operating revenues | 197,373 | 193,300 | 102.1 |
| Operating expenses | 186,462 | 184,985 | 100.8 |
| EBIT | 10,911 | 8,315 | 131.2 |
| EBIT margin (in %) | 5.5 | 4.3 | 127.9 |
| EBITDA | 26,054 | 23,354 | 111.6 |
| EBT | 9,766 | 506 | |
| ROE (in %) | 16.1 | 1.1 | |
| ROA (in %) | 3.9 | 0.2 | |

Growth in the volume of work and growth in net transport revenues on the foreign market (by 3.6%) were the main contributors to the improvement in key performance indicators relative to the previous year. In addition a positive balance was achieved between other operating revenues and expenses. The improvement in the net result and the ROE was further impacted by the favourable financial result due to lower interest expenses and smaller negative foreign exchange differences.

Breakdown of operating results for the Fersped Group

| EUR thousand | 2016 | 2015 | Index |
|--------------------|--------|--------|-------|
| Operating revenues | 21,234 | 21,182 | 100.2 |
| Operating expenses | 21,066 | 21,227 | 99.2 |
| EBIT | 168 | -45 | |
| EBIT margin (in %) | 0.8 | -0.2 | |
| EBITDA | 294 | 107 | 274.8 |
| EBT | 282 | 43 | 655.8 |
| ROE (in %) | 18.9 | 3.0 | |
| ROA (in %) | 5.8 | 0.7 | |

The combination of the 0.2% growth in operating revenues and 0.8% reduction in operating expenses resulted in the improvement in the performance indicators. The positive financial result further impacted the operating result and the ROE and ROA indicators.

Breakdown of operating results of SŽ-Potniški promet, d. o. o.

| EUR thousand | 2016 | 2015 | Index |
|--------------------|--------|--------|-------|
| Operating revenues | 90,908 | 90,459 | 100.5 |
| Operating expenses | 87,401 | 88,173 | 99.1 |
| EBIT | 3,507 | 2,286 | 153.4 |
| EBIT margin (in %) | 3.9 | 2.5 | 156.0 |
| EBITDA | 14,509 | 13,584 | 106.8 |
| EBT | 3,921 | 516 | 759.9 |
| ROE (in %) | 2.9 | 0.7 | |
| ROA (in %) | 2.6 | 0.3 | |

Higher revenues under the contract signed with the Government of the Republic of Slovenia and other revenues mainly contributed to the improvement in key performance indicators relative to 2015, while expenses were down 0.9%. The improvement in the net result was further impacted by the positive financial result due to lower interest expenses.

Breakdown of operating results of SŽ-VIT, d. o. o.

| EUR thousand | 2016 | 2015 | Index |
|--------------------|---------|---------|-------|
| Operating revenues | 113,754 | 104,780 | 108.6 |
| Operating expenses | 113,447 | 108,494 | 104.6 |
| EBIT | 307 | -3,714 | |
| EBIT margin (in %) | 0.3 | -3.5 | |
| EBITDA | 2,517 | -1,730 | |
| EBT | 33 | -3,955 | |
| ROE (in %) | 0.1 | -15.6 | |
| ROA (in %) | 0.1 | -6.5 | |

The favourable ratio of growth in revenues to growth in expenses contributed to the improvement in the performance indicators. The company generated an operating profit and favourable financial result, which also impacted the improvement in the ROE and ROA indicators.

PRI MANAGEMENT

Breakdown of operating results of SŽ-Infrastruktura, d. o. o.

| EUR thousand | 2016 | 2015 | Index |
|--------------------|---------|---------|-------|
| Operating revenues | 155,005 | 184,406 | 84.1 |
| Operating expenses | 153,426 | 182,357 | 84.1 |
| EBIT | 1,579 | 2,049 | 77.1 |
| EBIT margin (in %) | 1.0 | 1.1 | 90.9 |
| EBITDA | 3,881 | 4,449 | 87.2 |
| EBT | 1,472 | 1,777 | 82.8 |
| ROE (in %) | 10.9 | 11.2 | 97.3 |
| ROA (in %) | 2.7 | 2.2 | 122.7 |

Lower other revenues on the domestic market from the elimination of the effects of an ice storm were followed equally by operating expenses, as a result of which the EBIT margin did not deteriorate significantly. The decrease in current assets and reduction in equity due to the payment of a share in the profits of the controlling company mostly impacted the improvement in the ROA indicator.

CONSTRUCTION

Breakdown of operating results of the SŽ-Železniško gradbeno podjetje Group

| EUR thousand | 2016 | 2015 | Index |
|--------------------|--------|--------|-------|
| Operating revenues | 34,364 | 82,153 | 41.8 |
| Operating expenses | 32,055 | 73,822 | 43.4 |
| EBIT | 2,309 | 8,331 | 27.7 |
| EBIT margin (in %) | 6.7 | 10.1 | 66.3 |
| EBITDA | 3,945 | 10,065 | 39.2 |
| EBT | 2,346 | 8,192 | 28.6 |
| ROE (in %) | 9.0 | 32.9 | 27.4 |
| ROA (in %) | 5.7 | 14.2 | 40.1 |

The construction sector saw a 58.2% drop in revenues, mostly due to delays in the completion of work or a decline in projects, particularly on the domestic market. Operating expenses also declined in proportion to the reduction in

operating revenues, resulting in a lower EBIT margin (-3.4 percentage points). Despite the positive financial result, pre-tax profit was down EUR 5,846 thousand on 2015.

SUPPORT ACTIVITIES

Breakdown of operating results for support activities

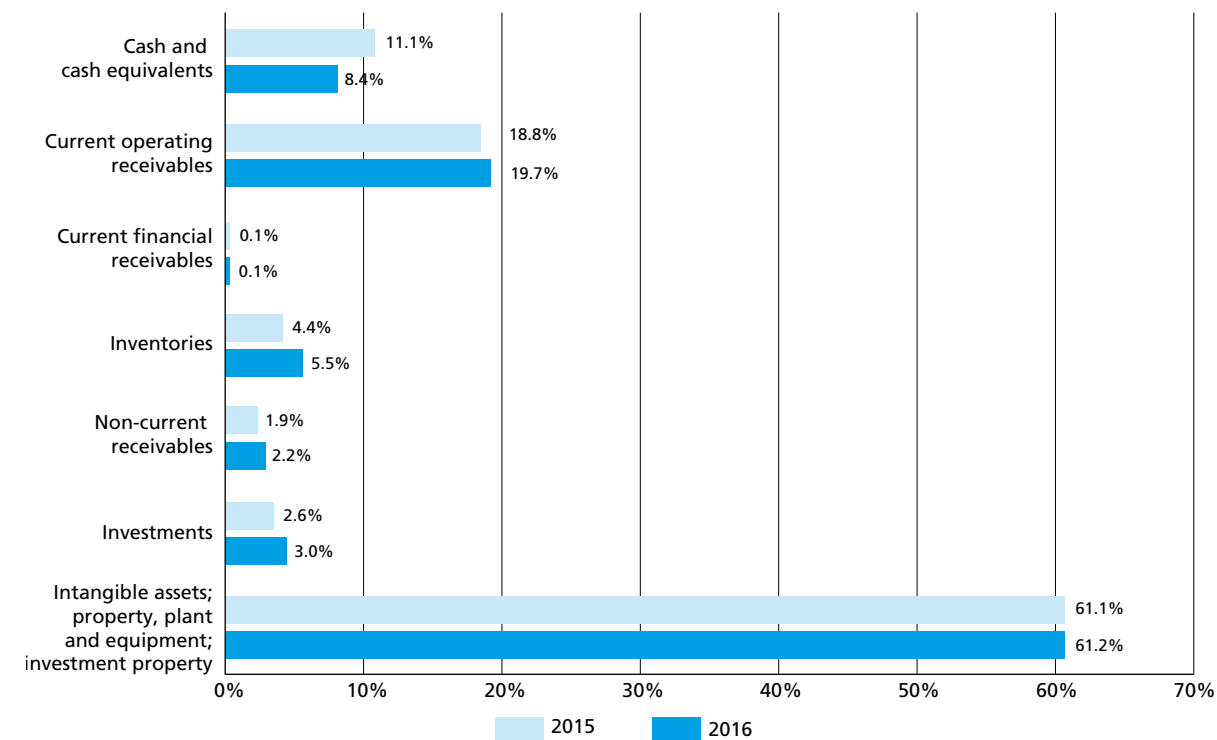
| EUR thousand | SŽ, d. o. o. | | ŽIP Group | | Prometni institut, d. o. o. | | Železniška tiskarna, d. d. | |
|--------------------|--------------|--------|-----------|--------|-----------------------------|-------|----------------------------|------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Operating revenues | 33,814 | 62,540 | 26,559 | 27,767 | 1,481 | 1,756 | 528 | 491 |
| Operating expenses | 27,078 | 38,824 | 27,567 | 28,057 | 1,304 | 1,330 | 505 | 478 |
| EBIT | 6,736 | 23,716 | -1,008 | -290 | 177 | 426 | 23 | 13 |
| EBIT margin (in %) | 19.9 | 37.9 | -3.8 | -1.0 | 12.0 | 24.3 | 4.4 | 2.6 |
| EBITDA | 7,695 | 24,679 | -249 | 354 | 244 | 453 | 63 | 51 |
| EBT | 14,517 | 20,536 | -1,047 | -153 | 182 | 438 | 30 | 16 |
| ROE (in %) | 5.3 | 8.9 | -17.2 | -2.2 | 20.2 | 37.4 | 3.4 | 1.6 |
| ROA (in %) | 2.8 | 3.5 | -6.6 | -0.9 | 11.5 | 24.9 | 3.0 | 1.4 |

ANALYSIS OF FINANCIAL POSITION

The assets of the Slovenske Železnice Group amounted to EUR 554,748 thousand at the end of December 2016, down 1.2% on the previous year.

| Assets (EUR thousand) | 2016 | 2015 | Difference | Index |
|---|----------------|----------------|---------------|-------------|
| ASSETS | 554,748 | 561,473 | -6,725 | 98.8 |
| Non-current assets | 367,849 | 368,596 | -747 | 99.8 |
| Intangible assets; property, plant and equipment; investment property | 339,360 | 342,877 | -3,517 | 99.0 |
| Investments | 16,469 | 14,786 | 1,683 | 111.4 |
| Non-current receivables | 12,020 | 10,933 | 1,087 | 109.9 |
| Current assets | 186,899 | 192,877 | -5,978 | 96.9 |
| Assets held for sale | 20 | 0 | 20 | |
| Inventories | 30,270 | 24,555 | 5,715 | 123.3 |
| Investments | 0 | 0 | 0 | |
| Current financial receivables | 695 | 398 | 297 | 174.6 |
| Current operating receivables | 109,272 | 105,725 | 3,547 | 103.4 |
| Cash and cash equivalents | 46,642 | 62,199 | -15,557 | 75.0 |

Composition of assets



Note:

IA, PPE and IP = intangible assets, property, plant and equipment, and investment property

Investments = investments in associate companies and other financial assets

Non-current receivables = financial receivables, long-term operating receivables, deferred tax assets and other non-current assets

Property, plant and equipment accounts for the largest proportion of non-current assets (79.8%) and amounts to EUR 293,368 thousand, of which EUR 194,559 is accounted for by rolling stock. Property, plant and equipment is down 1.2% on the previous year.

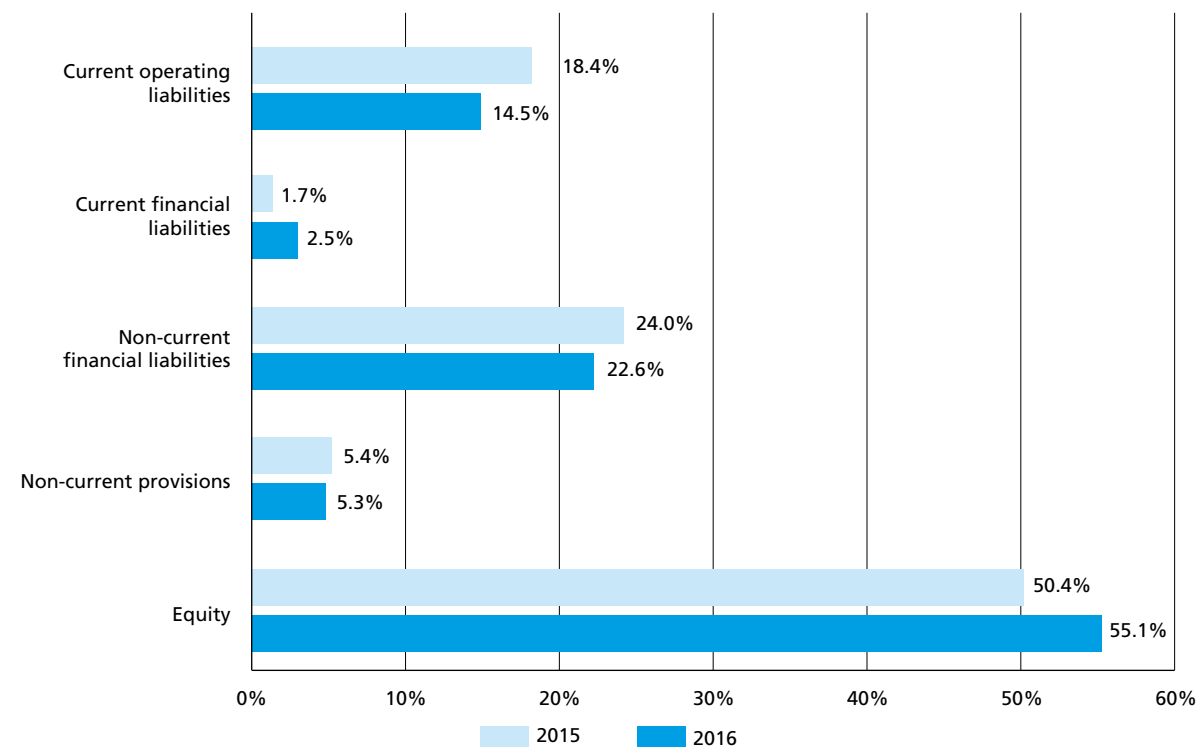
(EUR 2,160 thousand), and the simultaneous reduction in current deferred costs and accrued income (EUR 18,255 thousand) due to the paid receivable connected with the reimbursement of costs incurred as a result of the ice storm.

A total of 58.5% of current assets were accounted for by current operating receivables which increased by EUR 3,547 thousand, primarily due to the sale of land and buildings (EUR 15,802 thousand), higher receivables on the foreign market (EUR 2,698 thousand), higher input tax according to supplier calculations (EUR 2,644 thousand), higher corporate income tax prepayments

Cash and cash equivalents that account for 25.0% of current assets were down 25.0% owing to the settlement of liabilities. Replacement parts and materials as a proportion of inventories (16.2% of current assets) increased due to changes in the public procurement procedures and delays in the performance of maintenance work.

| Equity and liabilities (in EUR thousand) | 2016 | 2015 | Difference | Index |
|--|----------------|----------------|----------------|--------------|
| EQUITY AND LIABILITIES | 554,748 | 561,473 | 6,725 | 98.8 |
| Equity | 305,586 | 283,246 | 22,340 | 107.9 |
| Non-current liabilities | 154,892 | 165,389 | -10,497 | 93.7 |
| Non-current provisions | 29,338 | 30,347 | -1,009 | 96.7 |
| Non-current financial liabilities | 125,178 | 134,634 | -9,456 | 93.0 |
| Non-current operating liabilities | 376 | 408 | -32 | 92.2 |
| Current liabilities | 94,270 | 112,838 | -18,568 | 83.5 |
| Current financial liabilities | 13,808 | 9,416 | 4,392 | 146.6 |
| Current operating liabilities | 80,462 | 103,422 | -22,960 | 77.8 |

Composition of equity and liabilities



Note:

Non-current provisions = provisions for jubilee benefits and termination benefits, other provisions and non-current deferred income

The operating result of EUR 25,056 thousand and the payment of a share in profits for 2015 of EUR 3,613 thousand impacted the amount of equity.

Long-term loans for the purchase of rolling stock used for freight transport, which decreased due to the transfer of a portion of the loans that will fall due by the end of 2017 to the

current portion of financial liabilities, account for nearly all non-current financial liabilities. Loan repayments amounted to EUR 8,254 thousand, meaning that current financial liabilities were increased by EUR 4,392 thousand.

Current operating liabilities were down 22.2% primarily due to payments of liabilities arising from the

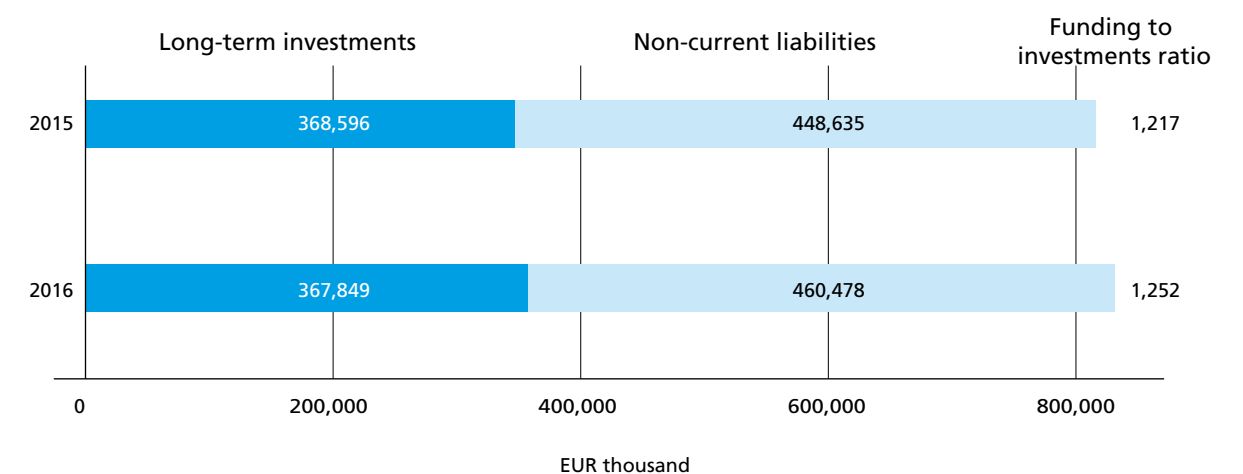
ice storm and trade payables. As at the balance at the end of 2016, one third of current operating liabilities is accounted for by trade payables (EUR 27,954 thousand), another third by liabilities to employees (EUR 24,907 thousand) due to severance payments to redundant workers, and more than one tenth by accrued costs and deferred income (EUR 11,852 thousand) – accrued costs.

FINANCING OF LONG-TERM INVESTMENTS

| EUR thousand | 2016 | 2015 | Difference | Index |
|------------------------|---------------|---------------|---------------|--------------|
| Current assets | 186,899 | 192,877 | -5,978 | 96.9 |
| Current liabilities | 94,270 | 112,838 | -18,568 | 83.5 |
| Working capital | 92,629 | 80,039 | 12,590 | 115.7 |

Debt ratio expressed as the net debt to material assets ratio stood at 17.3% at the end of 2016 and was down on the 2015 figure (22.9%).

Long-term investments to funding ratio



Working capital amounted to EUR 92,629 thousand at the end of 2016 and was up EUR 12,590 thousand on the end of 2015 due to the value of fixed assets and net non-current liabilities dropping by EUR 3,517 thousand and

EUR 13,267 respectively, and the increase of equity by EUR 22,340. Funding is also indicated by the current assets to current liabilities ratio, which amounted to 1.983 at the end of 2016 (compared to 1.709 in 2015).

CASH FLOWS

The Slovenske Železnice Group generated a cash flow from operating activities in the amount of EUR 22,884 thousand in 2016, which was positively impacted by net profit (EUR 30,046 thousand) and an adjustment (EUR 28,483 thousand) mostly due to amortisation, and negatively by changes in net working capital of EUR 35,646 thousand (of which EUR 5,715 thousand was accounted for by an increase in inventories and EUR 22,839 thousand by a decrease in liabilities). Cash

flow from investing activities was negative at EUR 27,107 thousand due to outflows from investing activities of EUR 33,371 thousand (most of which was accounted for by acquisition of property, plant and equipment) and inflows from investing activities of EUR 6,265 thousand (most of which was accounted for by the disposal of property, plant and equipment and investment property).

Cash flow from financing activities

was also negative at EUR 11,334 thousand due to outflows from financing activities of EUR 12,834 thousand (the repayment of financial liabilities accounting for EUR 9,226 thousand and payment of dividends and shares in profits for EUR 3,598 thousand of that sum) and inflows from financing activities of EUR 1,500 thousand.

The balance of cash and cash equivalents decreased from EUR 62,199 thousand to EUR 46,642 thousand.

SALES AND MARKETING

LOGISTICS AND MOBILITY

FREIGHT TRANSPORT

SŽ-Tovorni promet is an internationally oriented company which is increasingly focused on seeking business opportunities on foreign markets. Together with our business partners, international transport accounts for a full 94% of our freight transport. We are constantly looking to develop new, customer-oriented products.

Our key strategic objectives include increasing the Company's presence on international markets through the management of long-distance transport routes and the provision of high-quality services in the European corridors. In 2016 we actively increased our presence on foreign markets.

Sales were effected through various sales channels, with an emphasis on direct personal sales or the use of electronic media from the head office and via our network of sales representatives throughout Slovenia and our network of representatives and subsidiaries on our key

foreign markets – Italy, Austria, Bosnia and Herzegovina, Hungary and Serbia. SI-Cargo Logistics, headquartered in Belgrade, intensified its business activities, particularly in the marketing of transport routes which do not pass through Slovenia. Upon the liberalisation of the Serbian market, we are planning to appear as an operator on that market.

Another important step in the expansion of our regional presence was made in Croatia, where SŽ-Tovorni promet obtained a safety certificate and an independent transport licence in August. SŽ-Tovorni promet appeared on the Croatian market as an independent operator for the first time on 29 September 2016.

Increasing the Company's presence on international markets will continue with our entry onto the Italian market, for which preparations are already in progress.

2015
18.6 million TONNES



4,363 million
NET TONNE km

2016
19.2 million TONNES



4,552 million
NET TONNE km

RANGE OF SERVICES AND VOLUME SOLD

In 2016 the SŽ-Tovorni Promet Group transported 19.2 million tonnes of freight and accounted for 4,552 million net tonne-kilometres. This represented a 3% increase over our 2015 freight carried figure, and a 4% increase with respect to volume sold, and reflected the continuing growth of physical indicators over the past four years.

It should be particularly noted that the distance of the average transport route, which amounted to 237 kilometres in 2016, also increased in comparison with the previous year. This shows that we have taken a further step forward with respect to the management of longer transport routes.

We have achieved good results in difficult conditions, against increasingly strong competition and with exceptionally limited capacities, with regard to both lower

availability of public rail infrastructure and reduced availability of wagons, locomotives and personnel in various phases of transport.

We encountered numerous infrastructure limitations in 2016. Major overloading of Slovenian rail lines occurred already in January due to infrastructure projects, closures and increased volume of traffic. Numerous line closures due to urgent maintenance and breakages of infrastructure components in Slovenia and infrastructure projects in neighbouring countries significantly restricted the regular flow of transport.

In July, our work was further affected by a multi-day work stoppage at Luka Koper. It completely halted rail transport from the Port of Koper, which accounts for nearly 60% of our freight.

At the beginning of the year our operations were still considerably affected by the refugee problem, as pursuant to a Government resolution transport of refugees had absolute priority. This required the emergency provision of locomotives from SŽ-Tovorni promet and personnel from SŽ-VIT. The procedures of the state authorities at the Dobova border station affected transport flows all year.

Despite the difficulties, through numerous operational measures and continuous adjustment we managed to provide the smoothest flow of transport possible. We also successfully dealt with increasingly aggressive competition, which due to the limited potential of goods is increasingly attempting to take over our existing business. By offering transport and additional value-added logistical services, in close cooperation with other companies in the Slovenske Železnice Group, we achieved enviable results.

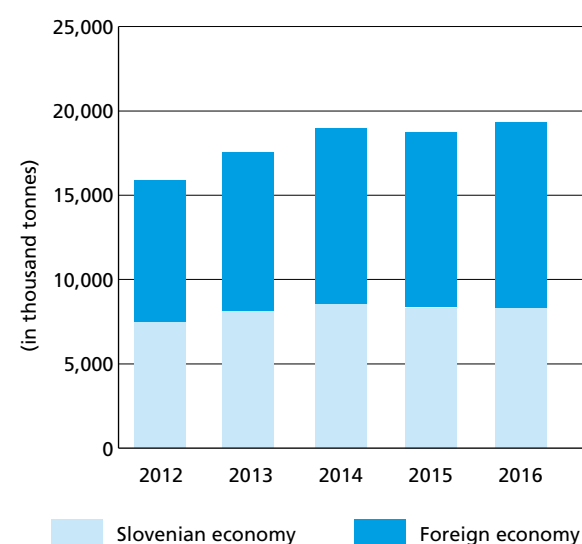
| SŽ-Tovorni Promet Group | 2016 | 2015 | Index |
|---|-----------------|-----------------|--------------|
| Goods transported (in thousand tonnes) | 19,239.2 | 18,594.5 | 103.5 |
| Wagon consignments | 19,212.5 | 18,569.6 | 103.5 |
| Inland transport ¹ | 1,063.8 | 1,166.9 | 91.2 |
| International transport | 18,148.7 | 17,403.7 | 104.3 |
| Small consignments | 26.7 | 24.9 | 107.2 |

¹ Includes non-consolidated quantities.

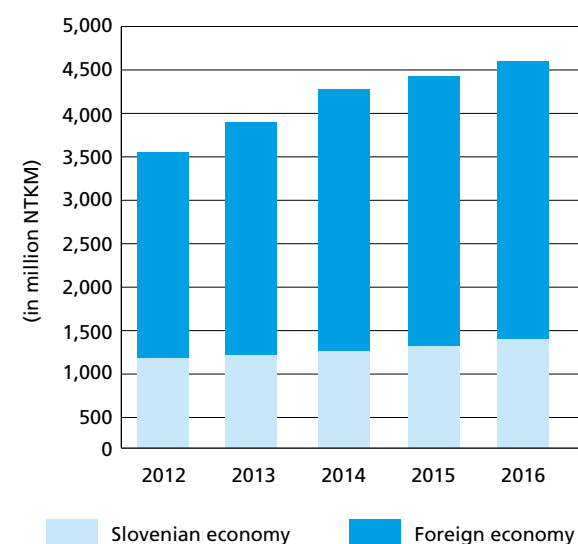
Through regular sales activities and campaigns, the introduction of new products and the optimisation of processes we have obtained new international transport business, which is reflected in an increase of transports of containers, coal, cement, vehicles, chemical products, paper and sand.

We transported fewer wagon consignments in inland transport, but we fully compensated for the shortfall through international transport. Fewer wagon consignments were transported in inland transport due to lower amounts of sand transported for track maintenance and – due to lower demand for steel – lower amounts of scrap iron transported.

Goods transported



Volume sold



The proportion of transport for the Slovenian economy (inland transport, imports and exports) decreased by 0.9 percentage points in comparison with the previous year and amounted to 43.4% (last year 44.3%).

Upgrading and new construction of public rail infrastructure, which requires the closure of lines or tracks, will continue to have negative impacts on our operations in the future. We expect throughput to increase on the electrified Pragersko–Hodoš line, which was officially opened in June 2016, but which supported a very limited number of electric freight trains in the first phase. The modernisation of other parts of the main traffic axis will also have long-term positive effects, but in the short term constitutes major obstacles to rail transport and negatively impacts our operations. Therefore through numerous operational measures and close cooperation with all entities participating in the provision of logistical services we will ensure the highest possible transport throughput in the future as well, and keep our customers continually updated on transport statuses.

WAGON CONSIGNMENTS

| Transport mode (thousand tonnes) | 2016 | 2015 | Index |
|---------------------------------------|----------|----------|-------|
| Conventional transport ¹ | 14,564.6 | 13,964.3 | 104.3 |
| Multimodal transport | 4,592.5 | 4,576.2 | 100.4 |
| SI Cargo (transport through Slovenia) | 55.5 | 29.1 | 190.7 |
| Total wagon consignments | 19,212.5 | 18,569.6 | 103.5 |

¹Includes non-consolidated quantities.

| Volume sold (million NTKM) | 2016 | 2015 | Index |
|----------------------------|---------|---------|-------|
| Volume sold on SŽ lines | 4,505.9 | 4,350.2 | 103.6 |
| Volume sold abroad | 46.4 | 13.0 | 356.9 |
| Total | 4,552.3 | 4,363.2 | 104.3 |

Transport of wagon consignments is performed in the form of conventional transport of wagon consignments and in intermodal transport units (ITU) in combined transport. Our subsidiary SI Cargo Belgrade, in addition to acquiring business for SŽ-Tovorni promet, d. o. o., is also engaged in transport of wagon consignments which do not pass through Slovenia, which year after year contributes increasingly to the competitiveness of the SŽ-Tovorni Promet Group. Similarly, through our own haulage in Austria and Croatia we not only increased our transport routes, but also our competitiveness through long-haul freight management, and thus acquired new business.

CONVENTIONAL TRANSPORT OF WAGON CONSIGNMENTS

Conventional wagon consignment transports comprised 76.0% of wagon consignments transported on Slovenske železnice lines in 2016 and has remained close to that level throughout the years. The majority of the transports, or more than 90% of goods, in addition to empty private wagons, comprise raw materials or primary products and semi-products such as ore, coal, petroleum and derivatives, agricultural products, lumber and timber, sand and stone aggregates, iron and steel, and scrap iron.

The potential in inland transport is very limited, such that we are unable to make up for a loss of one of the key freight classes, such as sand or scrap iron, through other inland transport, so we sought and found a solution by increasing our international business.

In 2016 we increased our volume of international transport, particularly transport of agricultural products, wood, coal, and paper and pulp. We achieved these increases primarily on account of adjusting our services to customer needs, where we offered higher-quality logistical services or long-haul transport. For example, by subtracting or

adding wagons at certain stations we adjust the length of the train to the individual track sections. Customers can therefore plan for longer trains in both dispatch and return, regardless of infrastructure capacities i.e. limitations on certain routes. We also offered our customers heavy train transport, through which they can optimise their manufacturing or purchasing activities. To a lesser extent, we also achieved increases due to increased demand for certain goods on key markets.

COMBINED TRANSPORT

A total of 95% of goods in combined transport are transported in shuttle trains, primarily from the Port of Koper to Hungary, Slovakia and the Czech Republic and back, with the remaining 5% of goods transported in individual wagons primarily to the Balkan countries. We transported 8% more ITU relative to 2015. There are major negative discrepancies in Ro-La truck transport. The reason for this is the increased number of permits granted to Turkish operators, over which we have no influence.

SI CARGO

In 2016 we continued our existing range of routes and expanded our routes which do not pass through Slovenian territory. This concerns primarily transport from and to Serbia and transit through Serbia. We acquired several new contracts and customers in the countries of the Western and Eastern Balkans. We expect to continue to work with all of our new customers, and will seek to expand our customer base. In view of the fact that private operators are expected to begin operating in Serbia, this will be hard work which will require intensive activities and regular monitoring of the competition and continuous adjustment of our range of services, from both the organisational and sales perspectives.

SŽ-EXPRESS

SŽ-Express specialises in the inland and international transport of small consignments. It supplements its wide range of freight transport services with the distribution and transport of small consignments and customs and storage services, which it provides for both inland and international transport.

The increased scope of work, in terms of both the number of tonnes transported and the number of consignments, indicates that SŽ-Express increased its market share in inland and international transport again in 2016. We achieved this through an improved marketing strategy and by adapting our services to customer needs, both in terms of the quality of our services and the competitiveness of the range of services, continuous optimisation and rationalisation of work processes, increased productivity and improved communications with the market.

FERSPED

Fersped is an international forwarding company which ranks among the larger providers of logistical services in Slovenia. In addition to more than seven business units in Slovenia, it also offers its services through two subsidiaries, in Sarajevo and Trieste.

Although it specialises primarily in rail transport of goods in transit through Slovenia, it also organises and implements other transport modes by road, sea and air. In addition, it offers storage with transshipment and distribution, tax representation, customs services and other related services.

In rail transport, Fersped carries out all types of transport – conventional, intermodal, combined – and offers its customers optimal logistical solutions. It endeavours to base its transport chain on rail transport, due to its small carbon footprint. It adds other forms of transport into the chain depending on customer needs, thus providing comprehensive logistical services.

Fersped is an important forwarder in the Port of Koper for transport of bulk cargo, wood, coal, grains, liquids, general cargo and car transport. In addition to transshipment and storage, it also provides fumigation, quality and quantity inspections of goods, phytosanitary inspections of goods

With new business in international freight transport services we are hauling more containers, coal, cement, vehicles, chemical products, paper and sand.

and veterinary inspections. It organises groupage for parties transporting smaller quantities of goods.

In road transport, Fersped and its contractual partners can organise a wide range of transport, from transport of small shipments with combined vehicles or lorries up to 3.5 tonnes, to

transport of large shipments up to 24 tonnes, container transport, transport of bulk cargo and hazardous substances, and special consignments.

The company also has branches at the Ljubljana and Maribor airports, where in addition to air transport logistical services they also offer pickup or delivery of groupage consignments to European airports by road, transport of groupage consignments, full or partial charter of aircraft space and tracking consignments from pickup to handover.

RAIL LOGISTICS

The proportion of rail logistics among all activities increased by 3% over 2015. However, various contracts also ended in 2016, so in 2017 we are planning intensive marketing of this activity in order to make up for the lost business and keep revenues at approximately the same level.

Revenues by activity

| Activity (EUR thousand) | 2016 | 2015 | Index |
|-----------------------------|--------|--------|-------|
| Rail transport | 8,579 | 8,266 | 103.8 |
| Road transport | 5,147 | 4,821 | 106.8 |
| Maritime transport | 2,057 | 1,658 | 124.1 |
| Air transport | 101 | 177 | 57.1 |
| Goods support | 949 | 902 | 105.2 |
| Storage services | 1,797 | 1,878 | 95.7 |
| Merchandise sales and other | 1,317 | 1,863 | 70.7 |
| Total | 19,947 | 19,564 | 102.0 |

ROAD LOGISTICS

Road freight transport of full and partial loads and containers increased by 7% in 2016. The largest increase was seen in road freight transport of goods and containers from the Port of Koper and groupage and conventional road transport to and from Turkey. We are present in road freight logistics throughout Europe and beyond. We carry out goods transport for full truck loads (FTL), less than truck loads (LTL), groupage transport, refrigerator logistics and container transport. Our road transport of high-volume cargo includes wood products and semi-products, food products, paper, bicycle parts, semi-products for the car industry, machinery, etc.

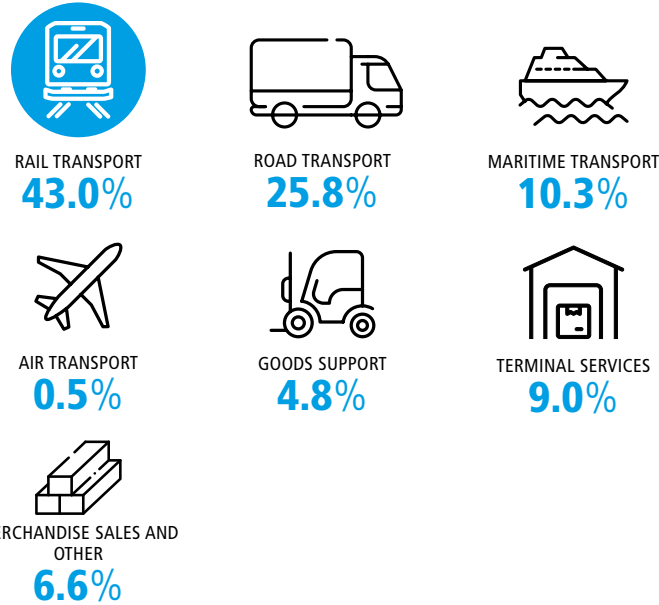
MARITIME LOGISTICS

Maritime logistics services increased by 21% over the previous year. We posted excellent results in container transport, where we offer our customers comprehensive logistical services – transport, transshipment, customs and delivery. Despite price pressures from competitors, we are adapting to trends and increasing turnover through sales measures. In customer relations we place great emphasis on the advantages of the Port of Koper, where we have our own warehouse, which is a significant factor in our ability to offer terminal services. In addition, we are improving our cooperation with our foreign partners – providers of logistical services in the Far East and other regions, and with shipping companies – and we are developing operations in an agency network with foreign partners, where we have significantly increased our presence.

AIR LOGISTICS

In May 2016 we once again began to use the commercial facilities at the Brnik Airport, through which we are able to provide unrestricted operations at a European Union input/output point. Despite strong competition from global logistics operators, we have a growth opportunity in dispatching shipments for Slovenian and foreign forwarders.

Revenues by activity in 2016



GOODS SUPPORT SERVICES

On 1 July 2016, the Value Added Tax Act was amended thus transferring the liability to pay value added tax directly to customers, thereby removing the necessity of forwarders' advancing funds for customs guarantees. This change led to a decline in revenues from financing customs guarantees, since the majority of importers use the option of self-taxation. On the other hand, the new legislation reduced the risk of default. Customs controls, which were applied very frequently in 2016, were mainly connected with tax representation. Statistics on the number of completed customs declarations indicates a 5% increase in operations in this segment.

Fiscal representation was provided at approximately the same level as in 2015, mainly for business partners that operate via Koper.

TERMINAL SERVICES

Fersped has identified terminal services as a strategic development project. In our future operations we will be paying increased attention to them, since this is the area in which the Slovenske Železnice Group has the greatest competitive advantage, with our own warehouse in Koper,

and in addition these services are expected to see major growth in the future.

The majority of terminal services involve loading and unloading at our transshipment warehouses in Koper and Nova Gorica, and the expansion of terminal services will simultaneously increase rail and road transport. We are planning to expand and modernise (transition to bar codes) our warehouse in Koper and to close off the open part of the warehouse in Nova Gorica.

GOODS SALES

Goods sales include primarily sales of wood chips. A contract for supply of wood chips was concluded until the spring of 2016. In the new procurement procedure for two-year services, which was carried out in March 2016, we were the sole tenderer offering delivery of wood chips by rail; our bid was unsuccessful due to our price being too high. Therefore revenues from goods sales in 2016 were down 35% on the previous year.

PASSENGER TRANSPORT

In the public service obligation of inland and cross-border regional passenger rail transport, 592 train routes were defined in the 2015/2016 timetable period, from 13 December 2015 to 10 December 2016, of which 512 in inland rail transport, in line with the needs of migration flows, and 80 on the territory of Slovenia in cross-border regional rail transport with Austria, Hungary, Croatia and Italy. In comparison with 2015, 3.8% fewer passengers

were carried and 4.1% fewer passenger kilometres were completed. The lower number of passengers is primarily the result of the changed habits of daily commuters, the smaller number of secondary-school and college students and the decentralisation of secondary schools and colleges, and due to the closure of state borders by countries in the European Union due to migrants.

A total of 13.4 million passengers

were carried under the public service obligation of inland and cross-border regional passenger rail transport, who travelled an average of 49.5 kilometres, for a total of 10,245.2 train kilometres. The planned volume sold was not achieved due to alternative transport at the request of the public rail infrastructure manager, the closure of lines due to investment projects and maintenance work, and extraordinary events.

Range of services and volume sold

| | 2016 | 2015 | Index |
|--|-----------------|-----------------|--------------|
| Number of passengers carried (thousand) | 14,007.8 | 14,558.5 | 96.2 |
| PSO | 13,389.3 | 13,810.7 | 96.9 |
| other activities | 618.5 | 747.8 | 82.7 |
| inland transport | 13,231.1 | 13,792.4 | 95.9 |
| international transport | 776.7 | 766.1 | 101.4 |
| Passenger kilometres (million) | 680.1 | 709.3 | 95.9 |
| PSO | 662.5 | 670.4 | 98.8 |
| other activities | 17.6 | 38.9 | 45.2 |
| inland transport | 564.6 | 593.9 | 95.1 |
| international transport | 115.5 | 115.4 | 100.1 |
| Train kilometres (thousand) | 10,290.5 | 9,562.1 | 107.6 |
| PSO | 10,245.2 | 9,516.8 | 107.7 |
| other activities | 45.3 | 45.3 | 100.0 |
| inland transport | 8,191.9 | 7,814.0 | 104.8 |
| international transport | 2,098.6 | 1,748.1 | 120.1 |
| Average distance travelled (km) | 48.6 | 48.7 | 99.7 |
| inland transport | 42.7 | 43.1 | 99.1 |
| international transport | 148.7 | 150.6 | 98.7 |

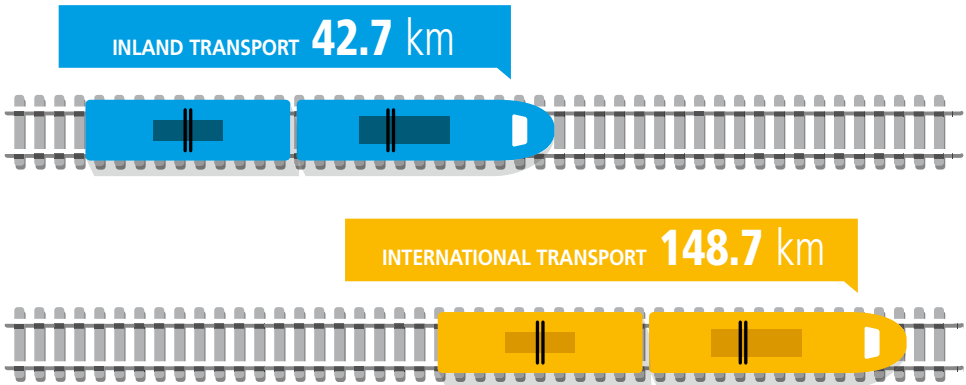
The most significant proportion of passengers in inland transport are youths and adults, who comprise 74.6% of all passengers. The highest proportion of passengers

carried comprises youths with seasonal rail passes (45.4% of all passengers). Transport of migrants is included in the volume sold.

Length of passenger trips

PASSENGERS ON AVERAGE TRAVEL

48.6 km



International travel in 2016 once again included offers based on general international tariffs and additional offers based on bilateral and multilateral agreements with other railway administrations and railway operators, which applied to certain routes, times, trains and types of passengers. Offers featuring a limited number of low-price fares starting at EUR 19 for certain trains and times to Belgrade, Budapest, Vienna, Graz, Salzburg, Zurich, Munich, Frankfurt and Pula were particularly notable. A large segment was made up of tourists travelling using Interrail (for passengers from European countries) and Eurail (for passengers from outside of Europe) passes, mainly from the US, Japan, South Korea, China and India.

A total of 12.6 million passengers were carried within the scope of the public service obligation of inland transport, i.e. 94.4% of all passengers carried pursuant to the agreement on the performance of the public service obligation. The most prominent countries within the scope of the public service obligation of cross-border regional transport (5.6% of passengers carried) were Slovenia (dispatch of passengers from Slovenia) and Croatia (HŽ), followed by Austria (ÖBB) and Germany (DB).

The range of services under other activities included inland and international excursion trains in cooperation with local communities, the organisers of various events, travel agencies and other operators, with a 4.4% share of all passengers carried.

PRICES AND TARIFFS

The prices for inland passenger transport, which are state-controlled, did not change in 2016, despite the fact that a 10% increase was planned for 1 September. Prices for international travel also remained unchanged. Passengers were able to apply various discounts to inland and international travel, and they also received various special offers.

SPECIAL OFFERS

At 'Grem z vlakom' (I'm taking the train) events

SŽ-Potniški promet is linked to more than 200 event organisers in Slovenia and abroad. Under the slogan 'Grem v vlakom' (I'm taking the train), they offer visitors the opportunity to attend concerts, trade fairs, sports, cultural and other events. To this end, we work together with the event organisers and local communities. We appear as a partner on the market with offers, communications and in designing logistical solutions. In this way we try to encourage the event attendees to travel by train. Through many years of targeted cooperation with the organisers of the increasingly large events which are accessible by train, trains are becoming an

increasingly popular means of transport for attendees.

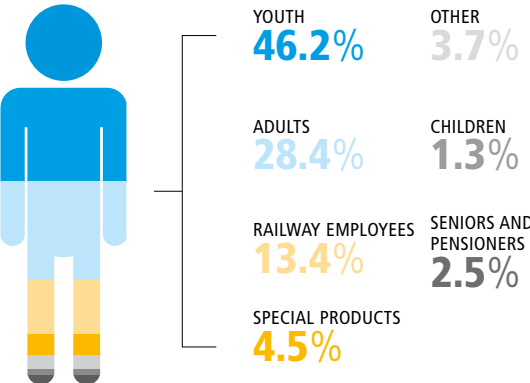
When the train journey is the destination!

In our public relations messaging, we emphasise the advantages of travelling by train. Travelling by train not only makes a significant contribution to environmental protection and sustainable development, it is also more relaxing, since you don't have to deal with traffic jams or looking for parking spaces, and above all the space offers numerous opportunities for the journey itself to become the destination. You can spend your time reading, playing parlour games, socialising with your fellow passengers, etc.

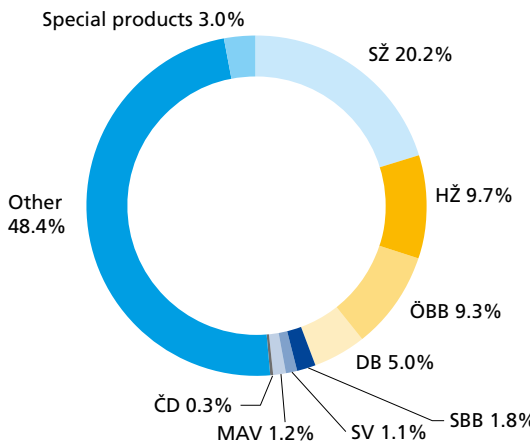
In 2016, there were 131 trains which featured entertainment programmes

In order for travelling by train to become the destination, we make it possible in cooperation with event organisers for passengers to experience part of the event while they are still on the train. The train thus becomes part of the organiser's programme. These types of collaboration draw a highly positive response from passengers, and also from the media. In this case, the train is not just a means of transportation, but a venue. In addition to popularising travelling by train and increasing the number of passengers, we also contribute to Slovenian tourism and sustainable development.

Passengers carried



Passengers carried by operator



If I drink, I take the train is one of the slogans of Slovenia's most popular event, the Beer and Flowers Festival in Laško. During the three days and nights of the festival, regular and special excursion trains carry approximately 20,000 visitors to the event and back. We conduct the "If I drink, I take the train" campaign in cooperation with the organisers, the Laško Department of Traffic Prevention and Education and the Police. Breathalyser tests are available at the event, and if the test indicates blood alcohol content, you get a red card. The red card can be exchanged for a train ticket and a safe ride home. You can return to Laško by train to pick up your car.

When the event travels to the audience

The Ljubljana Festival, with its wide ranging programme of concert, theatre, opera and ballet performances, hosts world-famous artists and throngs of visitors every year. An introduction to the programme is provided by the Festival Train, which the organisers take to the site of a press conference, or even hold part of it on the train itself. In 2016 we held a press conference in Zagreb, which has many potential visitors and thus passengers, as there are numerous daily connections between Ljubljana and Zagreb. We have also held similar media presentations in cooperation with the organisers in Celje, Bled and Koper.

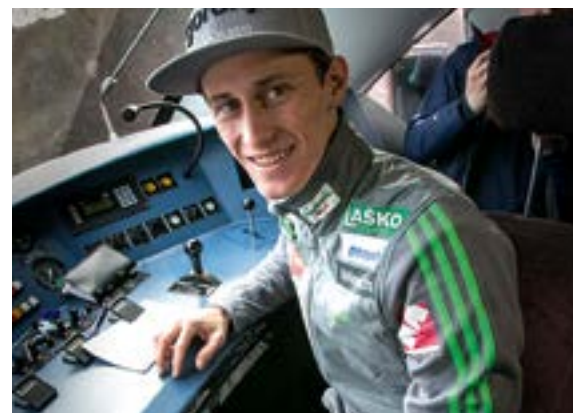
December – a magical month for travelling by train

We ran a PR campaign in December 2016 with the slogan "a magical month for traveling by train". We invited passengers to travel to numerous holiday locales in Slovenia, and during the days when they were hosting events we added carriages to the trains, introduced an additional night train between Maribor and Ljubljana, and December fairy-tale heroes entertained passengers on board the trains. All month, passengers from various towns in Slovenia heading to Fairy-Tale Land in Celje were accompanied by fairy-tale fairies. Muca Copatarica (The Cat who Hid the Slippers) and her sprite entertained and handed out gifts to all of the youngest passengers travelling between Nova Gorica and Bled. Santa Claus rode on the heritage train on various routes in Slovenia and entertained both young and older passengers. All of these trains were sold out, which indicates that these campaigns are popular and that trains are still a part of the most wonderful fairy-tales for passengers of all generations. During these projects we try to get our youngest passengers excited about travelling by train, raise awareness about sustainable development, and give people ideas about taking train journeys at other times of the year.



Establishing a tradition – taking the train to sporting events

We used Slovene athletes and fans taking the train to sporting events around Slovenia and abroad as a media promotional campaign, through which we wanted to popularise travelling by train and raise awareness of sustainable development.



When I travel around Slovenia, a Global Green Destination, I take the train

Slovenia was named a green destination at the Global Green Destinations Day conference. Travelling by train in Slovenia is naturally enhanced by the elements on which this accolade is based. Travellers can use environmentally-friendly transportation – the train – to travel to numerous Slovenian tourist attractions.

In 2016 we continued to carry out the campaign '**Grem z vlakom**' (I'm taking the train), which we developed several years ago in order to provide excursionists with the greatest possible mobility and access to tourist attractions in an environmentally-friendly manner.

Our range of comprehensive tourism programmes for groups is complemented by daily offers intended for all passengers, for instance the Spa Train, which connects the capital with the Laško and Terme Olimia spa and wellness centres.

The heritage train is a point of pride and an active part of Slovenia's cultural heritage. The traditional trip on the heritage train to the Soča Valley has been joined by regularly scheduled heritage train rides between Celje and Podčetrtek, on Saturdays from the end of April to the end of September.

We supplement our range of tourist routes with benefits intended for our passengers. These include discounts on accommodations, bathing, wellness services, etc. In 2016 we expanded our collaboration with our partners which offer tourism products at target destinations, with twelve bonus offers.

The Car Train is an additional means of transportation between Nova Gorica and Most na Soči, along the famous Bohinj Line, which celebrated its 110th anniversary in 2016. In 2016 we extended certain routes between Most na Soči and Bohinjska Bistrica to Nova Gorica and back.



'Grem z vlakom' (I'm taking the train) to European cities

We provide travellers with connections to every single destination in Europe and provide sales for every rail operator in Europe. Trains from Slovenia run every day directly, without transfers, to Zagreb, Belgrade, Graz, Vienna, Zurich, Munich, Salzburg, Villach, Innsbruck, Rijeka and Opatija, and during the summer also to Pula.

In 2016 we expanded our range with a direct connection between Ljubljana and Trieste, which allows fast and convenient connections to all of the larger cities in Italy. Italian cities are also accessible by trains which run every day from Ljubljana to Opicina, from which buses run to Trieste, where you can continue your train journey.



With the new timetable, introduced on 11 December 2016, passengers can travel even more affordably to Zagreb, Rijeka, Pula, Belgrade and Budapest.

SURVEY RESULTS INDICATE IMPROVED QUALITY OF TRANSPORT SERVICES

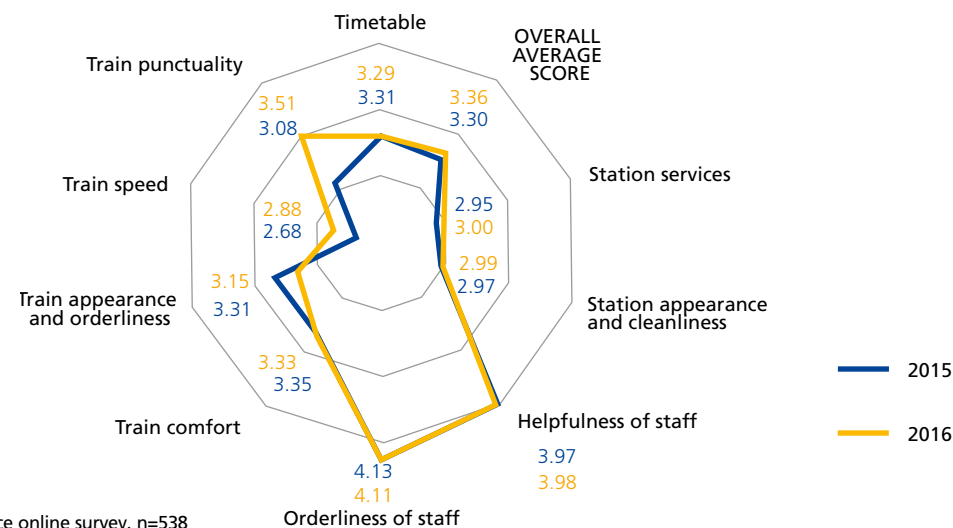
We carry out measurements of user satisfaction with transport services through annual surveys of quality elements, which is one of the indicators of the situation on the market and the effects on users caused by the introduction of new products and services. In 2015 we moved to online surveys, and the 2016 online survey was conducted from 18 October to 21 November 2016.

According to the survey, the largest proportion of respondents take the train at least once a month, and a third take the train a few times a year. More than half of the respondents travel to or from work or school by train, and over a third stated that they take the train for excursions, visits or other leisure-time activities. The majority travel using return or one-way tickets and subsidised integrated public rail transport (IPRT) tickets. The respondents' age structure indicates that the majority are aged 31 to 50, more than half are women, and the Central Slovenia region is the most represented.

User satisfaction increased in comparison with 2015, as indicated by the higher average score, which was 3.36 in 2016. The proportion of good, very good and excellent ratings increased to 75.8%. The highest ratings were given for the presentation of the staff, with an average score of 4.11, and the lowest-scoring quality element, as in 2015, was train speed, with an average score of 2.88. Respondents were least satisfied with train speed in the Primorska and Goriška regions. According to the respondents, train punctuality improved particularly on the Ljubljana-Jesenice and Celje-Velenje lines, while respondents were less satisfied than in 2015 with the appearance and orderliness of the trains and the level of on-board comfort. The respondents rated the timetable lower than in 2015. It received the highest scores on the Ljubljana-Zidani Most-Dobova, Ljubljana-Kamnik and Ljubljana-Novo Mesto-Metlika lines. The quality elements of the stations are among the lowest-rated elements, although according to the respondents the appearance and cleanliness of the stations and the services available at them improved relative to 2015. In the survey, in addition to satisfaction the respondents also rated the importance of the quality elements. On the basis of the results, the most important elements of train travel continue to be the timetable, punctuality and train speed.

Those respondents who have never travelled by train or do so very rarely stated that they would take the train more often if they were more frequent and faster. For them, the most important elements of train travel are train punctuality and speed and a suitable timetable. These results are not surprising, as the maintenance work being carried out on the railway infrastructure forces the trains to run slower, which leads to delays.

Average scores of quality elements in 2015 and 2016



TRACTION AND MECHANICAL

MAINTENANCE ACTIVITIES

Traction and Mechanical carried out maintenance of railway vehicles and repair and manufacturing of components and spare parts primarily for companies in the Slovenske Železnice Group (78.5%). The largest clients for maintenance services for rolling stock in the Slovenske Železnice Group were SŽ-Tovorni promet, d. o. o., (54.8%) and SŽ-Potniški promet, d. o. o., (40.7%), and sales volume increased for both companies relative to the previous year.

As in the previous year, in 2016 we again tried to increase our competitiveness and raise our profile on the European market and attract new clients. The proportion of sales for clients outside the Slovenske Železnice Group, which are owners or lessees of rolling stock, was 21.5%, of which more than 90% were realised abroad, nearly the majority on Western European markets (Germany, Austria, France). Revenues were up 19.8% on the previous year. As in the past few years, the main product for clients outside the Slovenske Železnice Group in 2016 was wheelset repair, followed by overhauling of freight wagons and cisterns.

TRACTION

The main duty of traction is providing traction and moving rolling stock according to planned schedules of availability of tractive vehicles and personnel. Nearly all traction services are provided for the needs of operators in the Slovenske Železnice Group (SŽ-Tovorni promet, d. o. o., 58.5% and SŽ-Potniški promet, d. o. o., 41.5%). A certain number of tractive vehicle personnel already work for SŽ-Tovorni promet on lines in Austria and Croatia.

The amount of work performed is expressed in gross tonne kilometres (assessment of the work of locomotives) and lubricated kilometres (assessment of the work of multiple units). The amount of work performed using electric traction increased for both freight and passenger transport, while diesel traction decreased from 18.5% to 12.5%. The ratio between the work performed by electric and diesel locomotives also changed due to the electrification of the Prager-sko-Hodoš line.



WAGON TECHNICAL SERVICES (WTS)

Wagon Technical Services is one of the rail activities in which we participate directly in the provision of rail transport. Its chief duty is the monitoring of the technical status and equipping of unpowered carriages and monitoring of their functioning in trains. Its main purpose is to ensure the safe, reliable, high-quality and environmentally-friendly operation of unpowered rolling stock. The work is carried out at inspection points in the Slovenske železnice network and in the networks of neighbouring railway operators (ÖBB, FS and HŽ), on the basis of international and national regulations and agreements among the operators.

Nearly all wagon technical services are also provided for the needs of operators in the Slovenske Železnice Group (SŽ-Tovorni promet, d. o. o., 81.5% and SŽ-Potniški promet, d. o. o., 18.5%).

PRI MANAGEMENT

Pursuant to the Railway Safety Act (ZZelP), the company SŽ-Infrastruktura, d. o. o., is the manager of the public rail infrastructure, whose main activity is the maintenance and management of the public rail infrastructure and the management of railway transport on it. A safety management system is in place for all activities associated with rail transport safety, and a safety certificate has been obtained which is valid until 31 May 2019.

Slovenske železnice has a precisely defined safe infrastructure management system.

In March 2016 a long-term agreement was signed with the Slovenian government for the provision of services of manager of the public rail infrastructure for the period from 1 January 2016 to 31 December 2020. The implementation of this agreement will increase the competitiveness of rail transport services in comparison with other types of transport, and will initiate a transition to a more cost-effective and user-oriented method of providing services and the establishment of the manager's financial stability and independence. A further objective is to optimise the funding, prescribed status and management of the PRI so as to ensure the safety, quality, availability, reliability and user-friendliness of the PRI.

The agreement sets out the objectives and duties of the manager within the public service obligation (PSO) of maintaining the PRI and the PSO of traffic management, and the duties directly associated with the PSO, the duties associated with PRI management, and the duties of carrying out and organising maintenance work on railway passenger stations and stops and other buildings which are not part of the PRI. It also includes the rights and obligations of contractual partners, the method of payment for services, the level of funding required and indicators of the quality of the manager's services.

SCOPE AND TYPES OF INFRASTRUCTURE MAINTENANCE WORK

PRI maintenance work

In 2016 we carried out all planned regular maintenance, maintained the required normal operating capacity of the track superstructure and substructure elements and safety signalisation, telecommunications and electricity installations and structures, and ensured transport safety together with traffic management.

Maintenance work on the structures and installations in the public rail infrastructure was carried out on the basis of annual, monthly and weekly work plans, which included all work that ensured safe and well-regulated rail transport. Inspection results were the basis for planning the scope of maintenance work required in a certain time interval.

Pursuant to the Rules on Railway Line Superstructure, we carried out two mandatory measurements of the geometry of the position of the tracks in the PRI rail network, in different lengths. The overall scope of the measurements in 2016 amounted to approximately 2,457 kilometres of tracks. The KT 500 general index in 2016 (single measurement) for all lines amounted to 158.33 (previous year 164.84), which means that the quality of the geometric position of the tracks improved on average (a lower KT 500 value means better track condition). The rail cross-sections were measured and ultrasound testing was carried out throughout the network (amounting to approximately 1,540 kilometres of tracks). A total of 1,096 defects were detected using ultrasound testing, and the main critical defects are being repaired or secured on an ongoing basis. Measurements of corrugation were made only on the main lines over a distance of around 920 kilometres.

Nine decisions by various inspectorates were submitted for implementation in 2016, of which seven were implemented and two were deferred to 2017. A total of eight decisions were implemented in 2016, and there are 64 currently unimplemented decisions.

Regular maintenance of safety signalisation in 2016 included station signalisation (mechanical, electromechanical, electrical relay and electronic), automatic block signalling (ABS) and intermediate block signalling (IBS) devices, automatic level-crossing (ALC) safety devices, switch-point heating systems, shunting equipment, remote control systems, rail vehicle detectors, electronic alarms and corresponding construction elements and structures for installation of technical equipment. All irregularities were rectified in order to ensure the correct functioning of the signalisation. Worn equipment was replaced as part of maintenance.

Regular maintenance of telecommunications devices included railway telephone equipment and switchboards, lines and cables, video surveillance and alarm equipment, radio equipment, transmission systems, data transfer devices, power supply equipment, time-keeping devices and devices for station passenger operations. In addition, we eliminated defects, errors and anomalies in telecommunications devices and systems. Worn equipment was replaced as part of maintenance.

Regular maintenance of the overhead line and electronic alarm systems included the replacement of overloaded catenaries, worn overhead line supports and insulators.

Regular maintenance was performed on medium-tension wires, traction substations and the remote control system, and remote operation of fixed electrical traction installations was tested from three control centres.

Regular maintenance of electrical installations includes the maintenance of electrical power systems and lines, exterior lighting, lightning conductors, annual inspections of transformer stations, inspections of electrical equipment, carrying out prescribed measurements and smaller-scale emergency repairs.

Replacement as part of PRI maintenance

As part of PRI replacements in 2016, we as the manager repaired and upgraded individual PRI subsystems or parts thereof, without changing their operating methods or purposes. Maintenance work on public rail infrastructure structures and equipment was carried out in accordance with the annual implementation and financial plan, which was approved by the contracting authority, the Ministry of Infrastructure, and in line with current standards, norms and regulations. Work which could not be carried out using our own available capacities was outsourced to external contractors, in accordance with the regulations on public procurement. We monitored the execution of the work, took delivery of the completed work and carried out other professional work associated with this work.

We replaced some of the larger components of the rail infrastructure:

- renovated 1.96 kilometres of the Prešnica–Koper section and 1.44 kilometres of the Podnart–Lesce Bled section;
- replaced the points at the Kranj, Slovenski Javornik and Borovnica stations;



- carried out an investment-based renovation of the Pivka–Ilirska Bistrica overhead lines;
- carried out investment-based renovations of the safety signalisation and telecommunications equipment at various locations;
- replaced the portable FMX system at all stations/stops on the Ljubljana–Jesenice line;
- moved the Solkan stop to a new location.



The scope and difficulty of the maintenance work will change in the future due to the completion of projects in which new components and devices were put into commission, such as the 150-kilometre-long overhead line network on the Pragersko–Hodoš section and the ETCS (European Train Control System) on the Sežana/Koper–Hodoš section. The trend of updating and introducing new equipment which the manager will have to maintain in the future is continuing (completion of the GSM-R project), which will require the provision of sufficient funding and human resources.

Maintenance of stations and stops

The funds allocated for maintenance of stations and stops were used for: cleaning stations and stops, implementation of security measures at stations, landscaping at passenger stations and stops, regular and emergency maintenance at passenger stations and stops and for management of passenger stations and stops (operating costs).

Volume of work

| | 2016 | | 2015 | |
|--|-----------|-----------|-----------|-----------|
| | Hours | Structure | Hours | Structure |
| Number of hours of maintenance | | | | |
| PRI maintenance work | 1,575,069 | 92.3 | 1,627,458 | 86.7 |
| Replacements as part of PRI maintenance work | 7,226 | 0.4 | 9,767 | 0.5 |
| Other activities | 124,945 | 7.3 | 240,054 | 12.8 |
| Total | 1,707,240 | 100.0 | 1,877,279 | 100.0 |
| Number of hours worked by department | | | | |
| Track maintenance | 921,990 | 54.0 | 1,043,914 | 55.6 |
| Maintenance of SS and TC devices | 522,578 | 30.6 | 558,391 | 29.7 |
| Electrical system maintenance | 262,672 | 15.4 | 274,974 | 14.6 |
| Total | 1,707,240 | 100.0 | 1,877,279 | 100.0 |

Breakdown of costs by maintenance activity

| EUR thousand | 2016 | 2015 | Index |
|--|--------|---------|-------|
| Public service obligation | 89,862 | 110,126 | 81.6 |
| Track maintenance | 58,592 | 54,882 | 106.8 |
| Maintenance of SS and TC devices | 19,308 | 21,157 | 91.3 |
| Maintenance of overhead lines and electrical system structures | 11,962 | 34,087 | 35.1 |
| Maintenance of stations and stops | 453 | 3,659 | 12.4 |
| PRI management | 881 | 977 | 90.2 |
| Total | 91,196 | 114,762 | 79.5 |

PRI MANAGEMENT

PRI management included PRI marketing services, which include: marketing of commercial premises in PRI buildings and stations, sale of land, sale of advertising space in the PRI, sale of apartments in PRI buildings and stations, marketing of the telecommunications system and easements, and sale of unused materials. PRI management also included real estate management, which involved keeping of records of all real estate owned by the Slovenian PRI, records of resolutions and decisions of the Surveying and Mapping Authority of the Republic of Slovenia, land registers and the entries of all amendments, regulation of land-register status, strata title, censuses, conducting subdivision procedures, keeping land records, drafting responses to third parties, legal and natural, in connection with individual real properties, granting approvals for work in the protected area of the track bed, etc.

SCOPE OF ENGINEERING SERVICES

SŽ-Infrastruktura, d. o. o., as the manager, is responsible for the safe planning of the rail infrastructure within the scope of its competencies. The engineering department was particularly active in the railway area, where we obtained new business on individual parts of the upgrading of the Zidani Most–Celje line, and also completed work on contracts from previous years. In the coming years, up to 2022, upgrades are planned for the Zidani Most–Celje, Poljčane–Slovenska Bistrica, Pragersko hub and Maribor–Šentilj–state border sections, which will provide an axle load of 22.5 tonnes/axle throughout the entire core of Slovenia's railway network. Work on the Kočevje line also continued in 2016, primarily construction work on the remaining part of the Ribnica–Kočevje section, including the refurbishment of all of the remaining level crossings, while the next phase, which includes the installation of safety signalisation, is planned for 2017 and 2018. Project

documents are being drawn up for the upgrading of the Ljubljana–Divača section, and the project of installation of the ETCS is being started on the Zidani Most–Dobova and Pragersko–Šentilj sections, after which all of the lines on the core network will be equipped with devices that ensure the interoperability of rolling stock.

SCOPE OF RAIL TRAFFIC MANAGEMENT SERVICES

As part of the public service obligation of rail traffic management, in addition to our core activity, which includes the optimal utilisation of infrastructure capacities, professional qualification of operations staff, drafting of an operational timetable for passenger and freight trains, and drafting of a Network Programme for 2018 and interim changes to the Network Programme for 2016; we also received all orders from the Public Agency for Railway Transport in connection with the provision of the essential functions of the operator, which include the allocation of train routes, the drafting of the train timetable, charging of infrastructure fees and implementation of the performance regime (train punctuality).

We performed all of the duties deriving from the PSO of rail transport management, and the duties directly associated with it, as follows:

- ensuring the safety and orderliness of rail transport in accordance with the 2015/2016 train timetables;
- implementation of regulations governing the organisation of work processes at service points;
- ensuring the optimal use of infrastructure capacities;

Number of hours of PSO of rail transport management

| PSO – rail transport management | Occupancy of service points – number of hours | | |
|---|---|-----------|-------|
| | 2016 | 2015 | Index |
| Management and coordination of traffic from TMC | 119,946 | 119,784 | 100.1 |
| Local traffic management at stations | 905,139 | 935,463 | 96.8 |
| Securing of train paths | 190,150 | 221,530 | 85.8 |
| Securing of level crossings | 21,317 | 19,235 | 110.8 |
| Total | 1,236,552 | 1,296,012 | 95.4 |

| PSO – rail transport management | Number of training hours | | |
|---|--------------------------|--------|-------|
| | 2016 | 2015 | Index |
| Management and coordination of traffic from TMC | 2,188 | 1,986 | 110.2 |
| Local traffic management at stations | 18,312 | 18,610 | 98.4 |
| Securing of train paths | 1,584 | 2,264 | 70.0 |
| Securing of level crossings | 144 | 144 | 100.0 |
| Total | 22,228 | 23,004 | 96.6 |

- managing and regulating transport, including operational management of train traffic and coordination of technological work processes with operators;
- drafting of analyses and reports on the implementation of the train timetable;
- professional training of operations staff;
- participating in the investigation of extraordinary events;
- development and harmonisation of track maintenance plans;
- organisation of transport and determination of the conditions for special consignments and coordination of special consignments;
- participation in the drafting and reviewing of project documentation during renovations, upgrades and construction of rail infrastructure;
- participation in technical inspection committees and technical inspection committees for individual phases for rail infrastructure structures and equipment.

SCOPE OF SERVICES

On the basis of the adopted and approved 2015/2016 train timetable we coordinated, managed and regulated train traffic at service points, and ensured the security of train paths and level crossings.

In 2016, together with operators, we continued to reduce the number of extraordinary events on the public rail infrastructure, particularly through measures for reducing the number of extraordinary events which were the fault of the manager. In 2015 there were 664 extraordinary events involving SŽ-Infrastruktura, while in 2016 there were just 468 such events, i.e. 30% less.

We carried out this work without interruption and in the scope set out in the operational timetable and technological work processes, whereby the public interest and the principles of non-discrimination of the operators, rational consumption of resources and market-based management of free infrastructure capacities were taken into account.

CONSTRUCTION

In view of the relatively optimistic macroeconomic forecasts regarding the growth of gross investments, which were tied primarily to the beginning of drawing funds from the new European financial framework 2014–2020, the business plan for 2016 was also highly ambitious. Unfortunately, the plan proved to be unfeasible as early as the first half of 2016. The same dynamic was seen on the macroeconomic level. Faster economic growth in 2016 was primarily impeded by a drop in government investment associated with the changeover to the new European financial framework. Gross government investments fell around 40% in 2016. We established a similar drop in revenues at SŽ-ŽGP. The decline follows a significant increase in government investment in the two previous years, when the disbursement of funds on the basis of the first European financial framework 2007–2013 came to an end.

2016 was spent mainly completing works on the final project that the company carried out on the basis of the first financial framework 2007–2013, i.e. Modernisation of the Divača–Koper line, Stage D. Work was also carried out on the project of the construction of a new connector from Tržaška cesta to Cesta na Vrhovce–Vič underpass, in Montenegro on the project of the reconstruction of the Kos–Kolašin line and on other rehabilitation projects, investment maintenance, and reconstruction and modernisation of railway, tramway and crane lines in Slovenia and Serbia.



Public procurement procedures were initiated in 2016 for projects which will be co-financed by the European Union under the financial framework 2014–2020. Thus the company was heavily engaged in the preparation of competitive bids.

SUPPORT ACTIVITIES

All support activities organised within the controlling company Slovenske železnice, d. o. o., the SŽ-ŽIP Group, Prometni institut Ljubljana, d. o. o., and Železniška tiskarna Ljubljana, d. d., are carried out exclusively or primarily on the domestic market, i.e. for the needs of the companies in the Slovenske Železnice Group.

The main duties of the support activities carried out within the controlling company Slovenske železnice, d. o. o., are reliable, high-quality and cost-effective performance of centralised business support functions, efficient real estate management and selling off assets not required for business.

The main task of support activities is the reliable, quality and cost-effective provision of services of centralised business support functions.

The largest proportion of the revenues at Slovenske železnice, d. o. o., are revenues from support services for

the Management Board, charged to companies in the Slovenske Železnice Group on the basis of SLAs, revenues from real estate management and marketing (rent from storage premises, land, advertising space, rent from non-profit flats, rent from holiday homes, workers' hostels and other buildings) and revenues from the sale of real property.

The SŽ-ŽIP Group comprises the parent company SŽ-ŽIP, storitve, d. o. o., and its subsidiary Calidus sol, d. o. o. The company's mission is to develop ancillary services suitable for the employment of workers who due to reduced physical capacities are no

longer able to carry out their basic duties, i.e. who due to their reduced physical capacities cannot be reas-

signed to other jobs at companies in the Slovenske Železnice Group without adequate training. The company manages buildings, takes care of the cleaning of the exterior and interior spaces and the rolling stock of Slovenske železnice, manages and maintains holiday units in Croatia, provides building security, etc.

Prometni institut Ljubljana, d. o. o., carries out research and development in the area of transport technology, and in the area of transport infrastructure provides information support to projects and develops transport system software, studies economic and legal problems in transport and drafts investment documents.

The core activity of Železniška tiskarna Ljubljana, d. d., is all printing and bookbinding work and distribution of final products. The company generates its largest market share through the printing of timetable charts upon the introduction of new timetables, paper tickets, publications and brochures, forms, labels and other graphic products, books, prospectuses and posters.



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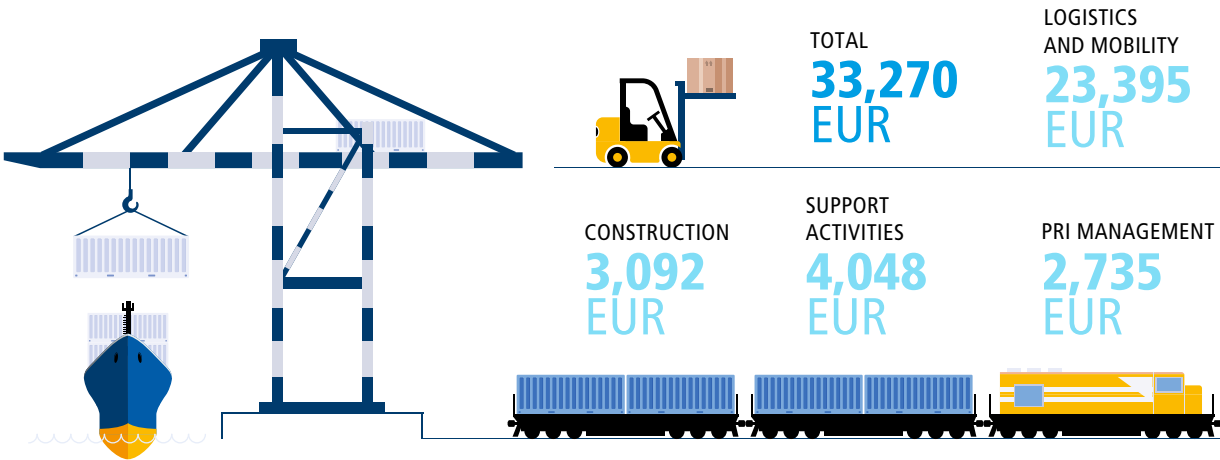
INVESTMENTS

| Investments by purpose of investment (EUR thousand) | 2016 | 2015 | Index |
|---|--------|--------|-------|
| Maintenance of rolling stock | 24,281 | 15,056 | 161.3 |
| Construction machinery | 370 | 1,246 | 29.7 |
| Road vehicles | 563 | 1,336 | 42.2 |
| Informatics | 2,228 | 2,901 | 76.8 |
| Real estate | 3,983 | 1,750 | |
| Production equipment | 1,028 | 1,135 | 90.5 |
| Communications equipment | 126 | 0 | |
| Other | 691 | 766 | 90.2 |
| Total | 33,270 | 24,191 | 137.5 |

The majority of investments (73%) comprise investments in rolling stock for passenger and freight transport. Investments in rolling stock are made continually and mainly include regular inspections and maintenance of

stock after the expiry of their lifecycle. There were no new purchases of rolling stock for passenger or freight transport. Large investments were made in the modernisation of the information system.

Investments by activity



INFORMATION TECHNOLOGY

The basic process involves the development and maintenance of business processes and applications within the Slovenske Železnice Group. Support processes include:

- systems support for the development, maintenance and use of business applications within the Group;
- implementation of the quality management policy and information security;
- management of the sectoral service centre;
- statistical processing and analysis of business information.

The Slovenske železnice central information system (IS SŽ) at the data centre operates continuously, with a 24-hour operator service. It comprises business applications and the IT infrastructure.

The information system for rail transport monitoring (ISRTM) provided reliable support for Slovenske železnice’s basic operating programme in 2016.

The main attributes of the ISRTM are:

- includes more than 2,000 users;
- involves more than 6,000 programs;
- processes 1,000 trains and 300 tractive vehicles per day;
- continuously monitors approximately 1,000 train drivers;
- processes 5,000 freight wagons per day (of which 1,500–2,000 are laden);
- cooperates with external partners: foreign railway operators, Customs Administration of the Republic of Slovenia, RTV Slovenija, the Port of Koper and more than 40 forwarding companies;
- data are also exchanged in real time with numerous external systems of other operators, infrastructure managers, European associations and agencies:
 - TIS – monitoring trains in the territory of the RailNetEurope association of railway managers;
 - ISR – monitoring wagons in international freight transport;
 - HERMES – exchange of train composition data among operators;
 - Customs Administration – information for customs control;
 - NVP – ordering train routes.

projects were completed: Standardisation of the classification of materials and services, Material operations – planned project, SŽ-ŽGP information system, Sales module – planned project, Fersped information system, Project of integration of SAP modules, Implementation of new main ledger and Upgrade of new main ledger on EHP7. The following projects are currently in progress: SAP HCM, Project of managing funds for railway infrastructure and rolling stock, SŽ-ŽIP information system, Tiskarna, Pro-metni institut, SŽ – implementation project and Upgrade of IT support – TAF – TSI.

In the area of IT infrastructure we achieved excellent availability of all key IT services, which enabled the unimpeded management of rail traffic. The completion of the project of upgrading the ISRTM system to a new version and onto new server hardware independent of the manufacturer of this system was crucial. The expansion of server capacity and introduction of new IT services successfully supported the changes to the business processes within the Group. We put a great deal of emphasis on increasing IT security and protection against cyber threats.

The Service Centre applications allowed us to reduce the number of field actions, reduce maintenance costs and improve the management of the IT environment throughout the Slovenske Železnice Group.

In the area of development and information support for business processes, we made significant progress in upgrading the information system in 2016. The following

RESEARCH AND DEVELOPMENT

We are placing increasing emphasis on R&D activities, since they are closely associated with the successful realisation of the basic development policies within the Slovenske Železnice Group and sectoral policy in general.

We monitored invitations to tender for the potential acquisition of funding from various European funds. We established contacts with potential tender partners and analysed the areas within the Company that are suitable for such types of funding.

Our work is focused on the realisation of the Company's common objectives associated with a cost-effective business system and safe and efficient transport activities.

In order to achieve the required capacities in the rail infrastructure and shorten traveling times, adequate upgrading of traffic management technology and adaptation of the operational timetable are of crucial importance in addition to technological solutions. The emphases are on operational procedures in strategically important transport routes, primarily through investments which reduce infrastructure maintenance and traffic management costs and increase the security of rail transport. Rail transport will therefore become competitive with other transport routes and types.

The Slovenian railway network is also included in processes relating to European guidelines and directives, whose objective is to build an interoperable rail infrastructure in Europe and provide the opportunity to increase rail traffic in comparison with other transport systems. In this context, projects are being carried out in this area, including the ERTMS/ETCS project on Corridor D and the GSM-R project throughout the entire Slovenian railway network.

In order to implement Regulation No 913/2010 of the European Parliament and of the Council concerning a European rail network for competitive freight, two freight corridors are being established, RFC 5 (Baltic-Adriatic) and RFC 6 (Mediterranean), with respect to Regulation No 1316/2013 of the European Parliament and of the Council establishing the Connecting Europe Facility, including activities for establishing new corridors for competitive freight transport.

Representation in international bodies and their working groups with time-dependent products and cooperating in UIC projects is of crucial importance for R&D, in order to monitor activities carried out within the framework of the UIC by individual projects and the transformation of the effects into internal activities. Also important is our

participation in the European Union's Shift2Rail rail R&D framework – the first European joint initiative for rail technology, which is focused on research and innovation (R&I) and market-oriented solutions, the integration of multimodal systems, faster inclusion of new and advanced technologies in innovative rail product solutions and promotion of the competitiveness of the European rail sector with respect to the changing demands in the area of transport in the European Union.

In the international area, Slovenske železnice strengthened its cooperation in the South-East Europe region, where at the initiative of the Slovenske železnice Transport Institute, with support from the International Union

of Railways (UIC), an international initiative was established for research and innovation in the area of railways (SEESARI – South East Europe Strategic Alliance for Rail Innovation). The initiative was launched at a meeting in Belgrade in January 2016.

Cooperation with the ministry responsible for infrastructure and the local communities and municipalities in national spatial plans for the rail infrastructure is of crucial importance to the success of spatial planning procedures and the installation of new rail infrastructure, buildings and equipment, as well as upgrades. The issuing of consents for spatial development projects (one-hundred metre buffer zone for existing and planned train paths) protects the corridors for all of the planned new train paths, reconstruction of train paths and stations, the new fast line and other spatial components of the rail infrastructure set out in the Spatial Planning Strategy of Slovenia (Official Gazette of the Republic of Slovenia, No 76/2004).

Professional bases are being drafted for a DMSP for the project of the Ljubljana intermodal logistics terminal and the modern rail-road terminal (RRT) in the Central and SE Europe region, and the Design concept for the Ljubljana rail-road terminal with parameters for a core network terminal is being prepared on the basis of the Regulation for the TEN-T network.

At the end of 2016 a consortium of contractors with SŽ-Potniški promet as the lead partner completed the project of the integration of public rail transport in Slovenia, in the framework of which a standardised ticket was introduced for secondary-school and college students which can be used on both intercity trains and buses, and also includes the option of using urban transport. In the near future, this ticket will also be able to be used by other categories of passengers, which will make public

In order to comprehensively manage energy supply within the Company, by ensuring a reliable supply of energy and energy products at competitive prices, of suitable quality and in sufficient quantities, an energy management project is being carried out in order to develop systems and procedures for improving energy efficiency, i.e. an energy management system pursuant to the SIST EN 50001 standard.

In view of the commitments (TSI for the infrastructure subsystem and Regulation EU No 1315/2013 on Union guidelines for the development of the trans-European transport network; TEN-T Regulation and Regulation EU No 1316/2013 establishing the Connecting Europe Facility, with amendment; IPE regulation), all of the existing lines in the Republic of Slovenia are being categorised with respect to the Infrastructure TSI (TSI 2011/275/EU).

The project "Establishment of electronic timetables for operators in the Slovenske Železnice Group" is being carried out in order to transition from printed timetables to electronic format on laptop computers and tablets. A supplier has been selected for the supply of tablet computers and for creating a data exchange link to the public network, and a system for remote management of tablet computers (mobile device management – MDM). The testing of the use of electronic timetables for all Slovenske železnice train drivers is planned for 2017.

Participation in international organisations is essential for research.

transport more accessible to all users. A project of setting up Wi-Fi is also underway, which will provide internet access for passengers at train stations and on inland trains. After a successful trial run its use will be expanded to cover the entire Slovenian railway network.



SUSTAINABLE DEVELOPMENT

EMPLOYEES

In 2016 the Slovenske Železnice Group continued its staff restructuring and work process optimisation projects.

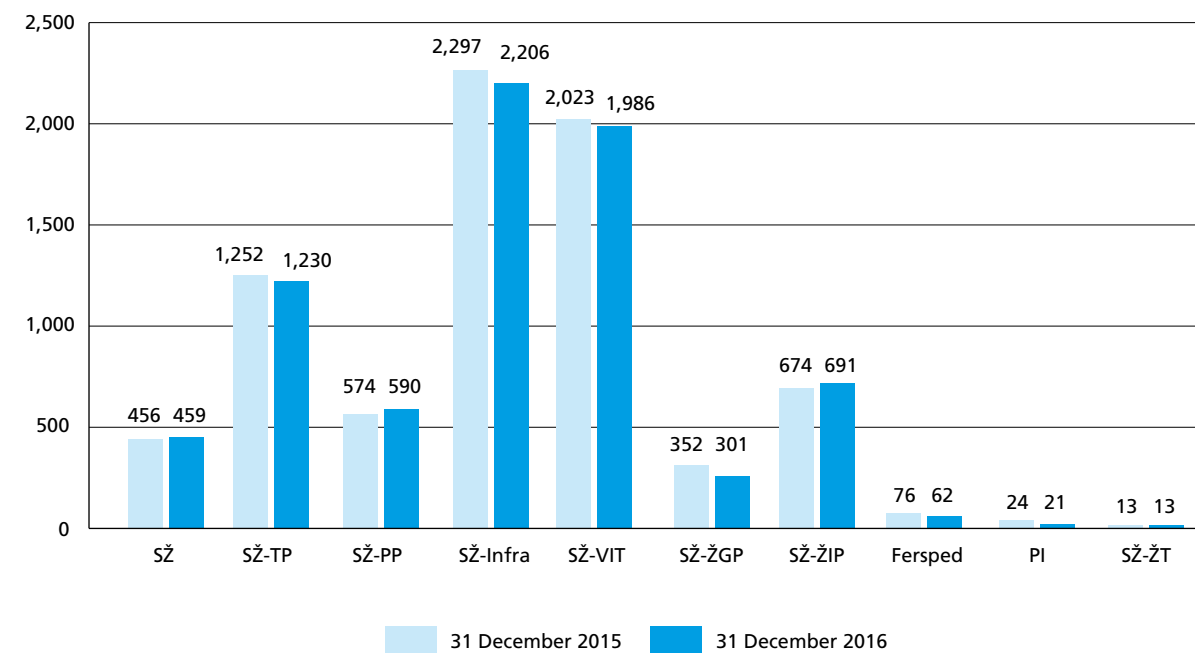
By the end of 2016 the Slovenske Železnice Group had reduced its staff by 2.3%. We made up for the staff shortages by:

- optimising our work processes so that we provided the same or a higher level of services with fewer employees;
- providing our employees with possibilities for vertical advancement and fulfilment of new professional ambitions through internal employee mobility;
- in view of the fact that the biggest staffing shortages occurred in securing a sufficient number of employees in construction and maintenance and operational positions, we have developed several training courses for operations staff;
- in cases where it was not possible to find suitable candidates to cover the staff shortages from among the existing employees within the Slovenske Železnice Group, the work was outsourced. In this way

we were able to obtain an adequately qualified workforce (at different levels of education – from shunters to experts in their individual fields of work).

These measures allowed us to optimise the total number of employees in the Slovenske Železnice Group, and also had a highly positive impact on employee demographics (lower average age and improved level of mental and physical capacities, which is particularly important for operations staff and other operational positions).

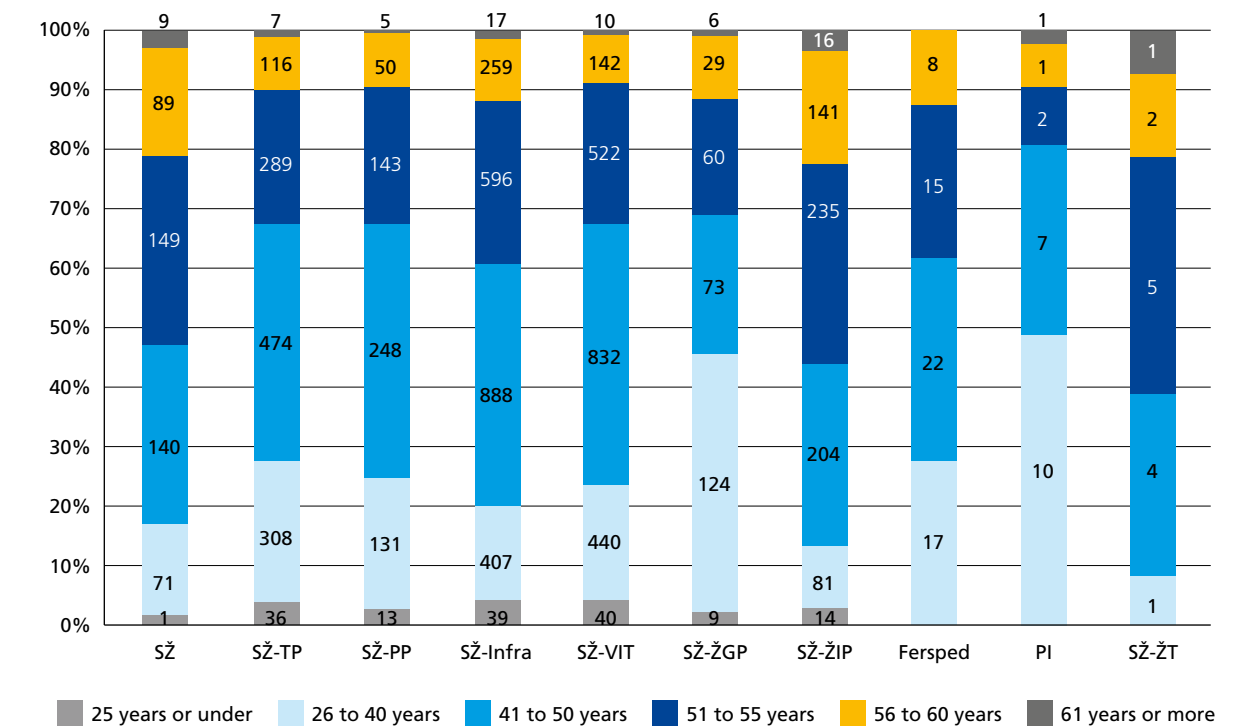
NUMBER OF EMPLOYEES BY COMPANY



The total number of employees in the Slovenske Železnice Group at the end of 2016 was 7,559, which is 182 employees fewer than at the end of 2015. We reduced the number of employees primarily through early retirement and optimisation of work processes.

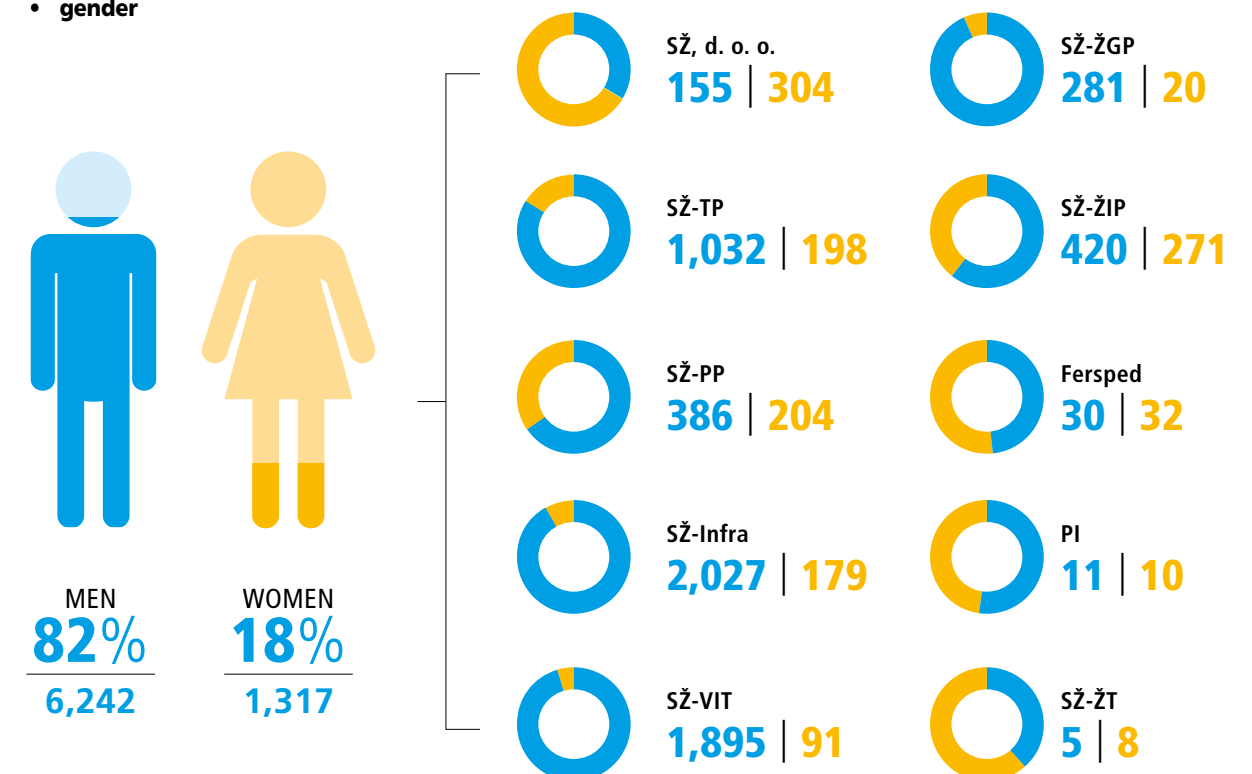
STRUCTURE OF EMPLOYEES

• age

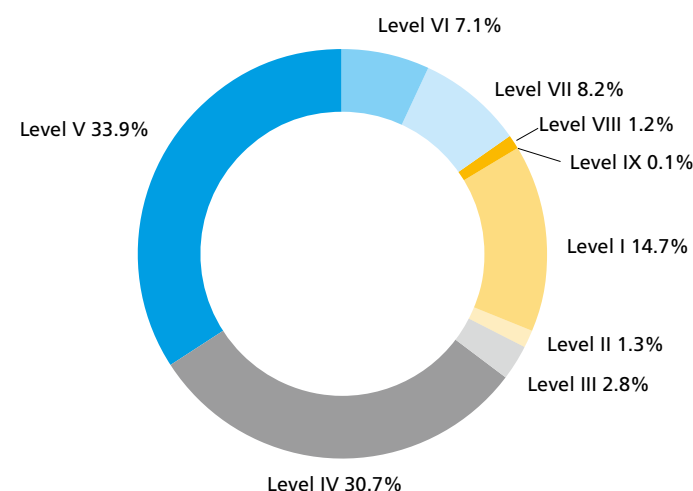


The average age of employees in the Slovenske Železnice Group as at 31 December 2016 was 46.4 years.

• gender



• education level



In line with the activities of the individual companies within the Slovenske Železnice Group, the structure of employees by gender is substantially slanted towards men (the proportion of men is over 82%). Despite this, we find that the proportion of women in management positions in the Slovenske Železnice Group is 22%, which is a significant difference in view of the proportion of all women employed and the specificities of the activities of the companies in the Slovenske Železnice Group.

CONCERN FOR EMPLOYEES

In view of the fact that the Slovenske Železnice Group has been paying particular attention to the optimisation of work processes and the number of employees for several years, there have been relatively few new hires. We also pay particular attention to various measures for increasing our employees' skill levels and mental and physical capacities through:

- organised forms of obtaining additional professional knowledge – through functional education and mentorship (particular attention is paid to the area of work transformation and informatisation);
- promotion of employee health and safety;
- providing for quality use of leisure time;
- endeavouring to be a family and employee-friendly company.

EDUCATION AND TRAINING IN THE SLOVENSKE ŽELEZNICE GROUP

Training Centre

The training centre provides professional, material and systems support for all education and training processes. Our professional training staff provides comprehensive management of training facility and testing facility processes for operations staff, training centre duties for train and rail vehicle drivers, testing centre duties for train and rail vehicle drivers, functional training for production and administrative jobs, and central management of documents relating to professional education, training and testing of professional qualifications.

We want to make training available to all of our employees, so we offer a wide range of courses which either provide the knowledge required for carrying out work or are offered to employees as an opportunity to obtain knowledge in various areas.

Employee training

Continuous, planned training of employees ensures company development, and provides employees with professional development, internal mobility and opportunities for advancement.

The Slovenske železnice training centre, through applying to a public invitation to tender, obtained the status of training facility and testing facility for railway operations staff and industrial track operations staff, training centre for train and rail vehicle drivers and testing centre for train and rail vehicle drivers.

A total of 297,296 hours were spent on theoretical and practical training of railway operations staff. Through this type of training we ensure the occupational safety of our employees, as well as the safety of rail transport.

As part of their functional training, employees take regular mandatory training courses, classes and seminars, participate in workshops and conferences, and we also pay a great deal of attention to providing a healthy work environment and protecting the health of our employees. A total of 23,450 hours were spent on functional training.

Mentorship as a means of transferring knowledge and experience among employees in the Slovenske Železnice Group is provided for railway operations staff through practical training. A total of 507 practical training courses were held in 2016.

PROMOTION OF EMPLOYEE HEALTH AND SAFETY

The Slovenske Železnice Group together with the occupational safety committee of the works council adopted a joint health promotion programme for companies linked through capital investments which emphasises raising awareness in order to achieve responsible behaviour by each individual.

Physical activities

- two-day preventive health retreat for employees at the Vitalis sports centre;
- trial testing of active breaks during work;
- 1,000 rail workers above 1,000 metres.

We pay particular attention to occupational safety, health promotion and employee education and training.

Diet

- cooperation with the Diabetes Institute on the "Be an Achiever" project, measurement of blood sugar levels for employees and passengers;
- presentations on the subject of diet for diabetics.

Research, education and counselling

- "Yes, I'm quitting smoking" class;
- flu vaccinations;
- research of health-related habits and working conditions for train drivers;
- psychosocial assistance for employees;
- counselling for illness-related dependencies;
- counselling on healthy lifestyles in cooperation with health improvement centres.

In cooperation with the Slovenian Alternativa association of trade unions and the Health Insurance Institute of Slovenia, a project was carried out called Promotion of health at the workplace in the rail sector: Healthy Railroader. Each employee received a Healthy Railroader brochure.

The Slovenske Železnice Group pays particular attention to occupational safety, and strives to raise standards for occupational safety and health. We work with employee representatives, representatives of both the trade unions and the works council, with whom we have established a joint Occupational Safety and Health Committee.

In cooperation with the committee and the Railway Health Centre, we conducted a risk assessment for all systematised jobs using our own methodology and our own occupational safety professionals.

The primary healthcare provider (regular, emergency and preventive medical examinations) is the Ljubljana Railway Health Centre, which provides railway workers with comprehensive healthcare. Due to our geographical dispersion we also cooperated with other preventive healthcare providers in Slovenia.

In line with the risk assessments we provided employees with vaccinations for tick-borne meningoencephalitis and hepatitis A, and also made free flu vaccinations available to all employees.

We train our employees in safe work practices at regular courses, which are held by our own professional staff.

We pay particular attention to disabled workers who are no longer able to perform their former jobs due to demanding working conditions. In cooperation with the SŽ-ŽIP and other companies in the Group, in 2016 we provided employment for 742 disabled persons.

PROVIDING FOR QUALITY USE OF LEISURE TIME

The Slovenske Železnice Group provides its employees with quality use of leisure time. SŽ-ŽIP manages a series of holiday houses in the mountains and at the seaside, which are available primarily to employees and their families, who can spend their holidays there.

Employees also participate in sporting and social events (1,000 rail workers above 1,000 metres campaign, cultural events), and are directly involved in the activities of sports and cultural and artistic associations whose operations are supported by companies in the Slovenske Železnice Group.

WORK-LIFE BALANCE

We try to make it as easy as possible for our employees to balance their work and family lives by offering parental leave, an additional day of leave on a child's first day of school, additional days of leave with respect to number of children and use of regular annual leave with respect to family needs.

STAFF COOPERATION WITH THE SOCIAL ENVIRONMENT

The Slovenske Železnice Group operates in a socially responsible manner. To that end we cooperate with numerous Slovenian secondary, post-secondary and tertiary schools and colleges, and provide students with their initial contact with the working environment (compulsory practical work), and our employees who are experts in their various fields assist students in writing their Bachelor's and Master's theses.

TRAFFIC SAFETY AND REGULATION

We assess rail traffic safety and regulation through the number of extraordinary events and events which affect traffic safety, and their consequences in comparison with the previous period.

In 2016, a total of 39 serious accidents and accidents occurred within the Slovenske Železnice Group, which is 11 more than in 2015. The Company was responsible for six of these, and 33 events were outside the scope of the Company's responsibilities.

Three extraordinary events occurred due to subjective causes, three due to defects in technical equipment, seven events due to force majeure and 26 events due to incorrect actions by third parties.

There were five fatalities in serious accidents and other accidents (four more than in 2015), and four people were injured (nine less than in 2015). The Company was not responsible for the occurrence of any injuries or fatalities in 2016.

We provided compulsory practical work for 136 secondary-school and college students, primarily in the following study programmes and areas: logistics, mechatronics, electrotechnology, accounting and economics.

In view of the number of applications for employment we received in 2016, we believe that the companies in the Slovenske Železnice Group are a desirable employer on the Slovenian labour market, primarily due to:

- job stability and security (more than 96% of all employees have concluded permanent employment contracts);
- a varied work environment which offers the possibility of career development in various fields;
- the possibility of maintaining work-life balance.

One person died and seven were injured in accidents at level crossings due to failure to obey road traffic regulations. The Company was not responsible for these accidents.

The next cause of death on the tracks is suicide, with 25 people taking their lives in that manner, while one case fortunately concluded as merely a suicide attempt.

There were no events in 2016 in which workers at SŽ-Infrastruktura, d. o. o., were injured or killed.

Damage for which the Company was liable occurred on 21 January 2016, when train 2432 derailed at the end of dead-end siding 2B at the Škofja Loka station. Material damage is shown in the amount of EUR 4.8 thousand. No material damage was shown for the three other events for which the Company was liable.

Outside of the scope of the Company's responsibility, a landslide occurred on 29 August 2016 at km 503.120 between the Zidani Most and Hrastnik stations. Train 2277 was stranded on the tracks between two rockfalls, but did not incur any damage. Material damage was incurred in the amount of EUR 417.6 thousand.

On 11 June 2016 at km 48.250, train 3830 collided with a car at a level crossing between the Ormož and Središče stations. Two persons died in the accident. Material damage was incurred in the amount of EUR 16.7 thousand.

On 22 February 2016 at km 3.650, train 4019 collided with a fallen tree between the Maribor Studenci and Ruše stations. Material damage to the diesel locomotive was incurred in the amount of EUR 8.8 thousand.

QUALITY MANAGEMENT SYSTEM

In 2016 we continued the maintenance and development of the Slovenske Železnice Group's existing quality management system, with the intention of standardising the system and making it more effective and efficient. We implemented the quality management system in line with the requirements of the ISO 9001:2008 standard, the rules of procedure on quality and the quality manual, and in particular conducted internal assessments, management reviews, initial control assessment of the quality management system, etc. Various changes were introduced, which proved to be positive. The quality management policy and quality objectives were implemented in accordance with the possibilities and the progress of the Company's operations.

Objectives

Achieved in 2016

DEVELOPMENT OF THE QUALITY MANAGEMENT SYSTEM IN LINE WITH THE ISO 9000 GROUP STANDARDS.

ISO 9001 internal assessment

A total of 38 internal assessments were carried out at the individual companies, offices, the secretariat and other organisational units of the companies in the Slovenske Železnice Group, in which five instances of non-compliance were identified and 81 recommendations were made.

| Internal assessments | Number of non-compliances identified | Number of improvements proposed |
|---------------------------------------|--------------------------------------|---------------------------------|
| Slovenske železnice, d. o. o. | 4 | 33 |
| SŽ-Infrastruktura, d. o. o. | 1 | 15 |
| SŽ-Potniški promet, d. o. o. | 0 | 9 |
| SŽ-Tovorni promet, d. o. o. | 0 | 13 |
| Prometni institut Ljubljana, d. o. o. | 0 | 4 |
| Fersped, d. o. o. | 0 | 7 |
| Total | 5 | 81 |

ISO 9001 external assessment

In November 2016, the first control assessment was carried out in the 7th recertification period of the quality management system under ISO 9001:2008.

The assessment was carried out at: Slovenske železnice, d. o. o., SŽ-Infrastruktura, d. o. o., SŽ-Tovorni promet, d. o. o., SŽ-Potniški promet, d. o. o. and Prometni institut Ljubljana, d. o. o., and a total of two non-compliances were identified, which were rectified within the prescribed time limit, and 38 observations i.e. recommendations were made.

| External assessments | Number of non-compliances identified | Number of improvements proposed |
|---------------------------------------|--------------------------------------|---------------------------------|
| Slovenske železnice, d. o. o. | 2 | 13 |
| SŽ-Infrastruktura, d. o. o. | 0 | 10 |
| SŽ-Potniški promet, d. o. o. | 0 | 4 |
| SŽ-Tovorni promet, d. o. o. | 0 | 7 |
| Prometni institut Ljubljana, d. o. o. | 0 | 4 |
| Total | 2 | 38 |

| Objectives | Achieved in 2016 | | | |
|---|--|------------------------------|----------------------------|--|
| EDUCATION OF EMPLOYEES ABOUT WORK OBJECTIVES AND PROCEDURES AND PREVENTIVE AND CORRECTIVE MEASURES | By applying to a public invitation to tender for 2016, Slovenske železnice, d. o. o., obtained the status of training facility and testing facility for railway operations staff and industrial track operations staff. A total of 338 candidates took part in professional training for 14 railway operations positions in 2016, and 95 railway operations workers took part in training to acquire the next certificate. A total of 3,473 railway operations workers took part in professional training, and 54 sat for special assessments of their professional competence pursuant to the law and implementing regulations. | | | |
| | Employee education | Professional training | Functional training | On-the-job and off-the-job training |
| | Slovenske železnice, d. o. o. | 0 | 337 | 1 |
| | SŽ-Infrastruktura, d. o. o. | 1,483 | 120 | 4 |
| | SŽ-Potniški promet, d. o. o. | 473 | 38 | 0 |
| | SŽ-Tovorni promet, d. o. o. | 709 | 125 | 0 |
| | Prometni institut Ljubljana, d. o. o. | 0 | 11 | 3 |
| | SŽ-VIT, d. o. o. | 1,135 | 447 | 0 |
| | SŽ-ŽGP, d. o. o. | 160 | 111 | |
| | SŽ-Železniška tiskarna, d. o. o. | 0 | 0 | |
| | Fersped, d. o. o. | 0 | 10 | 0 |
| | Total | 3,960 | 1,764 | 8 |

CONTINUE THE TREND OF IMPROVING TRAFFIC SAFETY

Total number of serious accidents and accidents

The total number of extraordinary events excluding incidents in 2016 was 39.3% higher than in 2015. There were fewer incidents and other events which impacted traffic safety, by 22.1%.

| Total number of extraordinary events | 2013 | 2014 | 2015 | 2016 |
|--------------------------------------|------|------|------|-------------------|
| Serious accidents | 0 | 1 | 0 | 0 |
| Accidents | 9 | 9 | 7 | 13 |
| Accidents at level crossings | 24 | 21 | 16 | 24 |
| Natural disasters | 0 | 8 | 0 | 1 |
| Other accidents | 2 | 0 | 5 | 1 |
| Incidents | 744 | 798 | 689 | 537 ¹⁾ |

¹⁾From 2016 on, these incidents have included other events that affect traffic safety.

Extraordinary events for which Slovenske železnice was liable

There were no serious accidents in the Slovenske Železnice Group in 2016 for which the Company was liable. A total of four accidents occurred – one collision, three derailments, one accident at a level crossing and one accident/fire after a train journey, due to which traffic was halted and a large amount of material damage was incurred. There were 119 fewer incidents in 2016 than in 2015. The reason for this was a change in legislation, therefore the data are not comparable.

Objectives

Achieved in 2016

Extraordinary events for which the Company was liable

2013

2014

2015

2016

Serious accidents

0

1

0

0

Accidents

7

6

4

4

Accidents at level crossings

0

0

0

1

Natural disasters

0

0

0

0

Other accidents

0

0

0

1

Incidents

373

330

219¹⁾

100

¹⁾Due to changes in legislation the data on extraordinary events are not comparable with the period before 2015.

Material damage for which the Company was liable (extraordinary events, incidents and other events which affect traffic safety) amounted to EUR 580.9 thousand in 2016, compared to EUR 110.9 thousand in 2015.

ACHIEVE A SCORE OF GOOD (3) OR HIGHER FOR 85% OF SERVICES (SERVICES ARE RATED ON A SCALE OF 1–5) AT SŽ-INFRASTRUKTURA AND SŽ-POTNIŠKI PROMET, AND 65% AT SŽ-TOVORNI PROMET.

The following scores were achieved in surveys of users of our services (percentage of ‘good’, ‘very good’ and ‘excellent’ ratings) in 2016:

2013

2014

2015

2016

Passenger transport

87

86

73

76

Freight transport

62

73

-

59

Infrastructure

100

100

-

Passenger transport

The percentage of 'good', 'very good' and 'excellent' ratings increased to 75.8%, but did not reach the target percentage of 85%. This was achieved in the period from 2011 to 2014, but fell considerably in 2015. 2015 was the year in which we introduced online surveys, in which the respondent sample is significantly smaller. In addition, the respondents assess the elements of transport services on the basis of their memory of their last experience of travelling by train, while in past years the survey was taken on the train. Therefore the results of the online survey are statistically not comparable with those of the in-person surveys.

Freight transport

In 2016 we carried out a user satisfaction survey in which we found that 59% of respondents were satisfied with the services of SŽ-Tovorni promet in 2016. We considered everyone who assessed their satisfaction with scores of 4 or 5 (highest score) on a five-point scale as generally satisfied. In comparison with 2014, the general satisfaction of our users fell by 14% and reached its lowest level since 2006, when we began conducting the surveys.

The critical events which most negatively affected user satisfaction with transport services were above all the condition of the wagons and errors in their delivery.

In 2015 due to the consequences of an ice storm and the expected decline in results, no user satisfaction survey was conducted.

Objectives Achieved in 2016

REDUCING COMPLAINTS, RETURNS AND CLAIMS FOR DAMAGES

Passenger transport

| | 2013 | 2014 | 2015 | 2016 |
|--------------------|-------|-------|-------|-------|
| Complaints | 375 | 386 | 441 | 403 |
| Compliments | 206 | 210 | 192 | 236 |
| Returns | 1,397 | 1,500 | 1,597 | 1,072 |
| Claims for damages | 20 | 22 | 56 | 17 |

The number of complaints in 2016 was lower than in 2015 due to a lower number of complaints relating to train punctuality and a lower negative response to staff/helpfulness and attitude of staff when expediting passengers on trains and at stations.

The number of compliments in 2016 was higher in relation to 2015 due to a higher positive response to the helpfulness and attitude of staff when expediting passengers on trains and at stations.

The lower number of returns is a consequence of a lower number of exchanges of multiple units when running ICS trains.

Freight transport

| | 2013 | 2014 | 2015 | 2016 |
|---|-------|-------|-------|-------|
| Complaints | 0 | 10 | 11 | 23 |
| Comments on the state of affairs | 1,379 | 948 | 694 | 922 |
| Returns (number per charged consignments in %) | 1.52 | 1.27 | 1.17 | 0.89 |
| Returns (value of entries over turnover in %) | 0.59 | 0.55 | 0.44 | 0.27 |
| Claims for damages (number) | 74 | 104 | 39 | 49 |
| Claims for damages (value over transport revenues in %) | 0.002 | 0.094 | 0.013 | 0.024 |

The number of complaints in freight transport increased primarily due to late delivery of wagons. There were several reasons for this.

The number of comments on the state of affairs increased on account of inclement weather throughout Europe.

There were 10 more claims for damages in 2016, which is still acceptable in view of the figures for 2013 and 2014. The reason for the increase was failure to meet handover deadlines.

ENVIRONMENTAL MANAGEMENT SYSTEM

In the environmental policy of the Slovenske Železnice Group, the Company's Management Board undertook to adhere to the highest environmental protection standards applicable in Slovenia/the EU. The main objective of environmental protection is to reduce the environmental load generated by the companies in the Slovenske Železnice Group, prevent pollution of the environment, ensure the efficient consumption of energy and other resources, and the appropriate handling of waste, particularly hazardous waste.

The second control assessment of the environmental management system for the 2014–2017 certificate period was conducted at Slovenske železnice, d. o. o., and its subsidiaries SŽ-Infrastruktura, d. o. o., SŽ-Potniški promet, d. o. o., and SŽ-Tovorni promet, d. o. o., in 2016. On the basis of the recommendations submitted, the Company adopted 16 measures for improving the functioning of the environmental management system.

A project to develop an environmental management system has been under way at the subsidiaries SŽ-VIT, d. o. o., SŽ-ŽIP, storitve, d. o. o., and SŽ-ŽGP Ljubljana, d. d., since 2014, and will be completed by the end of 2017. The project is progressing according to plan, and was in its third and final phase at the end of 2016.

In 2016 at companies that have an established environmental management system, 14 internal assessments were conducted pursuant to SIST EN ISO 14001:2005, in which the main emphasis was on checking the implementation of the requirements of the environmental management system in practice.

There were no extraordinary events (accidents, incidents) at companies in the Slovenske Železnice Group in 2016 that were in any way associ-

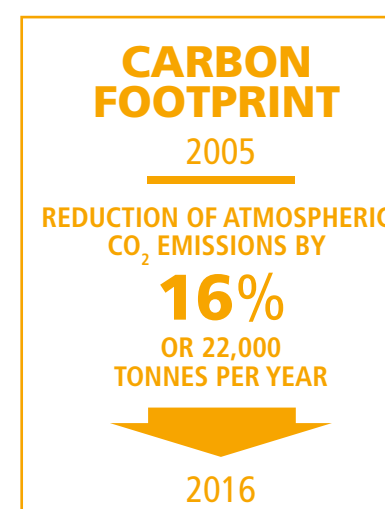
ated with the generation of harmful impacts on the environment.

One of the major environmental difficulties faced by the manager of the public rail infrastructure (PRI) is noise, which rail traffic generates in certain most heavily trafficked rail sections within the City of Ljubljana. One of the reasons for the increased number of complaints due to noise generated by rail traffic in this area is the redirection of road traffic from the city centre onto thoroughfares which run adjacent to the city centre. The total number of complaints due

reductions in the areas of the agglomerations of larger towns is the responsibility of the bodies of the Ministry of Infrastructure (measures for active and passive noise protection along the most heavily trafficked sections in Slovenia). The basis for the implementation of these measures is the Operational programme for noise protection, issued by the ministry responsible for the environment and adopted by the Government of the Republic of Slovenia.

A certain number of complaints due to noise caused by rail traffic relate to train whistles. These are aural warning signals which pursuant to regulations on rail transport safety are sounded by train drivers in order to warn of the approach of a train in areas in which there is a significant risk of accidents or incidents (area of worksite on or near the tracks, warning to persons located in the direct vicinity of the tracks when a train is approaching).

Slovenske železnice is actively engaged in implementing measures to counter climate change and its negative consequences. The fact is that the transport sector generates around 30% of all greenhouse gas emissions that negatively affect the climate. Relative to 2005, also due to the modernisation of the vehicle fleet, Slovenske železnice has managed to reduce the level of atmospheric CO₂ emissions by more than 16%, i.e. by 22,000 tonnes per annum. The carbon footprint is calculated using methodology developed by Umanotera, the Slovenian foundation for sustainable development. The carbon footprint calculation takes into account the total consumption of electricity and gas oil (D-2) in the provision of rail transport. In 2016, due to the lower number of passengers carried relative to 2015, the carbon footprint per passenger carried in rail transport increased by 8.2%, while the



to noise generated by rail traffic in the last five years has stood at 15 to 20 per year. All complaints are properly assessed, and organisational and technological measures are adopted which contribute to noise reduction. In the event that the noise is a result of the operation of several noise sources (road and rail), the complainants are sent appropriate referrals.

Due to the new European Union technical requirements for reduction of the noise of rail vehicles, the new vehicles which will be purchased in the near future will generate significantly less noise, and consequently we anticipate fewer complaints due to noise.

The planning and adoption of measures for significant noise

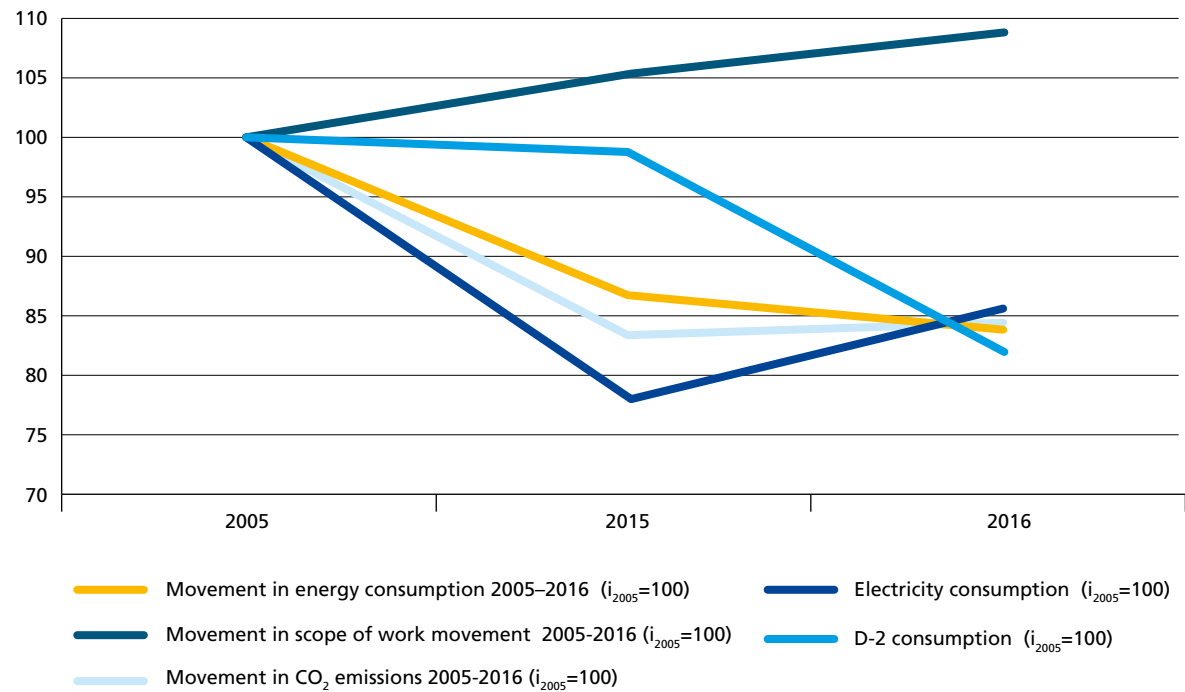
carbon footprint per unit of freight carried fell by 3.7% in 2016 in comparison with 2015 and by a full 36.5% compared to 2005.

Slovenske železnice continuously monitors and optimises energy consumption in rail transport, and continuously implements measures to improve the energy efficiency of rail transport. Another reason for the improvement of energy efficiency in Slovenian rail transport is the electrification of 109 kilometres of tracks on the Pragersko–Hodoš line, which was completed in 2016. Slovenske železnice lowered its total energy consumption for rail transport in 2016 relative to 2015 by more than 3.2%, while at the same time increasing its total volume sold by 3.1%. The energy efficiency results in comparison with 2005 are even better: the scope of rail transport in 2016 increased by 8.7% relative to 2005, while total energy consumption fell by 15% in the same period, and total use of D-2 fell by 17.6%.



| Framework environmental targets | 2016 | Index 2016/2015 | Index 2016/2005 |
|---|-----------|--------------------|--------------------|
| Increasing the energy efficiency of rail transport | | | |
| Energy consumption in rail transport total (kWh thousand) | 275,888 | 96.9 | 83.9 |
| • a.1 Total consumption of electricity in rail transport (kWh thousand) | 159,611 | 110.0 | 85.1 |
| • a.2 Total consumption of D2 in rail transport (kWh thousand) | 116,277 | 83.3 | 82.4 |
| Total rail transport (GTKM thousand) | 8,918,956 | 103.1 | 108.7 |
| Passenger transport (GTKM thousand) | 680,098 | 95.9 | 87.5 |
| Freight transport (GTKM million) | 4,552 | 104.4 | 127.2 |
| Reduction of environmental greenhouse gas emissions generated by rail transport | | | |
| Total CO ₂ emissions (thousand kg) | 118,832 | 101.5 | 84.4 |
| CO ₂ emissions/passenger km (kg/PKM) | 0.049 | 108.2 | 108.9 |
| CO ₂ emissions/net TKM (kg/NTKM) | 0.018 | 96.4 | 63.6 |

Movement of energy consumption, scope of work and CO₂ emissions — 2005–2016 (i₂₀₀₅=100)



SOCIAL RESPONSIBILITY

Slovenske železnice actively supports ideas that bring positive returns and benefit the Company and employees in the Slovenske Železnice Group and retired railway employees. We dedicate a great deal of attention to environmental protection and building good relations with other organisations at all levels of our operations, from our primary business activities of passenger and freight transport to a wide range of other services which we provide. Slovenske železnice has been a very socially responsible company for decades, and this year has further increased its responsibility towards other stakeholders in Slovenian society. We have increased our role in society and cooperation with various organisations through activities in various areas.

We have contributed to Slovenian culture for decades through the Slovenian Railways Brass Band and the Tine Rožanc Folklore Group. These cultural associations, whose ambitious plans we support through financial and material donations, are acknowledged at home and abroad. The Slovenian Railways Brass Band, which has demonstrated its proficiency in competitions in Slovenia and abroad, performs at all of the Company's major events. The associations, which participate in all of Slovenske železnice's events, have frequently presented Slovenian songs and customs to our compatriots abroad. The Tine Rožanc Folklore Group performed from 29 July to 15 August in Mexico, where they participated in the Folkloriada, the world's largest folklore festival.

We are well aware of our obligation to support the work of those who represent our country globally. In March, Slovenske železnice became a proud sponsor of the Slovenian Olympic Team. We also began working closely with other national sports associations, and provide them with financial and logistical support. We provided financial support for the Slovenian Ski Association and Slovenian ski jumpers, and became a sponsor of the Slovenian national hockey team and their official provider of transport to games and training.



Each year we provide safe attendance of sports and cultural events throughout Slovenia. We successfully combine tourism, culture, travel and ecology, and provide mobility for citizens all over Slovenia. The Company is committed to improving its business objectives, which are based on sincere concern for the environment and respect for our employees and their families. Every year we hold several free events at the Slovenske železnice Rail Museum, which are intended for young railway enthusiasts. Last year we also placed a special emphasis on families, and in addition to the regular gatherings at the museum also held several events which were intended specifically for them. Every year we put on a special event for our employees who have worked in the Slovenske Železnice Group for more than thirty years. At the event the managers get to meet with their employees in a relaxed environment, congratulate them on their service anniversary and present them with a symbolic railway pocket watch.



Slovenske železnice is aware of its rich historical heritage, and therefore we also actively support numerous railfans' groups and associations, such as the Ilirska Bistrica Railfans Society, the Železna cesta (Iron Road) Railfans Society, the Prleški železničar (Prlek Railwayman) Society for the Preservation of Rail Heritage and others in which rail employees are active. With them we preserve the memory of the major role that the railway has played in the development of the Slovenian economy. We also actively promote the protection of the cultural and historical heritage through cooperation with local communities and public institutions. For example, we worked with the Municipality of Pivka and the Pivka Heritage Management and Tourism Institute on several noteworthy projects, and lent wagons and a museum-quality 33-110 series



military locomotive to the Military History Park. We are significantly involved in the promotion of Slovenian tourism and the development of towns that lie along the railway. In February we signed a cooperation agreement with the Municipality of Radovljica and the Turizem Radovljica Public Institute in order to develop new tourism opportunities through the use of public rail transport. In March we began working with the Municipality of Komen and local tourism-related businesses in Štanjel.



Safety comes first at Slovenske železnice. We are highly safety-conscious, and we do not deviate from the strict standards that we set in this area. We provide financial and material support to volunteer firefighters' associations and provide them with free training sessions in the railway area. We work closely with the Police and other organisations which provide security or educate the public about it. We made the railway area available for free training for police officers for working on trains and detection of hazardous substances, drugs and explosive devices. Last year we allocated funds to the Search and Rescue Dog Trainers' Association in order to purchase urgently needed equipment – a van so that they can provide assistance more easily and effectively during natural disasters.

In cooperation with the Traffic Safety Agency we prepare campaigns and promotional materials through which we stress the importance of the safe crossing of level crossings. We held four independent campaigns through which we informed passengers throughout Slovenia about the correct crossing of railway tracks. People who cross the tracks at unprotected crossings or move in a dangerous manner in any other way in the railway area received advice and were taught about the dangers of such behaviour. At the beginning of the school year we increased the strictness of our safety measures, paying



particular attention to those who were taking the train to school for the first time. During these campaigns, which were held at several locations all over Slovenia, in addition to a large number of Slovenske železnice employees, police officers were present on the trains that carried the highest number of secondary-school students. On trains heading to larger towns we placed particular emphasis on the safe transport of several thousand secondary-school students.

Slovenske železnice participated in the Botrstvo (Sponsorship) project. At the end of the year we assisted with the complex logistics of the Santa for a Day volunteer campaign and helped bring a smile to the faces of more than ten thousand children in difficult social circumstances.

It is now a tradition that passengers on trains travelling through the holiday-festooned towns in December are joined by fairy-tale heroes. Santa Claus, fairy-tale fairies, the Cat Who Hid the Slippers and the Sprite show our youngest passengers that fairy tales can come alive. While riding the train, children of all ages can step out of time for a moment and escape into the world of fairy tales.

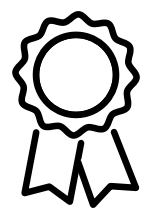


A record number of passengers rode the Christmas Trains. In addition to six sold-out Christmas Train trips we also provided 17 free trips for railway employees and their families and special trips for children from socially marginalised families.



Slovenske železnice carried out its socially responsible mission in an exemplary fashion this year and will continue to do so in the future. We know that a good company has to take care of its employees, support their leisure-time activities, and actively engage in good practices and promote their widespread adoption through all means at our disposal. We see strength in cooperation which allows us to progress and develop as a business, and at the same time make a significant contribution to Slovenian society.

We received an international award for our IPRT project



TTGA²⁰¹⁷

As the lead partner of the consortium, Slovenske železnice achieved a major success at the Transport Ticketing Global Awards 2017 event in London with its project of integration of public rail transport (IPRT). We took first prize in the category Most Innovative Customer Serving Operator.

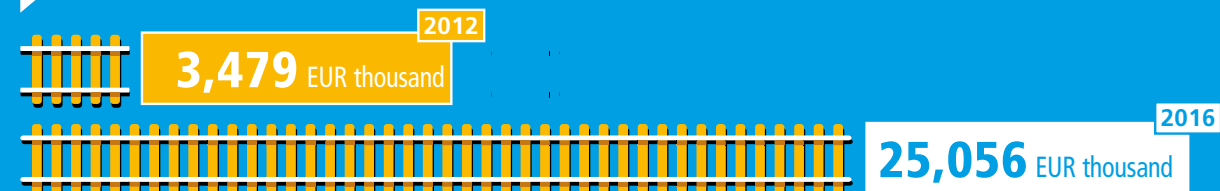


OPERATING RESULTS

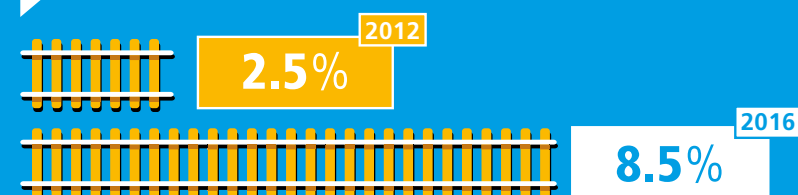
OPERATING PROFIT (EBIT)



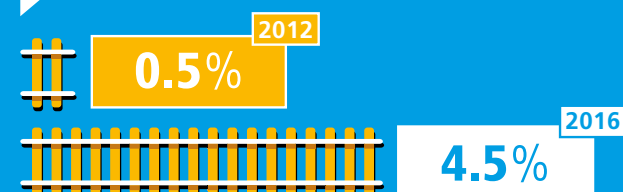
NET PROFIT



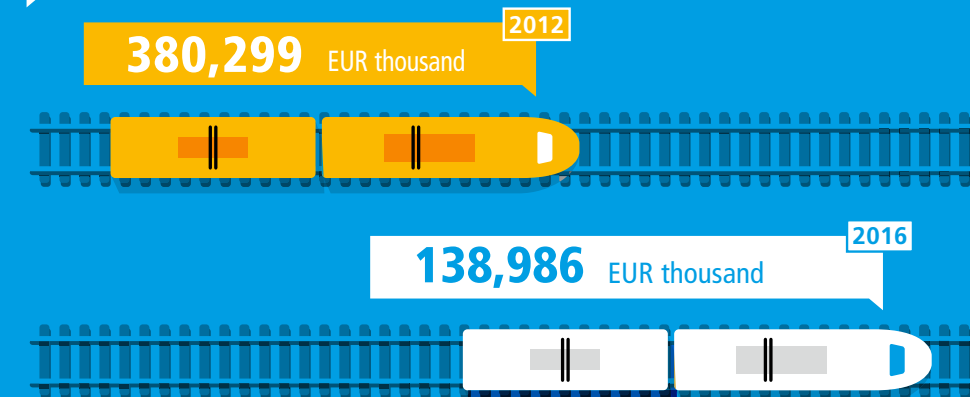
RETURN ON EQUITY (ROE)



RETURN ON ASSETS (ROA)



FINANCIAL LIABILITIES



VALUE ADDED PER EMPLOYEE



AVERAGE NUMBER OF EMPLOYEES



GOODS TRANSPORTED



PROFIT AND LOSS BY INDIVIDUAL COMPANY/ACTIVITY

| EUR thousand | Slovenske Železnice Group | | | | SŽ-Tovorni Promet Group | | | Fersped Group | | |
|---|---------------------------|----------------|-------------|--|-------------------------|----------------|--------------|---------------|---------------|--------------|
| | 2016 | 2015 | Index | | 2016 | 2015 | Index | 2016 | 2015 | Index |
| Operating revenues | 501,923 | 584,332 | 85.9 | | 197,373 | 193,300 | 102.1 | 21,234 | 21,182 | 100.2 |
| Net sales revenue | 390,809 | 463,289 | 84.4 | | 178,121 | 185,035 | 96.3 | 21,088 | 21,023 | 100.3 |
| • Revenues on the domestic market | 206,124 | 277,348 | 74.3 | | 18,702 | 24,745 | 75.6 | 10,430 | 9,781 | 106.6 |
| Transport revenues on the domestic market | 34,744 | 37,475 | 92.7 | | 6,586 | 7,398 | 89.0 | | | |
| Other revenues on the domestic market | 55,075 | 127,860 | 43.1 | | 12,116 | 17,347 | 69.8 | 10,430 | 9,781 | 106.6 |
| Contracts with the Slovenian Government | 116,305 | 112,013 | 103.8 | | | | | | | |
| • Revenues on the foreign market | 184,685 | 185,941 | 99.3 | | 159,419 | 160,290 | 99.5 | 10,658 | 11,242 | 94.8 |
| Transport revenues on the foreign market | 153,227 | 154,500 | 99.2 | | 153,357 | 152,900 | 100.3 | | | |
| Other revenues on the foreign market | 31,458 | 31,441 | 100.1 | | 6,062 | 7,390 | 82.0 | 10,658 | 11,242 | 94.8 |
| Changes in values of inventories of finished goods and work in progress | 1,319 | 51 | | | 0 | 0 | | 0 | 0 | |
| Capitalised own products and services | 32,359 | 22,310 | 145.0 | | 0 | 0 | | 11 | 0 | |
| Other operating revenues | 77,436 | 98,682 | 78.5 | | 19,252 | 8,265 | 232.9 | 135 | 159 | 84.9 |
| of which: contracts with the Slovenian Government | 43,836 | 41,989 | 104.4 | | | | | | | |
| Operating expenses | 477,281 | 543,257 | 87.9 | | 186,462 | 184,985 | 100.8 | 21,066 | 21,227 | 99.2 |
| Historical cost of goods and materials sold | 5,461 | 2,509 | 217.7 | | 938 | 42 | | 967 | 1,503 | 64.3 |
| Costs of materials | 37,855 | 42,585 | 88.9 | | 2,710 | 3,432 | 79.0 | 26 | 31 | 83.9 |
| Energy costs | 29,650 | 31,637 | 93.7 | | 15,456 | 17,627 | 87.7 | 46 | 61 | 75.4 |
| Costs of services | 121,297 | 165,451 | 73.3 | | 102,566 | 108,286 | 94.7 | 17,249 | 16,839 | 102.4 |
| Labour costs | 244,215 | 249,511 | 97.9 | | 38,631 | 38,813 | 99.5 | 2,372 | 2,500 | 94.9 |
| Amortisation | 34,244 | 34,278 | 99.9 | | 15,143 | 15,039 | 100.7 | 126 | 152 | 82.9 |
| Other operating expenses | 4,559 | 17,286 | 26.4 | | 11,018 | 1,746 | 631.0 | 280 | 141 | 198.6 |
| Operating profit (EBIT) | 24,642 | 41,075 | 60.0 | | 10,911 | 8,315 | 131.2 | 168 | -45 | |
| Finance income | 4,809 | 5,202 | 92.4 | | 2,015 | 4,907 | 41.1 | 132 | 197 | 67.0 |
| Finance costs | 4,696 | 17,806 | 26.4 | | 3,160 | 12,716 | 24.9 | 18 | 109 | 16.5 |
| Net finance income | 113 | -12,604 | | | -1,145 | -7,809 | 14.7 | 114 | 88 | 129.5 |
| Pre-tax profit or loss | 24,755 | 28,471 | 86.9 | | 9,766 | 506 | | 282 | 43 | 655.8 |
| Current tax | 576 | 3,351 | 17.2 | | 9 | 7 | 128.6 | | | |
| Deferred taxes | -877 | -711 | 123.3 | | 762 | -67 | | -220 | -24 | 916.7 |
| Corporate income tax | -301 | 2,640 | | | 771 | -60 | | -220 | -24 | 916.7 |
| Net profit/loss | 25,056 | 25,831 | 97.0 | | 8,995 | 566 | | 502 | 67 | 749.3 |

PROFIT AND LOSS BY INDIVIDUAL COMPANY/ACTIVITY

| EUR thousand | SŽ-Potniški promet, d. o. o. | | | SŽ-Potniški promet, d. o. o. – PSO | | | SŽ-Potniški promet, d. o. o. – other activities | | |
|---|------------------------------|---------------|--------------|------------------------------------|---------------|--------------|---|--------------|-------------|
| | 2016 | 2015 | Index | 2016 | 2015 | Index | 2016 | 2015 | Index |
| Operating revenues | 90,908 | 90,459 | 100.5 | 87,089 | 83,431 | 104.4 | 3,819 | 7,028 | 54.3 |
| Net sales revenue | 43,834 | 43,420 | 101.0 | 41,779 | 38,606 | 108.2 | 2,055 | 4,814 | 42.7 |
| • Revenues on the domestic market | 36,924 | 35,625 | 103.6 | 35,087 | 31,156 | 112.6 | 1,837 | 4,469 | 41.1 |
| Transport revenues on the domestic market | 29,829 | 32,322 | 92.3 | 28,346 | 28,194 | 100.5 | 1,483 | 4,128 | 35.9 |
| Other revenues on the domestic market | 7,095 | 3,303 | 214.8 | 6,741 | 2,962 | 227.6 | 354 | 341 | 103.8 |
| Contracts with the Slovenian Government | | | | | | | | | |
| • Revenues on the foreign market | 6,910 | 7,795 | 88.6 | 6,692 | 7,450 | 89.8 | 218 | 345 | 63.2 |
| Transport revenues on the foreign market | 5,995 | 6,975 | 85.9 | 5,777 | 6,630 | 87.1 | 218 | 345 | 63.2 |
| Other revenues on the foreign market | 915 | 820 | 111.6 | 915 | 820 | 111.6 | 0 | 0 | |
| Changes in values of inventories of finished goods and work in progress | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Capitalised own products and services | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Other operating revenues | 47,074 | 47,039 | 100.1 | 45,310 | 44,825 | 101.1 | 1,764 | 2,214 | 79.7 |
| of which: contracts with the Slovenian Government | 43,836 | 41,989 | 104.4 | 43,836 | 41,989 | 104.4 | | | |
| Operating expenses | 87,401 | 88,173 | 99.1 | 84,319 | 84,016 | 100.4 | 3,082 | 4,157 | 74.1 |
| Historical cost of goods and materials sold | 2,096 | 11 | | 2,096 | 11 | | 0 | 0 | |
| Costs of materials | 2,543 | 2,666 | 95.4 | 2,214 | 2,638 | 83.9 | 329 | 28 | |
| Energy costs | 6,780 | 6,934 | 97.8 | 6,682 | 6,759 | 98.9 | 98 | 175 | 56.0 |
| Costs of services | 46,517 | 49,602 | 93.8 | 44,090 | 45,879 | 96.1 | 2,427 | 3,723 | 65.2 |
| Labour costs | 16,825 | 17,055 | 98.7 | 16,650 | 16,881 | 98.6 | 175 | 174 | 100.6 |
| Amortisation | 11,002 | 11,298 | 97.4 | 10,956 | 11,243 | 97.4 | 46 | 55 | 83.6 |
| Other operating expenses | 1,638 | 607 | 269.9 | 1,631 | 605 | 269.6 | 7 | 2 | 350.0 |
| Operating profit (EBIT) | 3,507 | 2,286 | 153.4 | 2,770 | -585 | | 737 | 2,871 | 25.7 |
| Finance income | 469 | 467 | 100.4 | 467 | 465 | 100.4 | 2 | 2 | 100.0 |
| Finance costs | 55 | 2,237 | 2.5 | 55 | 2,227 | 2.5 | 0 | 10 | 0.0 |
| Net finance income | 414 | -1,770 | | 412 | -1,762 | | 2 | -8 | |
| Pre-tax profit or loss | 3,921 | 516 | 759.9 | 3,182 | -2,347 | | 739 | 2,863 | 25.8 |
| Current tax | | | | | | | | | |
| Deferred taxes | | | | | | | | | |
| Corporate income tax | | | | | | | | | |
| Net profit/loss | 3,921 | 516 | 759.9 | 3,182 | -2,347 | | 739 | 2,863 | 25.8 |

PROFIT AND LOSS BY INDIVIDUAL COMPANY/ACTIVITY

| EUR thousand | SŽ-Vleka in tehnika, d. o. o. | | | SŽ-Infrastruktura, d. o. o. | | | PRI maintenance | | |
|---|-------------------------------|----------------|--------------|-----------------------------|----------------|--------------|-----------------|----------------|-------------|
| | 2016 | 2015 | Index | 2016 | 2015 | Index | 2016 | 2015 | Index |
| Operating revenues | 113,754 | 104,780 | 108.6 | 155,005 | 184,406 | 84.1 | 118,481 | 147,768 | 80.2 |
| Net sales revenue | 111,955 | 102,967 | 108.7 | 149,592 | 180,355 | 82.9 | 113,448 | 144,853 | 78.3 |
| • Revenues on the domestic market | 101,259 | 94,090 | 107.6 | 149,592 | 180,355 | 82.9 | 113,448 | 144,853 | 78.3 |
| Transport revenues on the domestic market | | | | | | | | | |
| Other revenues on the domestic market | 101,259 | 94,090 | 107.6 | 33,287 | 68,342 | 48.7 | 32,143 | 66,600 | 48.3 |
| Contracts with the Slovenian Government | | | | 116,305 | 112,013 | 103.8 | 81,305 | 78,253 | 103.9 |
| • Revenues on the foreign market | 10,696 | 8,877 | 120.5 | 0 | 0 | | 0 | 0 | |
| Transport revenues on the foreign market | | | | | | | | | |
| Other revenues on the foreign market | 10,696 | 8,877 | 120.5 | 0 | 0 | | 0 | 0 | |
| Changes in values of inventories of finished goods and work in progress | 1,232 | -106 | | 0 | 0 | | 0 | 0 | |
| Capitalised own products and services | 40 | 104 | 38.5 | 0 | 0 | | 0 | 0 | |
| Other operating revenues | 527 | 1,815 | 29.0 | 5,413 | 4,051 | 133.6 | 5,033 | 2,915 | 172.7 |
| of which: contracts with the Slovenian Government | | | | | | | | | |
| Operating expenses | 113,447 | 108,494 | 104.6 | 153,426 | 182,357 | 84.1 | 115,292 | 142,125 | 81.1 |
| Historical cost of goods and materials sold | 43 | 32 | 134.4 | 2 | 0 | | 2 | 0 | |
| Costs of materials | 18,391 | 15,036 | 122.3 | 10,248 | 12,091 | 84.8 | 9,878 | 11,847 | 83.4 |
| Energy costs | 1,335 | 1,393 | 95.8 | 18,251 | 16,622 | 109.8 | 17,845 | 16,243 | 109.9 |
| Costs of services | 18,082 | 16,967 | 106.6 | 45,830 | 63,718 | 71.9 | 41,947 | 60,136 | 69.8 |
| Labour costs | 72,640 | 72,362 | 100.4 | 70,827 | 75,251 | 94.1 | 37,512 | 39,392 | 95.2 |
| Amortisation | 2,210 | 1,984 | 111.4 | 2,302 | 2,400 | 95.9 | 2,183 | 2,265 | 96.4 |
| Other operating expenses | 746 | 720 | 103.6 | 5,966 | 12,275 | 48.6 | 5,925 | 12,242 | 48.4 |
| Operating profit (EBIT) | 307 | -3,714 | | 1,579 | 2,049 | 77.1 | 3,189 | 5,643 | 56.5 |
| Finance income | 37 | 221 | 16.7 | 165 | 164 | 100.6 | 153 | 144 | 106.3 |
| Finance costs | 311 | 462 | 67.3 | 272 | 436 | 62.4 | 205 | 347 | 59.1 |
| Net finance income | -274 | -241 | 113.7 | -107 | -272 | 39.3 | -52 | -203 | 25.6 |
| Pre-tax profit or loss | 33 | -3,955 | | 1,472 | 1,777 | 82.8 | 3,137 | 5,440 | 57.7 |
| Current tax | | | | | | | | | |
| Deferred taxes | -2 | -125 | 1.6 | -707 | -335 | 211.0 | -707 | -335 | 211.0 |
| Corporate income tax | -2 | -125 | 1.6 | -707 | -335 | 211.0 | -707 | -335 | 211.0 |
| Net profit/loss | 35 | -3,830 | | 2,179 | 2,112 | 103.2 | 3,844 | 5,775 | 66.6 |

PROFIT AND LOSS BY INDIVIDUAL COMPANY/ACTIVITY

| EUR thousand | Traffic management | | | SŽ-Infrastruktura, d. o. o. PSO – PRI maintenance | | | SŽ-Infrastruktura, d. o. o. PSO – Traffic management | | |
|---|--------------------|---------------|-------------|--|----------------|--------------|---|---------------|--------------|
| | 2016 | 2015 | Index | 2016 | 2015 | Index | 2016 | 2015 | Index |
| Operating revenues | 37,325 | 37,471 | 99.6 | 88,153 | 107,659 | 81.9 | 35,005 | 33,766 | 103.7 |
| Net sales revenue | 36,911 | 36,322 | 101.6 | 83,578 | 104,778 | 79.8 | 35,000 | 33,760 | 103.7 |
| • Revenues on the domestic market | 36,911 | 36,322 | 101.6 | 83,578 | 104,778 | 79.8 | 35,000 | 33,760 | 103.7 |
| Transport revenues on the domestic market | | | | | | | | | |
| Other revenues on the domestic market | 1,911 | 2,562 | 74.6 | 4,167 | 31,944 | 13.0 | | | |
| Contracts with the Slovenian Government | 35,000 | 33,760 | 103.7 | 79,411 | 72,834 | 109.0 | 35,000 | 33,760 | 103.7 |
| • Revenues on the foreign market | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Transport revenues on the foreign market | | | | | | | | | |
| Other revenues on the foreign market | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Changes in values of inventories of finished goods and work in progress | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Capitalised own products and services | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Other operating revenues | 414 | 1,149 | 36.0 | 4,575 | 2,881 | 158.8 | 5 | 6 | |
| of which: contracts with the Slovenian Government | | | | | | | | | |
| Operating expenses | 38,935 | 41,065 | 94.8 | 89,862 | 110,081 | 81.6 | 37,008 | 38,587 | 95.9 |
| Historical cost of goods and materials sold | 0 | 0 | | 2 | 0 | | 0 | 0 | |
| Costs of materials | 370 | 244 | 151.6 | 9,530 | 11,507 | 82.8 | 357 | 236 | 151.3 |
| Energy costs | 406 | 378 | 107.4 | 2,681 | 2,201 | 121.8 | 387 | 357 | 108.4 |
| Costs of services | 4,651 | 4,402 | 105.7 | 38,769 | 53,061 | 73.1 | 4,432 | 4,147 | 106.9 |
| Labour costs | 33,315 | 35,859 | 92.9 | 34,904 | 34,011 | 102.6 | 31,644 | 33,674 | 94.0 |
| Amortisation | 119 | 135 | 88.1 | 1,989 | 2,059 | 96.6 | 115 | 128 | 89.8 |
| Other operating expenses | 74 | 47 | 157.4 | 1,987 | 7,242 | 27.4 | 73 | 45 | 162.2 |
| Operating profit (EBIT) | -1,610 | -3,594 | 44.8 | -1,709 | -2,422 | 70.6 | -2,003 | -4,821 | 41.5 |
| Finance income | 12 | 20 | 60.0 | 152 | 144 | 105.6 | 12 | 20 | 60.0 |
| Finance costs | 67 | 89 | 75.3 | 204 | 347 | 58.8 | 67 | 14 | 478.6 |
| Net finance income | -55 | -69 | 79.7 | -52 | -203 | 25.6 | -55 | 6 | |
| Pre-tax profit or loss | -1,665 | -3,663 | 45.5 | -1,761 | -2,625 | 67.1 | -2,058 | -4,815 | 42.7 |
| Current tax | | | | | | | | | |
| Deferred taxes | | | | | | | | | |
| Corporate income tax | | | | | | | | | |
| Net profit/loss | -1,665 | -3,663 | 45.5 | -1,761 | -2,625 | 67.1 | -2,058 | -4,815 | 42.7 |

PROFIT AND LOSS BY INDIVIDUAL COMPANY/ACTIVITY

| EUR thousand | SŽ-Infrastruktura, d. o. o. Apartments and buildings (not part of PRI) | | | SŽ-Infrastruktura, d. o. o. PRI management | | | SŽ-Infrastruktura, d. o. o. Other activities – PRI maintenance | | |
|---|---|--------------|-------------|---|--------------|-------------|---|---------------|-------------|
| | 2016 | 2015 | Index | 2016 | 2015 | Index | 2016 | 2015 | Index |
| Operating revenues | 410 | 3,697 | 11.1 | 1,484 | 1,730 | 85.8 | 28,434 | 34,682 | 82.0 |
| Net sales revenue | 410 | 3,697 | 11.1 | 1,484 | 1,730 | 85.8 | 27,976 | 34,648 | 80.7 |
| • Revenues on the domestic market | 410 | 3,697 | 11.1 | 1,484 | 1,730 | 85.8 | 27,976 | 34,648 | 80.7 |
| Transport revenues on the domestic market | | | | | | | | | |
| Other revenues on the domestic market | 0 | 8 | 0.0 | | | | 27,976 | 34,648 | 80.7 |
| Contracts with the Slovenian Government | 410 | 3,689 | 11.1 | 1,484 | 1,730 | 85.8 | | | |
| • Revenues on the foreign market | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Transport revenues on the foreign market | | | | | | | | | |
| Other revenues on the foreign market | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Changes in values of inventories of finished goods and work in progress | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Capitalised own products and services | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Other operating revenues | 0 | 0 | | 0 | 0 | | 458 | 34 | |
| of which: contracts with the Slovenian Government | | | | | | | | | |
| Operating expenses | 453 | 3,659 | 12.4 | 881 | 976 | 90.3 | 24,096 | 27,409 | 87.9 |
| Historical cost of goods and materials sold | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Costs of materials | 19 | 129 | 14.7 | 0 | 0 | | 329 | 211 | 155.9 |
| Energy costs | 7 | 282 | 2.5 | 0 | 0 | | 15,157 | 13,760 | 110.2 |
| Costs of services | 354 | 2,576 | 13.7 | 848 | 976 | 86.9 | 1,976 | 3,523 | 56.1 |
| Labour costs | 71 | 643 | 11.0 | 33 | 0 | | 2,504 | 4,738 | 52.8 |
| Amortisation | 1 | 8 | 12.5 | 0 | 0 | | 193 | 198 | 97.5 |
| Other operating expenses | 1 | 21 | 4.8 | 0 | 0 | | 3,937 | 4,979 | 79.1 |
| Operating profit (EBIT) | -43 | 38 | | 603 | 754 | 80.0 | 4,338 | 7,273 | 59.6 |
| Finance income | 0 | 0 | | 0 | 0 | | 1 | 0 | |
| Finance costs | 0 | 0 | | 0 | 0 | | 1 | 0 | |
| Net finance income | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Pre-tax profit or loss | -43 | 38 | | 603 | 754 | 80.0 | 4,338 | 7,273 | 59.6 |
| Current tax | | | | | | | | | |
| Deferred taxes | 0 | -2 | 0.0 | -86 | -31 | 277.4 | -621 | -302 | 205.6 |
| Corporate income tax | 0 | -2 | 0.0 | -86 | -31 | 277.4 | -621 | -302 | 205.6 |
| Net profit/loss | -43 | 40 | | 689 | 785 | 87.8 | 4,959 | 7,575 | 65.5 |

PROFIT AND LOSS BY INDIVIDUAL COMPANY/ACTIVITY

| EUR thousand | SŽ-Infrastruktura, d. o. o. Other activities – Traffic management | | | SŽ-Železniško gradbeno podjetje Group | | | SŽ-ŽIP Group | | |
|---|--|--------------|-------------|---------------------------------------|---------------|-------------|---------------|---------------|--------------|
| | 2016 | 2015 | Index | 2016 | 2015 | Index | 2016 | 2015 | Index |
| Operating revenues | 2,320 | 3,705 | 62.6 | 34,364 | 82,153 | 41.8 | 26,559 | 27,767 | 95.6 |
| Net sales revenue | 1,911 | 2,562 | 74.6 | 32,857 | 81,473 | 40.3 | 21,490 | 22,121 | 97.1 |
| • Revenues on the domestic market | 1,911 | 2,562 | 74.6 | 29,817 | 78,449 | 38.0 | 19,607 | 22,086 | 88.8 |
| Transport revenues on the domestic market | | | | | | | | | |
| Other revenues on the domestic market | 1,911 | 2,562 | 74.6 | 29,817 | 78,449 | 38.0 | 19,607 | 22,086 | 88.8 |
| Contracts with the Slovenian Government | | | | | | | | | |
| • Revenues on the foreign market | 0 | 0 | | 3,040 | 3,024 | 100.5 | 1,883 | 35 | |
| Transport revenues on the foreign market | | | | | | | | | |
| Other revenues on the foreign market | | | | 3,040 | 3,024 | 100.5 | 1,883 | 35 | |
| Changes in values of inventories of finished goods and work in progress | 0 | 0 | | 83 | 162 | 51.2 | 5 | -7 | |
| Capitalised own products and services | 0 | 0 | | 88 | 89 | 98.9 | 41 | 26 | 157.7 |
| Other operating revenues | 409 | 1,143 | 35.8 | 1,336 | 429 | 311.4 | 5,023 | 5,627 | 89.3 |
| of which: contracts with the Slovenian Government | | | | | | | | | |
| Operating expenses | 1,927 | 2,478 | 77.8 | 32,055 | 73,822 | 43.4 | 27,567 | 28,057 | 98.3 |
| Historical cost of goods and materials sold | 0 | 0 | | 1,295 | 924 | 140.2 | 237 | 317 | 74.8 |
| Costs of materials | 13 | 8 | 162.5 | 2,966 | 8,435 | 35.2 | 1,323 | 1,217 | 108.7 |
| Energy costs | 19 | 21 | 90.5 | 809 | 1,091 | 74.2 | 511 | 528 | 96.8 |
| Costs of services | 219 | 255 | 85.9 | 15,192 | 47,588 | 31.9 | 9,081 | 9,883 | 91.9 |
| Labour costs | 1,671 | 2,185 | 76.5 | 9,725 | 12,358 | 78.7 | 15,425 | 15,268 | 101.0 |
| Amortisation | 4 | 7 | 57.1 | 1,636 | 1,734 | 94.3 | 759 | 644 | 117.9 |
| Other operating expenses | 1 | 2 | 50.0 | 432 | 1,692 | 25.5 | 231 | 200 | 115.5 |
| Operating profit (EBIT) | 393 | 1,227 | 32.0 | 2,309 | 8,331 | 27.7 | -1,008 | -290 | 347.6 |
| Finance income | 0 | 0 | | 179 | 209 | 85.6 | 18 | 195 | 9.2 |
| Finance costs | 0 | 75 | 0.0 | 142 | 348 | 40.8 | 57 | 58 | 98.3 |
| Net finance income | 0 | -75 | 0.0 | 37 | -139 | | -39 | 137 | |
| Pre-tax profit or loss | 393 | 1,152 | 34.1 | 2,346 | 8,192 | 28.6 | -1,047 | -153 | 684.3 |
| Current tax | | | | 83 | 1,475 | 5.6 | 2 | 0 | |
| Deferred taxes | | | | 125 | -151 | | | | |
| Corporate income tax | | | | 208 | 1,324 | 15.7 | 2 | 0 | |
| Net profit/loss | 393 | 1,152 | 34.1 | 2,138 | 6,868 | 31.1 | -1,049 | -153 | 685.6 |

PROFIT AND LOSS BY INDIVIDUAL COMPANY/ACTIVITY

| EUR thousand | Prometni institut, d. o. o. | | | SŽ-Železniška tiskarna, d. d. | | | Slovenske železnice, d. o. o. | | |
|---|-----------------------------|--------------|-------------|-------------------------------|------------|--------------|-------------------------------|---------------|-------------|
| | 2016 | 2015 | Index | 2016 | 2015 | Index | 2016 | 2015 | Index |
| Operating revenues | 1,481 | 1,756 | 84.3 | 528 | 491 | 107.5 | 33,814 | 62,540 | 54.1 |
| Net sales revenue | 1,330 | 1,515 | 87.8 | 526 | 488 | 107.8 | 19,780 | 21,643 | 91.4 |
| • Revenues on the domestic market | 1,256 | 1,416 | 88.7 | 526 | 488 | 107.8 | 19,687 | 21,517 | 91.5 |
| Transport revenues on the domestic market | | | | | | | | | |
| Other revenues on the domestic market | 1,256 | 1,416 | 88.7 | 526 | 488 | 107.8 | 19,687 | 21,517 | 91.5 |
| Contracts with the Slovenian Government | | | | | | | | | |
| • Revenues on the foreign market | 74 | 99 | 74.7 | 0 | 0 | | 93 | 126 | 73.8 |
| Transport revenues on the foreign market | | | | | | | | | |
| Other revenues on the foreign market | 74 | 99 | 74.7 | 0 | 0 | | 93 | 126 | 73.8 |
| Changes in values of inventories of finished goods and work in progress | 0 | 0 | | -2 | 3 | | 0 | 0 | |
| Capitalised own products and services | 0 | 0 | | 0 | 0 | | 257 | 42 | |
| Other operating revenues | 151 | 241 | 62.7 | 4 | 0 | | 13,777 | 40,855 | 33.7 |
| of which: contracts with the Slovenian Government | | | | | | | | | |
| Operating expenses | 1,304 | 1,330 | 98.0 | 505 | 478 | 105.6 | 27,078 | 38,824 | 69.7 |
| Historical cost of goods and materials sold | 0 | 0 | | 0 | 0 | | 0 | 0 | |
| Costs of materials | 4 | 5 | 80.0 | 57 | 56 | 101.8 | 136 | 133 | 102.3 |
| Energy costs | 4 | 4 | 100.0 | 8 | 7 | 114.3 | 181 | 176 | 102.8 |
| Costs of services | 309 | 254 | 121.7 | 99 | 84 | 117.9 | 4,879 | 6,769 | 72.1 |
| Labour costs | 915 | 988 | 92.6 | 296 | 289 | 102.4 | 16,703 | 14,804 | 112.8 |
| Amortisation | 67 | 27 | 248.1 | 40 | 38 | 105.3 | 959 | 963 | 99.6 |
| Other operating expenses | 5 | 52 | 9.6 | 5 | 4 | 125.0 | 4,220 | 15,979 | 26.4 |
| Operating profit (EBIT) | 177 | 426 | 41.5 | 23 | 13 | 176.9 | 6,736 | 23,716 | 28.4 |
| Finance income | 7 | 15 | 46.7 | 8 | 4 | 200.0 | 14,281 | 18,534 | 77.1 |
| Finance costs | 2 | 3 | 66.7 | 1 | 1 | 100.0 | 6,500 | 21,714 | 29.9 |
| Net finance income | 5 | 12 | 41.7 | 7 | 3 | 233.3 | 7,781 | -3,180 | |
| Pre-tax profit or loss | 182 | 438 | 41.6 | 30 | 16 | 187.5 | 14,517 | 20,536 | 70.7 |
| Current tax | 28 | 70 | 40.0 | 1 | 0 | | 453 | 1,799 | 25.2 |
| Deferred taxes | 0 | -9 | 0.0 | -5 | 0 | | -828 | 0 | |
| Corporate income tax | 28 | 61 | 45.9 | -4 | 0 | | -375 | 1,799 | |
| Net profit/loss | 154 | 377 | 40.8 | 34 | 16 | 212.5 | 14,892 | 18,737 | 79.5 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF GROUP COMPANIES AS AT 31 DECEMBER 2016

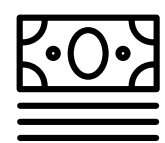
| ITEM (EUR thousand) | COMPANIES IN THE GROUP | | | |
|--------------------------------------|------------------------|-------------|---------------|---------|
| | SŽ Group | SŽ-TP Group | Fersped Group | SŽ-PP |
| ASSETS | 554,748 | 226,799 | 8,106 | 152,466 |
| A. Non-current assets | 367,849 | 137,085 | 3,303 | 88,777 |
| Intangible assets | 3,374 | 96 | 208 | 159 |
| Property, plant and equipment | 293,368 | 126,799 | 1,675 | 82,659 |
| Investment property | 42,618 | 2,697 | 83 | 5,087 |
| Investments in subsidiaries | 0 | 0 | 8 | 0 |
| Investments in joint ventures | 0 | 0 | 0 | 0 |
| Investments in associates | 12,313 | 0 | 842 | 0 |
| Other financial assets | 4,156 | 0 | 29 | 0 |
| Financial receivables | 3,045 | 10 | 0 | 0 |
| Non-current operating receivables | 3,891 | 7,483 | 53 | 872 |
| Deferred tax assets | 3,257 | 0 | 403 | 0 |
| Other non-current assets | 1,827 | 0 | 2 | 0 |
| B. Current assets | 186,899 | 89,714 | 4,803 | 63,689 |
| Assets held for sale | 20 | 0 | 0 | 0 |
| Inventories | 30,270 | 1,624 | 0 | 1,365 |
| Financial assets | 0 | 0 | 0 | 0 |
| Financial receivables | 695 | 31,683 | 0 | 44,537 |
| Trade receivables | 78,565 | 44,291 | 4,358 | 5,878 |
| Other operating receivables | 28,529 | 9,238 | 390 | 9,097 |
| Receivables for corporate income tax | 2,178 | 0 | 0 | 0 |
| Cash and cash equivalents | 46,642 | 2,877 | 55 | 2,811 |

| COMPANIES IN THE GROUP | | | | | | |
|------------------------|--------|--------------|--------------|--------------|--------------|--------------|
| SŽ-VIT | SŽ-INF | ŽGP Lj Group | ŽIP Lj Group | PI Ljubljana | ŽT Ljubljana | SŽ, d. o. o. |
| 74,823 | 58,852 | 32,899 | 14,216 | 960 | 1,151 | 530,044 |
| 32,562 | 10,075 | 15,208 | 10,460 | 225 | 527 | 465,573 |
| 107 | 233 | 17 | 18 | 49 | 1 | 907 |
| 31,118 | 8,006 | 13,846 | 10,180 | 39 | 457 | 11,172 |
| 47 | 0 | 412 | 0 | 93 | 64 | 44,530 |
| 0 | 0 | 0 | 0 | 0 | 0 | 270,867 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 3,080 |
| 2 | 0 | 0 | 0 | 0 | 0 | 4,117 |
| 0 | 0 | 632 | 0 | 0 | 0 | 125,319 |
| 60 | 334 | 89 | 263 | 24 | 0 | 3,869 |
| 288 | 1,501 | 212 | 0 | 20 | 6 | 828 |
| 940 | 0 | 0 | 0 | 1 | 0 | 884 |
| 42,262 | 48,777 | 17,692 | 3,756 | 735 | 624 | 64,471 |
| 0 | 0 | 0 | 0 | 0 | 0 | 20 |
| 16,835 | 6,829 | 3,522 | 264 | 0 | 37 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 7,255 | 5,369 | 0 | 48 | 350 | 20,320 |
| 24,413 | 24,864 | 5,218 | 2,949 | 324 | 140 | 2,724 |
| 982 | 9,075 | 1,156 | 292 | 320 | 4 | 1,929 |
| 0 | 0 | 947 | 0 | 36 | 0 | 1,196 |
| 32 | 755 | 1,479 | 251 | 7 | 93 | 38,281 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF GROUP COMPANIES AS AT 31 DECEMBER 2016

| ITEM (EUR thousand) | COMPANIES IN THE GROUP | | | | COMPANIES IN THE GROUP | | | | | | |
|--|------------------------|-------------|---------------|---------|------------------------|--------|--------------|--------------|--------------|--------------|--------------|
| | SŽ Group | SŽ-TP Group | Fersped Group | SŽ-PP | SŽ-VIT | SŽ-INF | ŽGP Lj Group | PI Ljubljana | ŽIP Lj Group | ŽT Ljubljana | SŽ, d. o. o. |
| EQUITY AND LIABILITIES | 554,748 | 226,799 | 8,106 | 152,466 | 74,823 | 58,852 | 32,899 | 960 | 14,216 | 1,151 | 530,044 |
| A. Equity | 305,586 | 60,497 | 2,986 | 135,813 | 33,601 | 19,781 | 23,333 | 446 | 5,550 | 1,011 | 286,650 |
| Called-up capital | 205,274 | 36,861 | 3,139 | 131,684 | 26,068 | 15,828 | 3,152 | 162 | 6,073 | 265 | 205,274 |
| Share premium | 45,002 | 4,720 | 0 | 0 | 6,608 | 0 | 46 | 112 | 0 | 498 | 45,002 |
| Legal reserves | 1,574 | 3,686 | 0 | 905 | 803 | 1,583 | 453 | 16 | 1,095 | 59 | 1,574 |
| Reserves for treasury shares and own participating interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 95 | 0 |
| Treasury shares and own participating interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -47 | 0 |
| Other profit reserves | 6,701 | 0 | 0 | 0 | 0 | 0 | 4,062 | 0 | 211 | 0 | 0 |
| Fair value reserves | -29 | 64 | 12 | 30 | 85 | 174 | -39 | -1 | -161 | 4 | -203 |
| Retained earnings | 41,855 | 15,172 | -176 | 3,193 | 36 | 2,196 | 15,487 | 156 | -1,666 | 137 | 35,003 |
| 1. Retained earnings from previous years | 24,693 | 6,177 | -675 | 0 | 1 | 16 | 13,349 | 2 | -617 | 103 | 20,856 |
| 2. Retained earnings from the financial year | 17,162 | 8,995 | 499 | 3,193 | 36 | 2,179 | 2,138 | 154 | -1,049 | 34 | 14,147 |
| Exchange differences | -21 | -5 | 0 | 0 | 0 | 0 | -13 | 0 | -2 | 0 | 0 |
| Non-controlling interest | 5,229 | 0 | 12 | 0 | 0 | 0 | 185 | 0 | 0 | 0 | 0 |
| B. Non-current liabilities | 154,892 | 127,740 | 384 | 2,028 | 8,029 | 8,118 | 3,555 | 88 | 4,945 | 51 | 132,026 |
| Provisions for jubilee benefits and termination benefits | 24,129 | 3,620 | 180 | 1,779 | 6,628 | 7,254 | 777 | 77 | 2,097 | 51 | 1,667 |
| Other provisions | 1,236 | 6 | 19 | 216 | 149 | 385 | 440 | 0 | 2 | 0 | 19 |
| Non-current deferred income | 3,973 | 1,057 | 0 | 0 | 1,004 | 20 | 133 | 0 | 2,711 | 0 | 3 |
| Financial liabilities | 125,178 | 122,916 | 0 | 0 | 39 | 0 | 2,122 | 0 | 99 | 0 | 122,918 |
| Non-current operating liabilities | 374 | 140 | 184 | 33 | 208 | 460 | 84 | 11 | 37 | 0 | 7,419 |
| Deferred tax liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| C. Current liabilities | 94,270 | 38,561 | 4,737 | 14,625 | 33,194 | 30,953 | 6,011 | 427 | 3,721 | 89 | 111,368 |
| Financial liabilities | 13,808 | 10,773 | 564 | 0 | 9,475 | 0 | 629 | 4 | 45 | 0 | 101,257 |
| Trade payables | 27,953 | 19,755 | 3,743 | 10,603 | 8,936 | 10,571 | 3,243 | 43 | 1,266 | 24 | 6,288 |
| Other operating liabilities | 52,507 | 8,033 | 429 | 4,022 | 14,783 | 20,381 | 2,139 | 380 | 2,410 | 64 | 3,823 |
| Liabilities for corporate income tax | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 |

Successful and profitable business

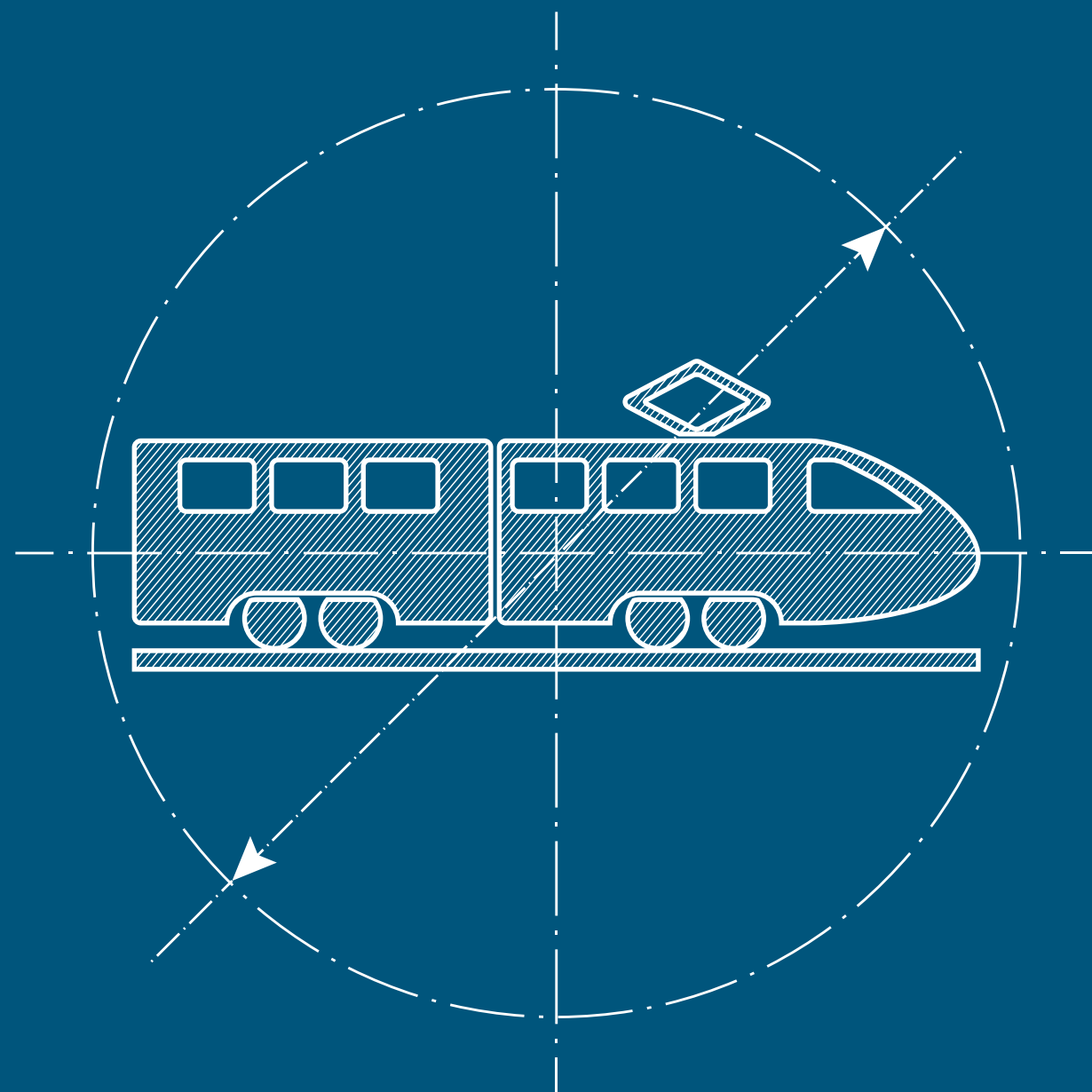


25.1 million
EUR

We have posted excellent operating results for several consecutive years while significantly reducing our debt. EBIT doubled from 2012–2016, and financial liabilities decreased by 63.5% – from EUR 380.3 million to EUR 139.0 million. The year 2016 was also a successful year. We generated EUR 501.9 million in revenues and net profits of EUR 25.1 million.



ON TRACK FOR PROFIT



Increasing profitability by increasing the Company's presence on international markets and diversifying business.

FINANCIAL REPORT

1 INTRODUCTORY NOTES TO THE FINANCIAL STATEMENTS

Slovenske železnice, d. o. o., is the controlling company of the Slovenske Železnice Group. Its registered office is located at Kolodvorska 11, 1000 Ljubljana, Slovenia. The consolidated financial statements for the period ending 31 December 2016 relate to the Slovenske Železnice Group, which comprises the controlling company and its subsidiaries.

Pursuant to the resolution of the Company's General Meeting of 4 July 2016, the financial statements were compiled in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter: the IFRS) for the first time for the reporting period ending 31 December 2016. Comparative data were also compiled in accordance with the IFRS, while differences are explained in more detail in sections 2 and 7 (effect of the introduction of the IFRS).

1.1 BASIS FOR COMPILING THE FINANCIAL STATEMENTS

STATEMENT OF COMPLIANCE

The financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU, and in accordance with the Companies Act (ZGD).

In terms of consolidating EU standards, there were no differences in Slovenske železnice, d. o. o.'s accounting policies on the statement of financial position date between the IFRS as applied and the IFRS as adopted by the European Union.

The Management Board of Slovenske železnice, d. o. o., approved the financial statements on 22 June 2017.

BASIS OF MEASUREMENT

The financial statements have been compiled on an historical cost basis.

FUNCTIONAL AND REPORTING CURRENCY

The financial statements have been compiled in euros (EUR) without cents, the euro being the Company's functional and reporting currency. Minor differences may arise in the sums of figures in tables due to the rounding of values.

USE OF ESTIMATES AND JUDGMENTS

The compilation of the financial statements is also based on certain estimates and assumptions made by the Company's Management Board that affect the carrying amount of assets and liabilities, as well as the revenues and expenses disclosed during the accounting period. Those estimates include, inter alia, the

determination of the useful lives and residual value of real estate, plant and equipment, and intangible assets, adjustments to the value of inventories and receivables, assumptions required for the actuarial calculation in connection with defined employee benefits, assumptions included in the calculation of potential provisions for lawsuits, assumptions regarding future taxable profit for the calculation of deferred taxes, assumptions regarding the future operations of subsidiaries and associates, and assumptions used to determine the potential impairment of other financial assets. Despite the fact that the Company's Management Board carefully considers all factors that affect the drafting of assumptions during that process itself, the actual consequences of events may vary from estimates. Judgement must therefore be used in accounting estimates, and potential changes in the business environment, new business events, additional information and past experiences taken into account.

Presented below are the main assessments and assumptions as at the statement of financial position date that are linked to future operations and that could result in material adjustments to the carrying amount of assets and liabilities. Information regarding significant assessments of uncertainty and critical judgements drawn up by the Company's Management Board in the application of accounting policies that have the greatest effect on the amounts in the financial statements are described in the notes that follow. Other disclosures and details are presented in the accounting policies.

- Testing for the impairments of financial assets

At least once a year, the controlling company checks for signs of impairment for individual cash-generating units, where the recoverable amount of financial assets is determined on the basis of the present value of future cash flows, which in turn is based on an estimate of expected cash flows from a cash-generating unit and the definition of an appropriate discount rate. Financial assets are deemed impaired when there is objective evidence indicating that expected future cash flows from a specific asset have diminished as a result of one or more events, and those cash flows can be reliably measured.

- Post-employment benefits

The present value of retirement benefits is recorded in commitments for post-employment benefits. Those benefits are recognised on the basis of an actuarial calculation drawn up by a certified actuary. That actuarial calculation is in turn based on assumptions and estimates valid at the time of the calculation. Those assumptions and estimates may vary from actual assumptions in the future due to changes. The aforementioned changes relate primarily to the definition of the discount rate, estimates of employee turnover and mortality rates, and estimates of wage growth. Commitments for post-employment benefits are sensitive to changes in those estimates due to the complexity of the actuarial calculation and the long-term nature of this item.

- Provisions for lawsuits and contingent liabilities

Provisions are recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Contingent liabilities are not disclosed in the financial statements, as their actual existence will be confirmed by the occurrence or non-occurrence of events in the unforeseeable future, over which the Company has no influence. The Management Board of the controlling company regularly verifies whether an outflow of resources embodying economic benefits is probable to settle a contingent liability. If this becomes probable, the contingent liability is reclassified, such that the associated provisions are created in the financial statements at the moment the level of probability changes.

- Deferred tax assets

Deferred tax assets are recognised in connection with the creation of provisions for jubilee benefits and retirement benefits, provisions for guarantees issued, tax losses and unused tax allowances for investments. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised.

1.2 SIGNIFICANT ACCOUNTING POLICIES

The Slovenske Železnice Group applied the same accounting policies in all the periods presented in the enclosed consolidated financial statements. Slovenske Železnice Group companies apply standard accounting policies.

The Slovenske Železnice Group comprises the following companies:

- SŽ, d. o. o. (controlling company)
- SŽ-Tovorni promet, d. o. o. (100% owned by the controlling company)
- SŽ-Potniški promet, d. o. o. (100% owned by the controlling company)
- SŽ-Infrastruktura, d. o. o. (100% owned by the controlling company)
- SŽ-Vleka in tehnika, d. o. o. (100% owned by the controlling company)
- SŽ-Železniško gradbeno podjetje Ljubljana, d. d. (79.82% owned by the controlling company)
- Prometni institut Ljubljana, d. o. o. (100% owned by the controlling company)
- SŽ-Železniška tiskarna Ljubljana, d. d. (64.28% owned by the controlling company)
- SŽ-ŽIP, storitve, d. o. o. (100% owned by the controlling company)
- Fersped, d. o. o. (100% owned by the controlling company)

- Kamnolom Verd, d. o. o. (96.34% owned by SŽ-Železniško gradbeno podjetje Ljubljana, d. d.)
- SŽ-ŽGP, d. o. o., Belgrade, Serbia (100% owned by SŽ-Železniško gradbeno podjetje Ljubljana, d. d.)
- SŽ-ŽGP, d. o. o., Podgorica, Montenegro (100% owned by SŽ-Železniško gradbeno podjetje Ljubljana, d. d.)
- Calidus SOL, d. o. o., Savudrija, Croatia (100% owned by SŽ-ŽIP, storitve, d. o. o.)
- Fercargo, d. o. o., Sarajevo, Bosnia and Herzegovina (70% owned by Fersped d. o. o.)
- Si Cargo Logistics, d. o. o., Belgrade, Serbia (subsidiary 100% owned by SŽ-Tovorni promet, d. o. o.)

The voting rights connected with all of the aforementioned companies are equal to the participating interests therein.

Ferit, s.r.l., Trieste (Italy), which is 80% owned by Fersped, d. o. o., is excluded from consolidation due to a lack of control.

NEWLY ADOPTED AND AMENDED STANDARDS AND INTERPRETATIONS

New standards that will enter into force at a later date and that are not applied by the SŽ Group in its financial statements

Presented below are standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU. The possibility of the early application of a specific standard was not taken into account. The potential effect of new standards and interpretations is already being studied.

| Standard/interpretation | Effective from | Expected effect on the financial statements |
|-------------------------|----------------|---|
| IFRS 9 | 1 January 2018 | Being studied |
| IFRS 15 | 1 January 2018 | Being studied |

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments, adopted by the EU on 22 November 2016, is applicable to annual periods beginning on or after 1 January 2018. The amended standard introduces new requirements regarding the classification and measurement of financial assets and liabilities, the recognition of associated impairments and hedge accounting. The SŽ Group is studying the effect of the amended standard, which it will apply when it enters into force.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenues from Contracts with Customers, as adopted by the EU on 22 September 2016, is applicable to annual periods beginning on or after 1 January 2018. The aforementioned standard introduces a five-step model for recognising revenues generated by the Company based on contracts with customers. The accounting policies dictated by IFRS 15 include additional qualitative and quantitative obligations in connection with the disclosure of revenues generated by the Company based on contracts with customers. In accordance with the provisions of IFRS 15, the Company recognises revenues to an extent that reflects the amount of consideration it expects to be entitled to in exchange for transferring goods or services to a customer. The SŽ Group is studying the effect of the new standard, which it will apply when it enters into force.

NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS ISSUED BY THE IASB BUT NOT YET ADOPTED BY THE EU

| Standard/interpretation | Effective from | Expected effect on the financial statements |
|---|----------------|---|
| IFRS 14 Regulatory Deferral Accounts | | No material effect |
| IFRS 16 Leases | 1 January 2019 | Being studied |
| Amendments to IFRS 2 Share-Based Payments | 1 January 2018 | No material effect |
| Amendments to IFRS 4 Insurance Contracts | 1 January 2018 | No material effect |
| Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures | | No material effect |
| Amendments to IFRS 7 Statement of Cash Flows | 1 January 2017 | Being studied |
| Amendments to IAS 12 Income Taxes | 1 January 2017 | No material effect |
| Amendments to IAS 40 Investment Property | 1 January 2018 | No material effect |
| Amendments to various standards – Annual Improvements to IFRS 2014–2016 Cycle | 1 January 2017 | No material effect |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | 1 January 2018 | No material effect |

ENTRY INTO FORCE OF THE LATEST AMENDMENTS TO EXISTING STANDARDS THAT APPLY DURING THE CURRENT ACCOUNTING PERIOD

| Standard/interpretation | Effective from | Expected effect on the financial statements |
|---|----------------|---|
| Amendments to IFRS 10 Consolidated Financial Statements | 1 January 2016 | No material effect |
| IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures | 1 January 2016 | No material effect |
| Amendments to IFRS 11 Joint Arrangements | 1 January 2016 | No material effect |
| Amendments to IAS 1 Presentation of Financial Statements | 1 January 2016 | No material effect |
| Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets | 1 January 2016 | No material effect |
| Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture | 1 January 2016 | No material effect |
| Amendments to IAS 19 Employee Benefits | 1 January 2015 | No material effect |
| Amendments to IAS 27 Separate Financial Statements | 1 January 2016 | No material effect |
| Amendments to various standards – Annual Improvements to IFRS 2010–2012 Cycle | 1 January 2015 | No material effect |
| Amendments to various standards – Annual Improvements to IFRS 2012–2014 Cycle | 1 January 2016 | No material effect |

INDIVIDUAL ACCOUNTING POLICIES

A) BASIS FOR CONSOLIDATION

The consolidated financial statements of the SŽ Group include the financial statements of the controlling company SŽ, d. o. o., and its subsidiaries.

Business combinations

Business combinations are accounted for according to the acquisition method on the day of the acquisition or when the acquiring company obtains control. Identifiable assets acquired and liabilities assumed are measured at fair value on the acquisition date.

The SŽ Group recognises goodwill as a surplus over:

- the value of consideration transferred, which is measured at fair value and any non-controlling interest in the acquired company, which is likewise measured at fair value; and
- the net amount of assets acquired and liabilities assumed, measured at fair value on the acquisition date.

Subsidiaries

Subsidiaries are companies controlled by the SŽ Group. The SŽ Group controls a subsidiary when:

- it exercises influence over a company in which it has invested;
- the SŽ Group is exposed to a variable return or has the right to a variable return from its participation in a company in which it has invested; and
- the SŽ Group is able to affect the amount of its return through its influence over a company in which it has invested.

The financial statements of subsidiaries are included in the consolidated financial statements of the SŽ Group from the date that control is assumed until the date that it ceases. The accounting policies of subsidiaries have been harmonised with those of the SŽ Group.

When the SŽ Group loses control over a subsidiary:

- the assets and liabilities of the former subsidiary, non-controlling interests, and other components of equity relating to that subsidiary are derecognised;
- any gain or loss in connection with the loss of control that can be attributed to the former interest is recognised; and
- any interest retained by the SŽ Group in a former subsidiary is disclosed in other financial assets.

Investments in associates

Associates are companies over which the Group exercises significant influence, but does not control their financial and business policies. Investments in associates are initially recognised at historical cost and then accounted for according to the equity method. The consolidated financial statements of the SŽ Group include the latter's share of the profits and losses of associates calculated according to the equity method. If the SŽ Group's share in the loss of an associate exceeds its interest, the carrying amount of the Group's interest is reduced to zero, while its share in future losses is no longer recognised.

If the historical cost of an investment in an associate exceeds the fair value of the assets and liabilities recognised on the acquisition date, that amount is recognised as goodwill, such that historical cost and goodwill comprise the total value of the investment in the associate. If the fair value of recognised assets and liabilities is less than the value of the investment, that difference is recognised in profit or loss on the acquisition date.

Transactions excluded from the consolidated financial statements

Mutual balances and unrealised gains and losses deriving from transactions within the SŽ Group are excluded during the compilation of the consolidated financial statements. Unrealised gains from transactions with associates (accounted for according to the equity method) are only eliminated to the extent of the SŽ Group's interest in an associate. Unrealised losses are excluded in the same manner as gains.

B) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies

Transactions denominated in a foreign currency are translated into the functional currency of the SŽ Group (euros) at the applicable exchange rate on the transaction date. Monetary assets and liabilities denominated in a foreign currency at the end of the reporting period are translated into the functional currency at the applicable exchange rate at that time. Positive and negative exchange differences comprise differences between amortised cost denominated in the functional currency at the beginning of the period, adjusted for effective interest and payments made during the period, and amortised cost in a foreign currency translated at the exchange rate applicable at the end of the period. Non-monetary assets and liabilities denominated in a foreign currency and measured at fair value are translated into the functional currency at the exchange rate applicable on the day on which the fair value was determined. Non-monetary items denominated in a foreign currency and measured at historical cost are translated into the functional currency at the exchange rate on the transaction date. Exchange differences are recognised in the statement of profit or loss.

Financial statements of SŽ Group companies

The consolidated financial statements of the SŽ Group are compiled in euros. The items from the financial statements of each SŽ Group company included in the financial statements are translated to the functional currency in the following manner for the needs of the consolidated financial statements:

- assets and liabilities in each presented statement of financial position (including goodwill) are translated at the ECB's exchange rate on the reporting date; and
- revenues and expenses of foreign companies are translated into euros at the exchange rate applicable on the transaction date.

Exchange differences are recognised in other comprehensive income and disclosed in the item 'exchange rate differences' within equity. The proportionate amount of exchange differences is allocated to the non-controlling interest for subsidiaries that are not under full ownership. If a foreign subsidiary is disposed of in such a way that control no longer exists, the relevant amount accumulated in the translation reserve is reallocated to profit or loss as a gain or loss from disposal.

Intangible assets

Intangible assets are non-monetary assets that typically do not exist in physical form. They include intangible assets with finite useful lives, which are disclosed at historical cost less amortisation and any impairment loss, and intangible assets with indeterminable useful lives, which are disclosed at historical cost less any impairment loss.

Intangible assets comprise non-current deferred development costs, investments in industrial property rights (concessions, patents, licences, trademarks, etc.), and other rights and investments in the goodwill of acquired companies.

Intangible assets are recognised in the books of account and statement of financial position if it is probable that the economic benefits embodied within them will flow to the Company and their historical cost can be measured reliably. Intangible assets are derecognised and deleted from the books of account and the statement of financial position upon disposal or whenever no economic benefits whatsoever are expected from their use and subsequent disposal. The carrying amount of an intangible asset is reduced by amortisation over the useful life of the asset. The Company uses the straight-line method of amortisation.

Intangible assets are disclosed in the books of account as a separate historical cost or revalued historical cost, a separate value adjustment as the cumulative write-down resulting from amortisation, and a separate impairment loss; they are disclosed in the statement of financial position at their carrying amount, which is the difference between historical cost and value adjustments, and accu-

mulated impairment losses. Intangible assets are valued using the historical cost model.

Intangible assets must be revalued for reasons of impairment if their carrying amount exceeds their recoverable amount. The recoverable amount is the greater of fair value less selling costs, or value in use.

If the recoverable amount of an intangible asset is lower than its carrying amount, the asset's carrying amount is reduced to its recoverable amount. Such a reduction is deemed an impairment loss.

The Company takes into account external and internal sources of information when assessing whether there are any indications that an asset is impaired. Significant indications that an asset could be impaired include losses disclosed by a company over the last three years and business plans that do not indicate a significant improvement in operations in future years. Normalised earnings are used as a criterion.

The present value of expected free cash flow method was used to test goodwill for impairment as at 31 December 2016. The cash flows used in that method are based on the five-year financial plans of the relevant cash-generating unit. All assumptions applied in the calculation of net cash flows are based on a company's past operations and reasonable expectations regarding operations in the future. The only goodwill within the SŽ Group is disclosed by Fersped, d. o. o.

Property, plant and equipment

The Company's property, plant and equipment comprises land and buildings, equipment, and other items of property, plant and equipment and small inventory with a useful life exceeding one year. Property, plant and equipment includes small inventory with a useful life exceeding one year, where a specific historical cost according to a supplier calculation does not exceed EUR 500 and if the same types of assets are already disclosed in property, plant and equipment. Otherwise items of small inventory are classified as material. Replacement parts used for investments in items of property, plant and equipment are accounted for as inventories of material.

Items of property, plant and equipment are disclosed in the books of account as a separate historical cost or revalued historical cost, and a separate value adjustment, where that value adjustment represents the cumulative write-down resulting from amortisation. They are disclosed in the statement of financial position at their carrying amount (book value), which is equal to historical cost less the accumulated write-down.

Items of property, plant and equipment that meet conditions for recognition are initially recognised according to the historical cost model.

The historical cost of an item of property, plant and equipment comprises the purchase price plus import duties and other non-refundable purchase taxes, and other costs required to make the asset fit for use. Trade and other discounts are subtracted from the purchase price. Historical cost also includes interest expenses and other costs arising from loans for assets that are acquired over a period of six months or more and for which the expected historical cost is equal to more than 1% of the carrying amount of all items of property, plant and equipment, but only until the item of property, plant and equipment is fit for use. Historical cost is increased by the costs of the associated specific-purpose loan; in other cases, interest expenses are capitalised applying the average interest rate for bank loans.

Estimated costs of decommissioning, disposal and returning a site to its original state do not generally increase the historical cost of items of property, plant and equipment at the time of acquisition, provided that such costs are immaterial (i.e. they do not exceed 10% of the item's historical cost) or if in the majority of cases those costs are covered by the sale of waste material at the time of an item's disposal. The historical cost of an item of property, plant and equipment constructed or manufactured by the Company comprises the costs that arose during the construction or manufacture of that asset, and the indirect costs of construction or manufacture that can be attributed to the asset. When new items of property, plant and equipment (rolling stock and buildings) are purchased, their historical cost is broken down into parts, provided those parts have different useful lives and/or patterns of usage that are material with respect to the

total historical cost of the item of property, plant and equipment in question. Each part of an item of property, plant and equipment is then treated separately. Planned periodic costs associated with regular inspections and repairs of rolling stock are treated as parts of the associated items of property, plant and equipment.

Amortisation and revaluation

The straight-line method of amortisation and depreciation is generally used. Amortisation and depreciation is calculated separately, and is only calculated collectively for small inventory of the same type or similar purpose. The depreciation of items of property, plant and equipment under finance leasing is in line with the depreciation of similar items of property, plant and equipment owned by the Company or taking into account the lease, if the latter is shorter.

Amortisation and depreciation rates applied in 2016 and 2015

| | Lowest | Highest |
|-------------------------|--------|---------|
| 1. Buildings | 1.00% | 10.00% |
| 2. Production equipment | 2.00% | 25.00% |
| 3. Computer equipment | 20.00% | 50.00% |
| 4. Rolling stock | 17.00% | 50.00% |
| 5. Other equipment | 3.30% | 33.30% |
| 6. Intangible assets | 20.00% | 50.00% |

The revaluation of an item of property, plant and equipment entails a change in its carrying amount as the result of impairment.

Items of property, plant and equipment must be revalued for reasons of impairment if their carrying amount exceeds their recoverable amount. The recoverable amount is the greater of fair value less selling costs, or value in use.

If the recoverable amount of an item of property, plant and equipment is lower than its carrying amount, the asset's carrying amount is reduced to its recoverable amount. Such a reduction is deemed an impairment loss.

The Company takes into account external and internal sources of information when assessing whether there are any indications that an asset is impaired. Significant indications that an asset could be impaired include losses disclosed by a company over the last three years and business plans that do not indicate a significant improvement in operations in future years. Normalised earnings are used as a criterion.

Investment property

Investment property is property purchased to generate rental income and/or increase the value of non-current investments. Investment property is initially recognised at historical cost, comprising the purchase price and associated purchase costs.

If real estate is used in part for leasing and in part for production or office purposes, those two parts are only treated separately if they can also be sold separately. Otherwise, real estate is reclassified to investment property or property, plant and equipment, taking into account the proportionate use of the real estate for a specific purpose (calculated based on surface area). If the proportionate use of real estate for leasing purposes exceeds 90%, the real estate is disclosed in full as investment property. If the proportionate use of real estate for leasing purposes is less than 10%, the real estate is disclosed in full as property, plant and equipment. In other cases, real estate is classified in part as investment property and in part as property, plant and equipment, with respect to proportionate use.

If the Company, as owner of the real estate, also provides the lessee ancillary services and those services represent an immaterial element of the entire associated agreement (less than 20% of total revenues under the entire agreement), such real estate is deemed investment property. When ancillary services comprise more than 20% of total revenues from the associated agreement, the real estate in question is treated as an item of property, plant and equipment.

Investment property is measured using the historical cost model. Investment property must be revalued due to impairment if its carrying amount exceeds its fair value. The Company compares the carrying amount of investment property with official

data published in the Republic of Slovenia (e.g. the prices of land, and commercial and residential buildings). If the market value of real estate deviates from its carrying amount, the fair value of investment property is determined with the help of certified real estate valuers. The Company typically determines fair value for material items of investment property in a cycle ranging from three to five years or when signs exist that the fair value of investment property has changed significantly.

The straight-line method of depreciation is generally used for investment property, items of which are depreciated individually. The same depreciation rates used for property, plant and equipment are used for that purpose.

Inventories

Inventories comprise stocks of raw materials, materials, replacement parts and small inventory with a useful life of less than one year. Replacement parts that are used for the maintenance of property, plant and equipment and replacement parts that are used for additional investments in property, plant and equipment are accounted for as inventories of material.

Inventories of materials and merchandise of all types are valued at historical cost, which comprises the purchase price, import duties and other non-refundable purchase taxes, and the direct costs of procurement.

The moving average price method is used to disclose the use of inventories of materials, replacement parts and small inventory.

The revaluation of inventories entails a change in their carrying amount, and is performed at the end of the financial year. Inventories are valued at the lower of historical cost and net realisable value. Inventories are only revalued for reasons of impairment.

Inventories of replacement parts that have not changed for several accounting periods are revalued on the statement of financial position date taking into account the timing of changes.

Receivables

Receivables comprises rights arising from property and other relationships that entitle their holder to demand the payment of a debt, the delivery of goods or the provision of services from a specific person. Receivables in connection with the sale of goods and the provision of services are typically recognised simultaneously as revenues. Receivables are initially recognised at amounts recorded in the relevant documents (e.g. invoices, statements of account and statements of charges) under the assumption that they will also be paid.

All subsequent increases and decreases in receivables (subsequent discounts, recognised reclamations, defects, etc.) typically increase or decrease the associated operating revenues or finance income. Receivables for which some payments are deferred to the future depending on the fulfilment of certain conditions (e.g. withheld payments) are disclosed separately.

The revaluation of receivables entails a change in their carrying amount; contractual increases and decreases in the carrying amount are not deemed revaluation. Revaluation is carried out once a year prior to the compilation of the annual accounts. It arises as the revaluation of receivables due to impairment (if the Company assesses that the recoverable amount of receivables is lower than their carrying amount) or the revaluation of receivables due to the reversal of impairment.

The following receivables are revalued due to impairment based on past experience and expectations for the future:

- ordinary receivables and receivables subject to judicial proceedings according to the criterion of age:
 - a) receivables 91 to 180 days in arrears in the amount of 30%,
 - b) receivables 181 to 365 days in arrears in the amount of 50%, and
 - c) receivables in arrears more than 365 days in the amount of 100%;
- trade receivables for which compulsory composition has been confirmed (disclosed on separate accounts):
 - a) receivables in arrears up to 365 days in the amount of 50%, and
 - b) receivables in arrears more than 365 days in the amount of 100%; and
- trade receivables from customers in bankruptcy (disclosed on separate accounts): impairment in the amount of 100% when the receivables are registered in bankruptcy proceedings.

In addition to the impairments described above, additional impairments of material receivables may be created individually. The impairment of receivables from specific customers may be exceptionally waived based on duly substantiated reasons. Decisions in this regard are made by the Company's Management Board.

If the sum of actual write-offs of specific receivables during the accounting period exceeds previously created adjustments to the value of receivables, a substantiated deficit must also be created at the end of the financial year and the difference included in operating expenses (additional impairments). On the contrary, if the sum of actual write-offs of specific receivables during the accounting period is less than previously created adjustments to the value of receivables, any unsubstantiated surplus must be reversed at the end of the financial year and transferred to operating revenues (reversal of impairments), meaning that the adjustment to the value of receivables is merely balanced to form a new amount following the coverage of write-offs of receivables.

CASH AND CASH EQUIVALENTS

In addition to cash on business accounts at banks and cash on hand, cash and cash equivalents also include short-term deposits at banks with a maturity of up to three months.

LIABILITIES

Current and non-current liabilities are initially valued in the amounts deriving from the relevant documents evidencing their occurrence.

Non-current liabilities are disclosed as non-current financial liabilities and non-current operating liabilities. Non-current financial liabilities comprise long-term loans received from banks, other companies and individuals, and non-current liabilities from finance leasing, while non-current operating liabilities comprise long-term supplier credits for goods and services purchased, long-term advances received and security deposits, and deferred tax liabilities. They are increased by the amount of accrued interest or reduced by repaid amounts and any other types of settlement where an associated agreement with the creditor exists.

The portion of non-current liabilities that has already fallen due for payment and the portion of non-current liabilities that falls due for payment within one year are disclosed as current liabilities in the statement of financial position. Current liabilities are disclosed separately as current financial liabilities and current operating liabilities. Current financial liabilities comprise borrowings. Current operating liabilities comprise advances and security deposits from customers, domestic and foreign trade payables, liabilities for uncharged goods and services, liabilities to employees, liabilities to government institutions and other liabilities.

Non-current and current liabilities expressed in foreign currencies are translated into the domestic currency on the statement of financial position date. An increase in current liabilities increases ordinary finance costs, while a decrease in current liabilities increases ordinary finance income.

FINANCIAL ASSETS AND FINANCIAL INSTRUMENTS

Financial assets primarily comprise investments in equity, and investments in the financial liabilities of other companies, the government and other issuers. The Company classifies its financial assets to the following categories:

- investments in subsidiaries and associates,
- financial assets at fair value through profit or loss,
- held-to-maturity financial assets,
- loans and receivables, and
- available-for-sale financial assets.

Investments in subsidiaries and associates comprise financial assets for which prices are not quoted on an active market, whose fair value cannot be estimated reliably and which the Company does not hold for trading purposes but instead to manage. They are typ-

ically held for a period exceeding one year. Such investments are measured at historical cost, meaning that they are disclosed in the financial statements at historical cost, increased by transaction costs and subsequently reduced for any impairment.

A financial asset is classified as an asset at fair value through profit or loss if it is held for trading or if it is defined as such upon initial recognition. Financial assets are deemed assets at fair value through profit or loss under the condition that the SŽ Group is capable of managing those assets and making decisions to purchase and sell assets on the basis of fair value. Financial assets at fair value through profit or loss are measured at fair value; the amount of changes to fair value is recognised in profit or loss.

Held-to-maturity financial assets comprise non-derivative financial assets with fixed or determinable payments and fixed maturities that the SŽ Group intends and has the ability to hold to maturity, except:

- those financial assets that the SŽ Group initially recognises as assets at fair value through profit or loss,
- those financial assets that the SŽ Group recognises as available-for-sale, and
- those financial assets that meet the definition of loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted on an active market. In terms of maturity, they are classified as current financial assets (maturity of up to 12 months following the statement of financial position date) or non-current financial assets (maturity exceeding 12 months following the statement of financial position date).

Available-for-sale financial assets are those non-derivative financial assets that are classified as available-for-sale, or are not clas-

sified as loans and receivables or as financial assets at fair value through profit or loss. They are measured at fair value if fair can be determined. Gains and losses from valuation are recognised directly in comprehensive income and disclosed in fair value reserves, except for impairment losses and gains and losses from the calculation of exchange differences, until a financial asset is derecognised.

Financial assets are recognised in the books of account and statement of financial position as such if it is probable that the economic benefits embodied within them will flow to the Company and their historical cost can be measured reliably. Finance income is recognised upon the disposal of a financial asset if the consideration received exceeds the asset's carrying amount, while finance costs are recognised if the asset's carrying amount exceeds the consideration received.

The revaluation of financial assets entails a change in their carrying amount; contractually accrued interest and other changes in the principal associated with an investment are not deemed revaluation.

Losses due to the impairment of investments in the equity instruments of other companies measured at historical cost (based on objective and impartial evidence of impairment) are recognised immediately in profit or loss. Dividends received and shares in profit are recognised as finance income.

Loans granted are verified in terms of the pace of repayment. The Company checks for signs of impairment in the event of payment delays. If there is objective evidence that a loss due to impairment has arisen with respect to a loan, the amount of that impairment is measured as the difference between the carrying amount of the loan and the present value of expected future cash flows.

PROVISIONS

Provisions are created for the Company's current obligations arising from past events, when the expectation is that they will arise in a period exceeding one year and their size can only be estimated reliably. They primarily comprise provisions for jubilee benefits and ordinary retirement benefits, provisions to cover the costs and/or expenses for restoring a site to its original state and similar provisions, as well as provisions for performance bonds, warranty periods and material amounts of lawsuits.

Provisions are earmarked and used directly for the costs that they were created to cover. Provisions in the books of account and statement of financial position are reversed whenever the reasons for which they were created have been exhausted or when the provisions are no longer needed.

Deferred income that will cover projected expenses over a period exceeding one year is disclosed under non-current deferred income. It also includes state aid and donations received for the acquisition of property, plant and equipment or to cover specific costs. Deferred income is used to cover costs (depreciation or other specific costs), at which time it is reclassified to operating revenues.

PROVISIONS FOR TERMINATION BENEFITS AND JUBILEE BENEFITS

In accordance with the relevant regulations and collective agreement, the Company is obliged to pay its employees retirement benefits and jubilee benefits.

Non-current provisions are created for that purpose in the amount of estimated future payments, discounted on the statement of financial position date. A calculation is made for each employee taking into account the cost of retirement benefits and the cost of expected jubilee benefits until retirement.

REVENUES

Revenues are broken down into operating revenues and finance income.

Subsequent increases in receivables (excluding advances paid) increase the associated operating revenues or finance income. Subsequent decreases in receivables (subsequent discounts and credit notes, excluding advances paid) that are not the result of payments received or other settlement decrease the associated operating revenues or finance income.

Finance income comprises income from investing activities. It arises in connection with investments, and also in connection with receivables in the form of imputed interest and shares in the profit of others.

EXPENSES

Expenses are recognised if a decrease in economic benefits during the accounting period is associated with a decrease in assets or an increase in liabilities, and that decrease can be measured reliably. Costs are recorded by type based on an analytical chart of accounts, and adjusted to the needs of reporting and the compilation of consolidated financial statements.

Finance costs are recognised when incurred, irrespective of the related payments.

TAXATION

Taxes include current tax liabilities and deferred tax. They are disclosed in the statement of profit or loss, except to the extent that they relate to business combinations or items disclosed directly in other comprehensive income.

Current tax liabilities are calculated on the basis of the taxable income for the financial year. Taxable income differs from the net profit disclosed in profit or loss because it also includes revenues and expenses that are taxable or deductible in future tax periods, and items that are never taxable or deductible. The Company's current tax liability is calculated using the tax rates applicable on the reporting date.

Deferred tax is intended to cover temporary differences that arise between the value of assets and liabilities for tax purposes and their carrying amount, and is created using the liability method and currently valid tax rates. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the deferred tax assets can be utilised. If the Company has incurred or incurs consecutive or major losses,

this is deemed convincing evidence that future taxable income will not be available.

EQUITY

The Company's total equity represents a liability to its owner, and falls due for payment should the Company be wound up. Share capital and the share premium comprise cash and non-cash contributions by the owner.

Other reserves comprise retained earnings from previous years, and are created based on a resolution adopted by the competent supervisory body and/or owner.

DETERMINING FAIR VALUE

Given SŽ, d. o. o.'s accounting policies, the determination of fair value is required for certain non-financial and financial assets and liabilities, either due to the measurement of individual assets or due to additional disclosures of fair value.

The Company takes into account the following hierarchy when determining the fair value of non-financial and financial assets and liabilities:

- level 1 includes quoted prices on active markets for identical assets or liabilities;
- level 2 comprises values that are not equal to quoted prices included in level 1, but nevertheless may be obtained directly from the market (prices for identical or similar assets or liabilities on less active or inactive markets) or indirectly via recalculations (i.e. values derived from quoted prices on an active market, based on interest rates and yield curves, etc.); and
- level 3 comprises input data for assets and liabilities that are not based on observable market data, where unobservable data must reflect the assumptions that market participants would use to set the price of an asset or liability, including assumptions regarding risks.

The SŽ Group uses quoted prices as the basis for determining the fair value of financial instruments. If a financial instrument is not quoted on a regulated market or the market in question is deemed inactive, the SŽ Group uses input data from levels 2 and 3 to assess the fair value of that financial instrument.

The fair value of intangible assets is determined based on the model of discounted cash flows that are expected to be generated from the use or potential sale of an asset.

The fair value of items of property, plant and equipment and investment property is equal to their market value. The market value of property is equal to the appraised value at which the property could

be sold for on the valuation date in the context of the appropriate advertising. The market value of equipment is based on the market price offered for similar assets.

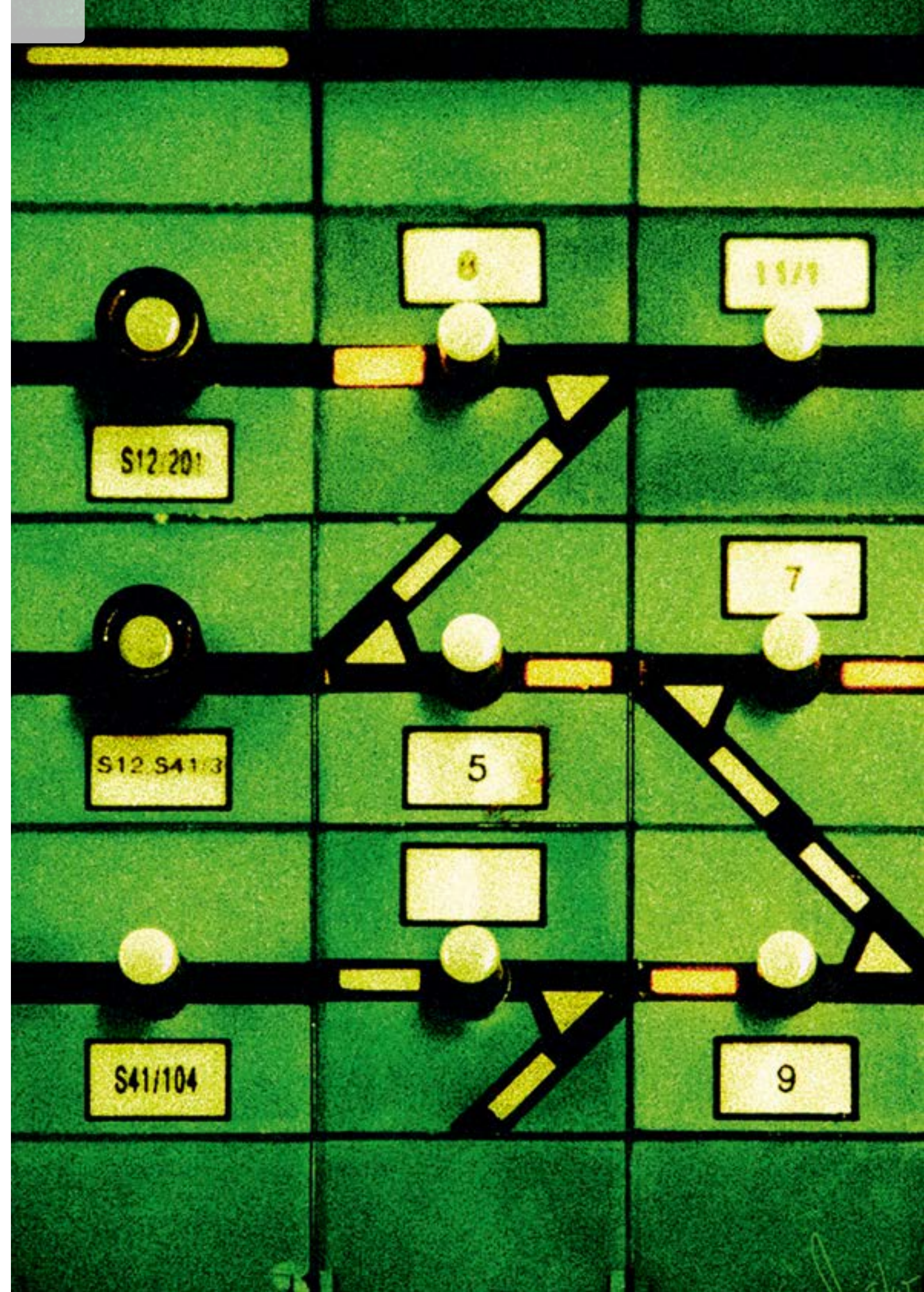
The fair value of inventories is determined based on the expected sales value in the course of ordinary operations, less estimated selling costs.

The fair value of financial assets measured at fair value through profit or loss is determined according to a predefined hierarchy used to determine the fair value of financial instruments. The SŽ Group measures an asset at historical cost if fair value cannot be determined reliably because the difference in estimates of the reasonable fair value is material and the probability of different estimates is difficult to assess.

The fair value of receivables and loans is calculated as the present value of future cash flows discounted according to the market interest rate at the end of the reporting period, taking into account the credit risk associated with such financial assets.

The fair value of non-derivative financial liabilities is calculated for reporting purposes based on the present value of future principal and interest payments, discounted using the market interest rate at the end of the reporting period.

The fair value of an interest rate swap is estimated on the reporting date by discounting future cash flows from a variable interest rate (interest received from a swap) and from a fixed interest rate (payment of interest from a swap).



2 EFFECT OF THE INTRODUCTION OF THE IFRS

The General Meeting of the controlling company adopted a resolution based on point 11 of Article 54 of the ZGD to compile the financial statements in accordance with the International Financial Reporting Standards. The reporting period that ends on 31 December 2016 was defined as the transition date. In accordance with the requirements of IFRS 1 First-time Adoption of the International Financial Reporting Standards, the opening statement

of financial position (as at 31 December 2015) is also compiled in accordance with the International Financial Reporting Standards.

The effects of the International Financial Reporting Standards relative to the Slovenian Accounting Standards applied previously by the Group are presented below.

STATEMENT OF FINANCIAL POSITION

| in EUR | IFRS | | SAS | | DIFFERENCE | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 31 December 2015 | 1 January 2015 | 31 December 2015 | 1 January 2015 | 31 December 2015 | 1 January 2015 |
| ASSETS | 561,472,544 | 590,868,721 | 573,530,518 | 609,583,798 | -12,057,974 | -18,715,077 |
| A. Non-current assets | 368,595,276 | 409,229,152 | 381,387,703 | 427,998,546 | -12,792,427 | -18,769,394 |
| Intangible assets | 2,740,639 | 2,325,899 | 4,176,131 | 4,182,903 | -1,435,492 | -1,857,004 |
| Property, plant and equipment | 296,855,307 | 307,960,232 | 303,319,847 | 314,176,411 | -6,464,540 | -6,216,179 |
| Investment property | 43,281,211 | 13,940,093 | 50,789,413 | 28,115,523 | -7,508,202 | -14,175,430 |
| Investments in associates | 11,285,831 | 11,391,120 | 11,285,831 | 11,391,120 | 0 | 0 |
| Other financial assets | 3,500,073 | 3,536,338 | 3,500,073 | 3,536,338 | 0 | 0 |
| Financial receivables | 3,102,148 | 3,192,415 | 3,102,148 | 3,192,415 | 0 | 0 |
| Non-current operating receivables | 3,418,708 | 63,357,313 | 2,238,394 | 61,735,098 | 1,180,314 | 1,622,215 |
| Deferred tax assets | 2,379,358 | 1,668,738 | 2,379,358 | 1,668,738 | 0 | 0 |
| Other non-current assets | 2,032,001 | 1,857,004 | 596,509 | 0 | 1,435,492 | 1,857,004 |
| B. Current assets | 192,877,268 | 181,639,569 | 157,336,175 | 150,244,978 | 35,541,093 | 31,394,591 |
| Inventories | 24,555,275 | 21,801,451 | 24,624,928 | 22,170,820 | -69,653 | -369,369 |
| Financial receivables | 397,981 | 81,595 | 397,981 | 81,595 | 0 | 0 |
| Trade receivables | 44,109,199 | 65,700,605 | 44,109,199 | 65,700,605 | 0 | 0 |
| Other operating receivables | 61,597,467 | 59,549,415 | 26,005,511 | 28,097,232 | 35,591,956 | 31,452,183 |
| Receivables for corporate income tax | 18,790 | 311,777 | 0 | 0 | 18,790 | 311,777 |
| Cash and cash equivalents | 62,198,556 | 34,194,727 | 62,198,556 | 34,194,727 | 0 | 0 |
| C. Current deferred costs and accrued income | 0 | 0 | 34,806,640 | 31,340,274 | -34,806,640 | -31,340,274 |

| in EUR | IFRS | | SAS | | DIFFERENCE | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 31 December 2015 | 1 January 2015 | 31 December 2015 | 1 January 2015 | 31 December 2015 | 1 January 2015 |
| EQUITY AND LIABILITIES | 561,472,544 | 590,868,721 | 573,530,518 | 609,583,798 | -12,057,974 | -18,715,077 |
| A. Equity | 283,245,876 | 145,554,812 | 293,099,775 | 157,536,485 | -9,853,899 | -11,981,673 |
| Called-up capital | 205,274,421 | 95,070,230 | 205,274,421 | 95,070,230 | 0 | 0 |
| Share premium | 45,002,140 | 45,002,140 | 45,002,140 | 45,002,140 | 0 | 0 |
| Legal reserves | 829,108 | 0 | 829,108 | 0 | 0 | 0 |
| Fair value reserves | 235,809 | -2,454,949 | 9,426,408 | 12,275,180 | -9,190,599 | -14,730,129 |
| Retained earnings | 26,521,680 | 3,900,901 | 27,189,316 | 1,122,309 | -667,636 | 2,778,592 |
| Exchange differences | -12,077 | -4,222 | -12,078 | -4,222 | 0 | 0 |
| Non-controlling interest | 5,394,795 | 4,040,712 | 5,390,459 | 4,070,848 | 4,336 | -30,136 |
| B. Non-current liabilities | 165,389,177 | 151,648,977 | 167,593,253 | 158,406,949 | -2,204,076 | -6,757,972 |
| Provisions for jubilee benefits and termination benefits | 23,833,025 | 26,484,797 | 23,833,025 | 26,484,797 | 0 | 0 |
| Other provisions | 1,806,658 | 78,287 | 1,806,658 | 78,287 | 0 | 0 |
| Non-current deferred income | 4,707,053 | 5,970,451 | 5,028,717 | 9,711,409 | -321,664 | -3,740,958 |
| Financial liabilities | 134,633,928 | 117,156,450 | 134,633,928 | 117,156,450 | 0 | 0 |
| Non-current operating liabilities | 408,355 | 1,958,992 | 408,355 | 1,958,992 | 0 | 0 |
| Deferred tax liabilities | 157 | 0 | 1,882,569 | 3,017,014 | -1,882,412 | -3,017,014 |
| C. Current liabilities | 112,837,491 | 293,664,932 | 93,069,590 | 257,755,566 | 19,767,901 | 35,909,366 |
| Financial liabilities | 9,415,411 | 176,898,758 | 9,415,411 | 176,898,758 | 0 | 0 |
| Trade payables | 38,983,685 | 47,264,256 | 38,983,685 | 47,264,256 | 0 | 0 |
| Other operating liabilities | 61,884,007 | 68,901,821 | 44,670,494 | 33,592,552 | 17,213,513 | 35,309,269 |
| Liabilities for corporate income tax | 2,554,388 | 600,097 | 0 | 0 | 2,554,388 | 600,097 |
| D. Current accrued costs and deferred income | | | 19,767,901 | 35,884,798 | -19,767,901 | -35,884,798 |

Differences are explained below:

- **Intangible assets:** in accordance with the SAS, we disclosed assets of the reserve fund for multi-dwelling buildings (EUR 260,313 as at 1 January and EUR 275,664 as at 31 December 2015) as intangible assets, while the same assets are disclosed as other non-current assets under the IAS. The same applies for other non-current deferred costs (EUR 1,596,691 as at 1 January and EUR 1,159,827 as at 31 December 2015).
- **Property, plant and equipment:** the disclosed difference relates to the reversal of the revaluation of property, plant and equipment as the result of the use of the historical cost model (EUR 4,566,656) and the reclassification of advances for property, plant and equipment (EUR 1,649,522) to non-current operating receivables (EUR 1,622,215) and other operating receivables (EUR 27,307). Those advances were disclosed as property, plant and equipment under the SAS.
- **Investment property:** we determined fair value as at 1 January 2015 in accordance with IFRS 1; in cases where the identified fair value was not equal to the original carrying amount, we used fair value as the deemed cost. Historical cost was reduced by EUR 994,943 for this reason. The remaining effect in the amount of EUR 13,180,487 represents the reversal of the revaluation of property, plant and equipment as the result of the use of the historical cost model. The amount disclosed as at 31 December 2015 was reduced due to the sale of investment property in 2015 (EUR 6,638,542) and the effect of the reduction in depreciation in the amount of EUR 28,690.
- **Non-current operating receivables:** non-current advances paid for property, plant and equipment were recorded as such under the SAS but are disclosed as non-current operating receivables under the IFRS.
- **Other non-current assets:** in accordance with the SAS, we disclosed assets of the reserve fund for multi-dwelling buildings and other non-current deferred costs as intangible assets, while the same items are disclosed as other non-current assets under the IAS.
- **Inventories:** advances for inventories are disclosed as other operating receivables under the IFRS.
- **Other operating receivables and deferred costs and accrued income:** according to the IFRS, we increased other operating receivables for current deferred costs and accrued income, which were disclosed as a separate item (EUR 31,340,274) under the SAS, for advances for inventories (EUR 369,369), which were disclosed in inventories under the SAS, and for current advances for property, plant and equipment (EUR 54,317), which we disclosed as property, plant and equipment under the SAS, while a reduction was made for receivables for corporate income tax (EUR 311,777), which are disclosed as a separate item under the IFRS.
- **Fair value reserves:** fair value reserves were reduced by EUR 17,747,143 due to the reversal of the revaluation of property, plant and equipment and investment property, and were increased by EUR 3,017,014 due to the reversal of deferred tax liabilities.
- **Retained earnings:** non-current deferred income that does not meet the conditions set out in IAS 20 was reversed in the amount of EUR 3,740,958 and credited to retained earnings. That effect also includes the impairment of investment property in the amount of EUR 962,366.
- **Non-current deferred income:** non-current deferred income that does not meet the conditions set out in IAS 20 was reversed and credited to retained earnings. The reversal is the result of sales in 2015.
- **Deferred tax liabilities:** the reversal of deferred tax liabilities is the result of the reversal of the revaluation of property, plant and equipment.
- **Other operating liabilities and current accrued costs and deferred income:** accrued costs and deferred income recognised under the SAS are disclosed as other operating liabilities under the IAS.
- **Other operating liabilities and liabilities for corporate income tax:** liabilities for corporate income tax were disclosed as other operating liabilities under the SAS but are disclosed as a separate item under the IAS.

STATEMENT OF PROFIT OR LOSS

| in EUR | IAS | SAS | DIFFERENCE |
|--|--------------------|--------------------|------------------|
| 1. Net sales revenue | 463,289,248 | 463,289,248 | 0 |
| 2. Change in the value of inventories of finished goods and work in progress | 51,232 | 51,232 | 0 |
| 3. Capitalised own products and services | 22,310,484 | 22,310,484 | 0 |
| 4. Other operating revenues | 98,681,365 | 95,454,281 | 3,227,084 |
| 5. Costs of goods, materials and services | 242,182,044 | 242,182,044 | -0 |
| 6. Labour costs | 249,511,238 | 249,511,238 | -0 |
| 7. Write-downs | 48,152,744 | 48,183,900 | -31,156 |
| 8. Other operating expenses | 3,410,999 | 3,410,999 | 0 |
| 9. Operating profit/loss (1 ± 2 + 3 + 4 – 5 – 6 – 7 - 8) | 41,075,305 | 37,817,064 | 3,258,241 |
| 10. Finance income | 5,201,715 | 5,201,715 | 0 |
| 11. Finance costs | 17,805,765 | 17,805,765 | 0 |
| 12. Net finance income/costs (10 – 11) | -12,604,051 | -12,604,051 | 0 |
| 13. Pre-tax profit or loss (9 + 12) | 28,471,254 | 25,213,013 | 3,258,241 |
| 14. Current tax | 3,350,953 | 3,350,953 | 0 |
| 15. Deferred taxes | -710,462 | -1,845,255 | 1,134,793 |
| 16. Corporate income tax (14 ± 15) | 2,640,491 | 1,505,698 | 1,134,793 |
| 17. Net profit/loss for the accounting period (13 - 16) | 25,830,763 | 23,707,315 | 2,123,448 |

Differences are explained below:

- **Other operating revenues:** the net increase in revenues according to the IAS is the result of the reversal of revaluation to fair value as at 1 January 2015 in the amount of EUR 6,646,379 and a reduction in revenues in the amount of EUR 3,419,295 as the result of the reversal of non-current deferred income as at 1 January 2015.
- **Write-downs:** the difference represents the effect of a change in depreciation due to the use of the appraised value as the deemed cost of investment property.
- **Deferred taxes:** the reversal of deferred tax liabilities is the result of the reversal of the revaluation of property, plant and equipment.
- **Other differences:** under the IAS, changes were made to the titles of certain items in the statement of profit or loss. Those changes are not disclosed as differences between the SAS and IAS, as they do not represent material changes.

3 CONSOLIDATED FINANCIAL STATEMENTS OF THE SLOVENSKE ŽELEZNICE GROUP

3.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| in EUR | Note | 31 December 2016 | Balance as at 31 December 2015 | 1 January 2015 |
|--|----------|--------------------|-----------------------------------|--------------------|
| ASSETS | | 554,747,800 | 561,472,544 | 590,868,721 |
| A. Non-current assets | | 367,848,773 | 368,595,276 | 409,229,152 |
| Intangible assets | 3.6.1.1 | 3,373,755 | 2,740,639 | 2,325,899 |
| Property, plant and equipment | 3.6.1.2 | 293,367,521 | 296,855,307 | 307,960,232 |
| Investment property | 3.6.1.3 | 42,618,093 | 43,281,211 | 13,940,093 |
| Investments in associates | 3.6.1.4 | 12,313,226 | 11,285,831 | 11,391,120 |
| Other financial assets | 3.6.1.4 | 4,156,229 | 3,500,073 | 3,536,338 |
| Financial receivables | 3.6.1.5 | 3,045,047 | 3,102,148 | 3,192,415 |
| Operating receivables | 3.6.1.6 | 3,891,215 | 3,418,708 | 63,357,313 |
| Deferred tax assets | 3.6.1.7 | 3,256,925 | 2,379,358 | 1,668,738 |
| Other non-current assets | 3.6.1.8 | 1,826,762 | 2,032,001 | 1,857,004 |
| B. Current assets | | 186,899,027 | 192,877,268 | 181,639,569 |
| Assets held for sale | | 19,804 | 0 | 0 |
| Inventories | 3.6.1.9 | 30,270,261 | 24,555,275 | 21,801,451 |
| Financial receivables | 3.6.1.10 | 694,996 | 397,981 | 81,594 |
| Trade receivables | 3.6.1.11 | 78,565,424 | 44,109,199 | 65,700,605 |
| Other operating receivables | 3.6.1.12 | 28,528,520 | 61,597,467 | 59,549,415 |
| Receivables for corporate income tax | 3.6.2.10 | 2,178,438 | 18,790 | 311,777 |
| Cash and cash equivalents | 3.6.1.13 | 46,641,584 | 62,198,556 | 34,194,727 |
| EQUITY AND LIABILITIES | | 554,747,800 | 561,472,544 | 590,868,721 |
| A. Equity | 3.6.1.14 | 305,586,451 | 283,245,876 | 145,554,812 |
| a) Equity of the owner of the controlling company | | 300,357,382 | 277,851,081 | 141,514,100 |
| Called-up capital | | 205,274,421 | 205,274,421 | 95,070,230 |
| Share premium | | 45,002,140 | 45,002,140 | 45,002,140 |
| Legal reserves | | 1,573,711 | 829,108 | 0 |
| Other profit reserves | | 6,701,431 | 0 | 0 |
| Fair value reserves | | -28,776 | 235,809 | -2,454,949 |
| Retained earnings | | 41,855,093 | 26,521,680 | 3,900,901 |
| 1. Retained earnings from previous years | | 24,693,260 | 2,912,387 | -9,976,011 |
| 2. Retained earnings from the financial year | | 17,161,833 | 23,609,293 | 13,876,912 |
| Exchange differences | | -20,638 | -12,077 | -4,222 |
| b) Non-controlling interest | | 5,229,069 | 5,394,795 | 4,040,712 |
| B. Non-current liabilities | | 154,891,715 | 165,389,177 | 151,648,977 |
| Provisions for jubilee benefits and termination benefits | 3.6.1.15 | 24,129,405 | 23,833,025 | 26,484,797 |
| Other provisions | 3.6.1.15 | 1,236,039 | 1,806,658 | 78,287 |
| Non-current deferred income | 3.6.1.16 | 3,973,054 | 4,707,053 | 5,970,451 |
| Financial liabilities | 3.6.1.17 | 125,178,455 | 134,633,928 | 117,156,450 |
| Operating liabilities | 3.6.1.18 | 374,479 | 408,356 | 1,958,992 |
| Deferred tax liabilities | | 283 | 157 | 0 |
| C. Current liabilities | | 94,269,634 | 112,837,491 | 293,664,932 |
| Financial liabilities | 3.6.1.17 | 13,808,310 | 9,415,411 | 176,494,888 |
| Trade payables | 3.6.1.19 | 27,953,271 | 38,983,685 | 47,668,126 |
| Other operating liabilities | 3.6.1.18 | 52,506,905 | 61,884,007 | 68,901,821 |
| Liabilities for corporate income tax | 3.6.2.10 | 1,148 | 2,554,388 | 600,097 |

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

3.2 CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| in EUR | Note | 2016 | 2015 |
|--|----------|-------------------|--------------------|
| 1. Net sales revenue | 3.6.2.1 | 390,809,392 | 463,289,248 |
| 2. Change in the value of inventories of finished goods and work in progress | | 1,318,847 | 51,232 |
| 3. Capitalised own products and services | 3.6.2.2 | 32,358,369 | 22,310,484 |
| 4. Other operating revenues | 3.6.2.3 | 77,435,894 | 98,681,365 |
| 5. Costs of goods, materials and services | 3.6.2.4 | 194,263,454 | 242,182,044 |
| 6. Labour costs | 3.6.2.5 | 244,214,599 | 249,511,238 |
| 7. Write-downs | 3.6.2.6 | 35,937,114 | 48,152,743 |
| 8. Other operating expenses | 3.6.2.7 | 2,865,523 | 3,410,999 |
| 9. Operating profit/loss (1 ± 2 + 3 + 4 – 5 – 6 – 7 – 8) | | 24,641,812 | 41,075,305 |
| 10. Finance income | 3.6.2.8 | 4,809,016 | 5,201,714 |
| 11. Finance costs | 3.6.2.9 | 4,696,207 | 17,805,765 |
| 12. Net finance income/costs (10 – 11) | | 112,809 | -12,604,051 |
| 13. Pre-tax profit or loss (9 + 13) | | 24,754,621 | 28,471,254 |
| 14. Current tax | | 576,480 | 3,350,953 |
| 15. Deferred taxes | 3.6.1.7 | -877,437 | -710,462 |
| 16. Corporate income tax | 3.6.2.10 | -300,957 | 2,640,491 |
| 17. Net profit/loss for the accounting period | | 25,055,578 | 25,830,763 |
| Net profit/loss for the accounting period pertaining to: | | | |
| a) owner of the controlling company | | 24,607,867 | 24,438,401 |
| b) non-controlling interest | | 447,710 | 1,392,362 |

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

3.3 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| in EUR | Note | 2016 | 2015 |
|---|------|-------------------|-------------------|
| Net profit/loss for the accounting period | | 25,055,578 | 25,830,763 |
| Items that will not be reclassified subsequently to profit or loss | | 763,724 | 1,758,524 |
| Actuarial gains/losses | | -263,671 | 2,707,422 |
| Attributable changes in equity of associates | | 1,027,395 | -948,898 |
| Items that may be reclassified subsequently to profit or loss | | 134,712 | -64,136 |
| Net changes in the fair value of available-for-sale instruments | | -914 | -16,664 |
| Other changes | | 144,186 | -39,616 |
| Exchange differences | | -8,560 | -7,856 |
| Other comprehensive income for the financial year | | 898,436 | 1,694,388 |
| Total comprehensive income for the reporting period | | 25,954,014 | 27,525,151 |
| Total comprehensive income for the reporting period attributable to: | | | |
| a) owner of the controlling company | | 24,607,867 | 26,132,789 |
| b) non-controlling interest | | 447,710 | 1,392,362 |

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

3.4 CONSOLIDATED STATEMENT OF CASH FLOWS

| in EUR | Note | 2016 | 2015 |
|--|-----------------|--------------------|---------------------|
| A. CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| a) Net profit/loss | | 25,055,578 | 25,830,763 |
| Pre-tax profit/loss | 3.2 | 24,754,622 | 28,471,254 |
| Corporate income tax and other taxes not included in operating expenses | | -300,956 | 2,640,491 |
| b) Adjustments for | | 32,510,634 | 18,737,802 |
| amortisation and depreciation (+) | 3.6.2.6 | 34,244,043 | 34,309,239 |
| revaluation operating revenues (–) | | -4,550,482 | -35,105,293 |
| revaluation operating expenses (+) | | 1,693,071 | 14,162,646 |
| finance income, excluding finance income from operating receivables (–) | 3.6.2.8 | -4,408,715 | -4,562,749 |
| finance costs, excluding finance costs from operating liabilities (+) | 3.6.2.9 | 4,552,156 | 17,386,458 |
| other adjustments to revenues and expenses | | -5,579,422 | -4,553,324 |
| other adjustments to balance sheet operating items | | 6,559,983 | -2,899,175 |
| c) Changes in net working capital (and provisions and deferred tax assets and liabilities) from balance sheet operating items | | -34,682,707 | 46,182,816 |
| Opening less closing operating receivables | | -3,814,194 | 79,599,949 |
| Opening less closing deferred tax assets | | -877,567 | -710,620 |
| Opening less closing available-for-sale assets (disposal groups) | | -19,804 | 0 |
| Opening less closing inventories | | -5,714,985 | -2,753,824 |
| Closing less opening operating liabilities | | -22,994,632 | -15,298,601 |
| Closing less opening provisions | | -1,008,240 | -2,186,798 |
| Closing less opening deferred tax liabilities | | 126 | 157 |
| Inflows from interest received and shares in the profit of others | | 3,265,309 | 4,503,464 |
| Outflows for interest paid | | -3,518,720 | -16,970,911 |
| d) Net cash flows from operating activities (a + b + c) | | 22,883,505 | 90,751,381 |
| B. CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| a) Inflows from investing activities | | 6,264,842 | 33,528,276 |
| Inflows from the disposal of property, plant and equipment | 3.6.1.2 | 2,785,779 | 1,428,836 |
| Inflows from the disposal of investment property | 3.6.1.3 | 3,039,066 | 31,232,170 |
| Inflows from the disposal of financial assets | | 439,997 | 867,270 |
| b) Outflows from investing activities | | -33,371,364 | -59,418,251 |
| Outflows for the acquisition of intangible assets | 3.6.1.1 | -1,550,625 | -103,051 |
| Outflows for the acquisition of property, plant and equipment | 3.6.1.2 | -30,305,730 | -22,683,363 |
| Outflows for the acquisition of investment property | 3.6.1.3 | -1,476,762 | -35,730,635 |
| Outflows for the acquisition of financial assets | 3.6.1.4 | -38,247 | -901,202 |
| c) Net cash flows from investing activities (a + b) | | -27,106,522 | -25,889,975 |
| C. CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| a) Inflows from financing activities | | 1,500,000 | 188,334,296 |
| Inflows from paid-up capital | | 0 | 110,204,191 |
| Inflows from increase in financial liabilities | | 1,500,000 | 78,130,105 |
| b) Outflows from financing activities | | -12,833,955 | -225,191,873 |
| Outflows for the repayment of capital | | -9,365 | 0 |
| Outflows for the repayment of financial liabilities | | -9,226,111 | -225,191,873 |
| Outflows for the payment of dividends and other shares in profit | | -3,598,479 | 0 |
| c) Net cash flows from financing activities (a + b) | | -11,333,955 | -36,857,577 |
| D. Closing balance of cash and cash equivalents | 3.6.1.13 | 46,641,584 | 62,198,556 |
| x) Net cash flow in period (sum of Ac, Bc and Cc) | | -15,556,972 | 28,003,829 |
| +/- Calculated exchange differences from foreign currency assets | | | |
| y) Opening balance of cash and cash equivalents | 3.6.1.13 | 62,198,556 | 34,194,727 |

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

3.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in the period 1 January to 31 December 2016

| in EUR | Share capital | Share premium | Legal reserves | Other profit reserves | Fair value reserves | Retained earnings | | Exchange differences | Equity of the owner of the controlling company | Non-controlling interest | Total |
|---|---------------|---------------|----------------|-----------------------|---------------------|-----------------------------|--|----------------------|--|--------------------------|-------------|
| | | | | | | Profit/loss brought forward | Net profit/loss for the financial year | | | | |
| Opening balance for the reporting period | 205,274,421 | 45,002,140 | 829,108 | 0 | 235,809 | 2,912,387 | 23,609,293 | -12,078 | 277,851,080 | 5,394,795 | 283,245,875 |
| Changes in equity – transactions with owners | 0 | 0 | 0 | 0 | 0 | -3,000,000 | 0 | 0 | 3,000,000 | -613,437 | -3,613,437 |
| Payment of shares in profit and dividends | | | | | | -3,000,000 | | | 3,000,000 | -613,437 | -3,613,437 |
| Changes in total comprehensive income for the reporting period | 0 | 0 | 0 | 0 | -264,585 | 1,171,581 | 24,607,867 | -8,560 | 25,506,303 | 447,710 | 25,954,013 |
| Entry of net profit/loss for the reporting period | | | 0 | | | | 24,607,867 | | 24,007,867 | 447,710 | 25,055,577 |
| Items that will not be reclassified subsequently to profit or loss | | | | | -263,671 | 1,027,395 | | | 763,724 | | 763,724 |
| Items that may be reclassified subsequently to profit or loss | | | | | -914 | 144,186 | | -8,560 | 134,712 | | 134,712 |
| Changes within equity | 0 | 0 | 744,603 | 6,701,431 | 0 | 23,609,293 | -31,055,327 | 0 | 0 | 0 | 0 |
| Allocation of remaining portion of net profit for the comparable reporting period to other components of equity | | | | | | 23,609,293 | -23,609,293 | | | | 0 |
| Allocation of a portion of net profit from the reporting period to other components of equity | | | 744,603 | 6,701,431 | | | -7,446,034 | | | | 0 |
| Closing balance for the reporting period | 205,274,421 | 45,002,140 | 1,573,711 | 6,701,431 | -28,776 | 24,693,261 | 17,161,833 | -20,638 | 300,357,383 | 5,229,068 | 305,586,451 |

in the period 1 January to 31 December 2015

| in EUR | Share capital | Share premium | Legal reserves | Fair value reserves | Profit/loss brought forward | Net profit/loss for the financial year | Exchange differences | Equity of the owner of the controlling company | Non-controlling interest | Total |
|---|---------------|---------------|----------------|---------------------|-----------------------------|--|----------------------|--|--------------------------|-------------|
| | | | | | | | | | | |
| Balance at end of the previous reporting period | 95,070,230 | 45,002,140 | | 12,274,041 | -12,753,464 | 13,876,912 | -4,222 | 153,465,637 | 4,070,848 | 157,536,485 |
| Transition to the IFRS | | | | -14,728,990 | 2,777,453 | | | -11,951,537 | -30,136 | -11,981,673 |
| Opening balance for the reporting period | 95,070,230 | 45,002,140 | 0 | -2,454,949 | -9,976,011 | 13,876,912 | -4,222 | 141,514,100 | 4,040,712 | 145,554,812 |
| Changes in equity – transactions with owners | 110,204,191 | 0 | 0 | 0 | 0 | 0 | 0 | 110,204,191 | -38,279 | 110,165,912 |
| Entry of additional paid-up capital | 110,204,191 | | | | | | | 110,204,191 | | 110,204,191 |
| Payment of dividends | | | | | | | | | -38,279 | -38,279 |
| Changes in total comprehensive income for the reporting period | 0 | 0 | 0 | 2,690,758 | -988,514 | 24,438,401 | -7,856 | 26,132,799 | 1,392,362 | 27,525,151 |
| Entry of net profit/loss for the reporting period | | | | | | 24,438,401 | | 24,438,401 | 1,392,362 | 25,830,763 |
| Items that will not be reclassified subsequently to profit or loss | | | | 2,707,422 | -948,898 | | | 1,758,524 | | 1,758,524 |
| Items that may be reclassified subsequently to profit or loss | | | | -16,664 | -39,616 | | -7,856 | -64,136 | | -64,136 |
| Changes within equity | 0 | 0 | 829,108 | 0 | 13,876,912 | -14,706,020 | 0 | 0 | 0 | 0 |
| Allocation of remaining portion of net profit for the comparable reporting period to other components of equity | | | | | 13,876,912 | -13,876,912 | | | | 0 |
| Allocation of a portion of net profit from the reporting period to other components of equity pursuant to resolution of management and supervisory bodies | | | 829,108 | | | -829,108 | | | | 0 |
| Closing balance for the reporting period | 205,274,421 | 45,002,140 | 829,108 | 235,809 | 2,912,387 | 23,609,293 | -12,078 | 277,851,081 | 5,394,795 | 283,245,875 |

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

3.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.6.1 NOTES TO THE STATEMENT OF FINANCIAL POSITION

3.6.1.1 Intangible assets

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|------------------|------------------|------------------|
| Long-term property rights | 1,745,215 | 1,161,266 | 746,525 |
| Goodwill | 1,579,374 | 1,579,373 | 1,579,374 |
| Non-current deferred development costs | 49,166 | 0 | 0 |
| Total | 3,373,755 | 2,740,639 | 2,325,899 |

Changes to intangible assets

| in EUR | Long-term property rights | Goodwill | Non-current deferred development costs | Total |
|---------------------------------------|---------------------------|------------------|--|-------------------|
| Historical cost | | | | |
| Balance as at 31 December 2014 | 6,450,888 | 1,579,374 | 141,066 | 8,171,328 |
| Adjustments to the IFRS | 0 | | 0 | 0 |
| Balance as at 1 January 2015 | 6,450,888 | 1,579,374 | 141,066 | 8,171,328 |
| Acquisitions | 778,873 | | 0 | 778,873 |
| Disposals | -19,687 | | 0 | -19,687 |
| Write-downs | -10,942 | | -1,728 | -12,670 |
| Balance as at 31 December 2015 | 7,199,132 | 1,579,374 | 139,338 | 8,917,844 |
| Balance as at 1 January 2016 | 7,199,132 | 1,579,374 | 139,338 | 8,917,844 |
| Acquisitions | 1,048,192 | | 50,000 | 1,098,192 |
| Disposals | -1,281 | | 0 | -1,281 |
| Write-downs | -14,665 | | 0 | -14,665 |
| Balance as at 31 December 2016 | 8,231,378 | 1,579,374 | 189,338 | 10,000,090 |
| Value adjustment | | | | |
| Balance as at 31 December 2014 | 5,704,363 | | 141,066 | 5,845,429 |
| Adjustments to the IFRS | 0 | | 0 | 0 |
| Balance as at 1 January 2015 | 5,704,363 | 0 | 141,066 | 5,845,429 |
| Write-downs | -30,629 | | -1,728 | -32,357 |
| Amortisation | 364,133 | | 0 | 364,133 |
| Balance as at 31 December 2015 | 6,037,867 | 0 | 139,338 | 6,177,205 |
| Balance as at 1 January 2016 | 6,037,867 | 0 | 139,338 | 6,177,205 |
| Write-downs | -15,946 | | 0 | -15,946 |
| Amortisation | 464,242 | | 834 | 465,076 |
| Balance as at 31 December 2016 | 6,486,163 | 0 | 140,172 | 6,626,335 |
| Carrying amount | | | | |
| Balance as at 1 January 2015 | 746,525 | 1,579,374 | 0 | 2,325,899 |
| Balance as at 31 December 2015 | 1,161,265 | 1,579,374 | 0 | 2,740,639 |
| Balance as at 1 January 2016 | 1,161,265 | 1,579,374 | 0 | 2,740,639 |
| Balance as at 31 December 2016 | 1,745,215 | 1,579,374 | 49,166 | 3,373,755 |

The Slovenske Železnice Group had no commitments for the acquisition of intangible assets as at 31 December 2015 and 31 December 2016, nor had it pledged intangible assets as collateral.

A total of 65.2% of all intangible assets in use as at 31 December 2016 have been amortised in full (that proportion stood at 69.5% as at 31 December 2015). That proportion is calculated taking into account the historical cost of intangible assets.

3.6.1.2 Property, plant and equipment

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|--------------------|--------------------|--------------------|
| Land | 9,669,890 | 10,504,728 | 10,510,917 |
| Buildings | 55,747,270 | 57,089,008 | 58,227,801 |
| Equipment | 213,587,160 | 221,875,147 | 234,096,035 |
| • rolling stock | 194,559,096 | 202,946,614 | 216,396,954 |
| • other equipment | 19,028,064 | 18,928,533 | 17,699,081 |
| Property, plant and equipment in acquisition | 14,363,201 | 7,386,424 | 5,125,479 |
| Total | 293,367,521 | 296,855,307 | 307,960,232 |

Changes in property, plant and equipment

| in EUR | Land | Buildings | Plant and equipment, and investments in the assets of others | Equipment under finance leasing | Property, plant and equipment in acquisition | Total property, plant and equipment |
|---------------------------------------|-------------------|--------------------|--|---------------------------------|--|-------------------------------------|
| Historical cost | | | | | | |
| Balance as at 31 December 2014 | 14,482,271 | 124,015,007 | 821,247,114 | 2,646,668 | 6,755,970 | 969,147,030 |
| Adjustments to the IFRS | -3,971,354 | -741,864 | 0 | 0 | -1,630,491 | -6,343,709 |
| Balance as at 1 January 2015 | 10,510,917 | 123,273,143 | 821,247,114 | 2,646,668 | 5,125,479 | 962,803,321 |
| Acquisitions | 11,300 | 2,187,021 | 17,639,484 | 1,138,955 | 2,277,018 | 23,253,778 |
| Disposals – sales | -17,489 | -1,295,368 | -17,322,026 | -17,550 | 0 | -18,652,433 |
| Write-downs | 0 | -304,441 | -159,296 | 0 | -16,073 | -479,810 |
| Other transfers | 0 | -1,274,407 | 1,089,086 | -466,122 | 0 | -651,443 |
| Balance as at 31 December 2015 | 10,504,728 | 122,585,948 | 822,494,362 | 3,301,951 | 7,386,424 | 966,273,413 |
| Balance as at 1 January 2016 | 10,504,728 | 122,585,948 | 822,494,362 | 3,301,951 | 7,386,424 | 966,273,413 |
| Acquisitions | 0 | 1,458,150 | 22,187,220 | 237,221 | 7,337,670 | 31,220,261 |
| Disposals | -716,754 | -1,502,902 | -20,134,511 | -109,250 | 0 | -22,463,417 |
| Transfers from investments | 0 | 85,759 | 254,111 | 0 | -339,870 | 0 |
| Write-downs | 0 | -234,754 | -1,810,165 | 0 | -21,023 | -2,065,942 |
| Transfers | -118,084 | 3,706,467 | 1,059,483 | -109,565 | 0 | 4,538,301 |
| Balance as at 31 December 2016 | 9,669,890 | 126,098,668 | 824,050,500 | 3,320,357 | 14,363,201 | 977,502,616 |
| Value adjustment | | | | | | |
| Balance as at 31 December 2014 | 0 | 65,169,048 | 589,224,350 | 573,397 | 0 | 654,966,795 |
| Adjustments to the IFRS | 0 | -123,706 | 0 | 0 | 0 | -123,706 |
| Balance as at 1 January 2015 | 0 | 65,045,342 | 589,224,350 | 573,397 | 0 | 654,843,089 |
| Increases | 0 | 18,000 | 436,697 | -8,958 | 0 | 445,739 |
| Decreases | 0 | -1,785,271 | -17,332,006 | -136,512 | 0 | -19,253,789 |
| Depreciation | 0 | 2,218,869 | 30,938,912 | 225,286 | 0 | 33,383,067 |
| Balance as at 31 December 2015 | 0 | 65,496,940 | 603,267,953 | 653,213 | 0 | 669,418,106 |
| Balance as at 1 January 2016 | 0 | 65,496,940 | 603,267,953 | 653,213 | 0 | 669,418,106 |
| Increases | 0 | 4,177,453 | 536,287 | -109,250 | 0 | 4,604,490 |
| Decreases | 0 | -1,536,879 | -21,648,391 | -31,592 | 0 | -23,216,862 |
| Depreciation | 0 | 2,213,884 | 30,721,518 | 393,959 | 0 | 33,329,360 |
| Balance as at 31 December 2016 | 0 | 70,351,398 | 612,877,367 | 906,330 | 0 | 684,135,095 |
| Carrying amount | | | | | | |
| Balance as at 1 January 2015 | 10,510,917 | 58,227,801 | 232,022,764 | 2,073,271 | 5,125,479 | 307,960,232 |
| Balance as at 31 December 2015 | 10,504,728 | 57,089,008 | 219,226,409 | 2,648,738 | 7,386,424 | 296,855,307 |
| Balance as at 1 January 2016 | 10,504,728 | 57,089,008 | 219,226,409 | 2,648,738 | 7,386,424 | 296,855,307 |
| Balance as at 31 December 2016 | 9,669,890 | 55,747,270 | 211,173,133 | 2,414,027 | 14,363,201 | 293,367,521 |

The majority of transfers relate to transfers between investment property and property, plant and equipment (transfers from investment property to property, plant and equipment in the carrying amount of EUR 333,131 in 2016, and transfers from property, plant and equipment to investment property in the carrying amount of EUR 248,638 in 2015).

Moveable property and real estate valued at EUR 87,525,153 were pledged as guarantees for long-term loans as at 31 December 2016 (EUR 90,686,285 as at 31 December 2015). The Group had commitments for the purchase of property, plant and equipment in the amount of EUR 138,429,510 as at 31 December 2016 (EUR 143,709,764 as at 31 December 2015).

A total of 47.5% of all items of property, plant and equipment in use as at 31 December 2016 have been depreciated in full (that proportion stood at 47.3% as at 31 December 2015). That proportion is calculated taking into account the historical cost of property, plant and equipment.

3.6.1.3 Investment property

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---------------------|-------------------|-------------------|-------------------|
| Investment property | 42,618,093 | 43,281,211 | 13,940,093 |
| Total | 42,618,093 | 43,281,211 | 13,940,093 |

Investment property comprises warehouses, commercial buildings and land that the Group leases to others.

Changes in investment property

| in EUR | Land | Buildings | Total |
|--|-------------------|-------------------|-------------------|
| Historical cost | | | |
| Balance as at 31 December 2014 | 18,258,732 | 34,879,162 | 53,137,894 |
| Adjustments to the IFRS | -13,115,290 | -1,246,618 | -14,361,908 |
| Balance as at 1 January 2015 | 5,143,442 | 33,632,544 | 38,775,986 |
| Acquisitions | 33,139,428 | 182,214 | 33,321,642 |
| Disposals | -232,708 | -4,437,533 | -4,670,241 |
| Write-downs | 0 | -3,161 | -3,161 |
| Transfers from property, plant and equipment | 0 | 617,498 | 617,498 |
| Balance as at 31 December 2015 | 38,050,162 | 29,991,562 | 68,041,724 |
| Balance as at 1 January 2016 | 38,050,162 | 29,991,562 | 68,041,724 |
| Acquisitions | 9,185 | 1,479,077 | 1,488,262 |
| Disposals | -609,881 | -3,401,312 | -4,011,193 |
| Transfers for sale | 0 | -18,366 | -18,366 |
| Transfers to property, plant and equipment | 0 | -4,867,992 | -4,867,992 |
| Transfers from property, plant and equipment | 118,084 | 244,852 | 362,936 |
| Balance as at 31 December 2016 | 37,567,550 | 23,427,821 | 60,995,371 |
| Value adjustment | | | |
| Balance as at 31 December 2014 | 0 | 25,046,433 | 25,046,433 |
| Adjustments to the IFRS | 0 | -210,540 | -210,540 |
| Balance as at 1 January 2015 | 0 | 24,835,893 | 24,835,893 |
| Depreciation | 0 | 536,972 | 536,972 |
| Disposals | 0 | -981,212 | -981,212 |
| Transfers from property, plant and equipment | 0 | 368,860 | 368,860 |
| Balance as at 31 December 2015 | 0 | 24,760,513 | 24,760,513 |
| Balance as at 1 January 2016 | 0 | 24,760,513 | 24,760,513 |
| Depreciation | 0 | 449,607 | 449,607 |
| Disposals | 0 | -2,660,917 | -2,660,917 |
| Transfers to property, plant and equipment | 0 | -4,177,453 | -4,177,453 |
| Transfers from property, plant and equipment | 0 | 5,528 | 5,528 |
| Balance as at 31 December 2016 | 0 | 18,377,278 | 18,377,278 |
| Carrying amount | | | |
| Balance as at 1 January 2015 | 5,143,442 | 8,796,651 | 13,940,093 |
| Balance as at 31 December 2015 | 38,050,162 | 5,231,049 | 43,281,211 |
| Balance as at 1 January 2016 | 38,050,162 | 5,231,049 | 43,281,211 |
| Balance as at 31 December 2016 | 37,567,550 | 5,050,543 | 42,618,093 |

The Group has not pledged investment property as collateral.

The Group generated rental income of EUR 1,751,302 in 2016 (EUR 1,701,711 in 2015). Depreciation costs associated with investment property totalled EUR 449,607 (EUR 536,972 in 2015).

The fair value of investment property was determined with the help of certified real estate valuers and amounted to EUR 45,157,708 as at 31 December 2016 (EUR 47,884,523 as at 31 December 2015).

3.6.1.4 Non-current financial assets

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|-------------------------------------|-------------------|-------------------|-------------------|
| Investments in associates | 12,313,226 | 11,285,831 | 11,391,120 |
| Available-for-sale financial assets | 4,156,229 | 3,500,073 | 3,536,338 |
| Total | 16,469,455 | 14,785,904 | 14,927,458 |

Information regarding associates as at 31 December 2016

| Business name of associate | Business address of associate | Core activity | Ownership as at 31 December 2016 | Ownership as at 31 December 2015 |
|----------------------------|----------------------------------|--|----------------------------------|----------------------------------|
| Terme Olimia, d. d. | Zdraviliška cesta 24, Podčetrtek | Activities of hotels, campgrounds, catering, sports facilities and health care | 23.87% | 23.87% |
| Adria Kombi, d. o. o. | Tivolska cesta 50, Ljubljana | Freight rail transport | 33.72% | 26.00% |
| CKTZ Zagreb, d. d. | Trg senjskih uskoka 7-8, Zagreb | Combined transport services | 29.41% | 29.41% |

Balance of investments in associates

| in EUR | 31 December 2016 | 31 December 2015 |
|--|-------------------|-------------------|
| Terme Olimia, d. d. | 7,796,933 | 7,524,202 |
| Adria Kombi, d. o. o. | 3,674,442 | 2,934,698 |
| CKTZ Zagreb, d. d. | 841,851 | 826,931 |
| Total investments in associates | 12,313,226 | 11,285,831 |

Changes in investments in associates

| in EUR | SŽ Group | |
|--|-------------------|-------------------|
| | 31 December 2016 | 31 December 2015 |
| Balance as at 1 January | 11,285,831 | 11,391,120 |
| Attributable profit/loss | 1,138,463 | 980,378 |
| Dividends received | -961,672 | -135,988 |
| Increase in participating interest in associates | 841,242 | 0 |
| Attributable changes in equity of associates | 9,362 | -949,679 |
| Balance as at 31 December | 12,313,226 | 11,285,831 |

| Available-for-sale financial assets | Participating interest in % | Amount of investment in EUR | |
|---|-----------------------------|-----------------------------|------------------|
| | | 31 December 2016 | 31 December 2015 |
| • Emonika NS, d. o. o. | 3.00 | 1,953,330 | 1,953,330 |
| • EUROFIMA | 0.42 | 2,033,709 | 1,376,856 |
| • Other available-for-sale financial assets | | 169,190 | 169,887 |
| Total | | 4,156,229 | 3,500,073 |

3.6.1.5 Non-current financial receivables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|------------------|------------------|------------------|
| Receivables for funds paid to institution (Železniški zdravstveni dom) | 2,401,003 | 2,401,003 | 2,401,003 |
| Deposits at banks | 631,768 | 688,848 | 777,730 |
| Other financial receivables | 12,276 | 12,297 | 13,682 |
| Total | 3,045,047 | 3,102,148 | 3,192,415 |

3.6.1.6 Non-current operating receivables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---|------------------|------------------|-------------------|
| Trade receivables | 106,070 | 77,152 | 2,796,761 |
| Trade credits for the purchase of real estate | 3,450,295 | 2,958,783 | 2,448,859 |
| Receivables from the government | 0 | 0 | 57,879,961 |
| Other operating receivables | 334,850 | 382,773 | 231,732 |
| Total | 3,891,215 | 3,418,708 | 63,357,313 |

3.6.1.7 Deferred tax assets

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|----------------------------|------------------|------------------|------------------|
| Deferred tax assets | 3,256,925 | 2,379,358 | 1,668,738 |

Deferred tax assets are recognised in an amount that is in line with the adjusted tax base.

| Company | Consolidated 31 December 2016 | Consolidated 31 December 2015 | Consolidated 1 January 2015 |
|---------------------------------|----------------------------------|----------------------------------|--------------------------------|
| • SŽ, d. o. o. | 827,603 | 0 | 0 |
| • SŽ-Infrastruktura, d. o. o. | 1,501,353 | 793,560 | 458,830 |
| • SŽ-Tovorni Promet Group | 0 | 761,600 | 694,620 |
| • SŽ-ŽGP Group | 211,865 | 336,675 | 185,494 |
| • SŽ-VIT, d. o. o. | 288,040 | 285,770 | 160,650 |
| • Fersped Group | 402,990 | 182,580 | 158,780 |
| • SŽ-Železniška tiskarna, d. d. | 5,559 | 0 | 0 |
| • Prometni institut, d. o. o. | 19,515 | 19,173 | 10,364 |
| Total | 3,256,925 | 2,379,358 | 1,668,738 |

The Slovenske Železnice Group recognises deferred tax assets for non-deductible expenses arising from provisions, tax losses and tax allowances for investments, but only to the extent of revenues from positive tax bases for the next five years. Taking into account planned oper-

ating results, the Group assesses that the probability of a reduction in tax bases as the result of non-deductible expenses is higher. Deferred tax assets were therefore higher relative to 2015.

Changes in deferred tax assets within the Slovenske Železnice Group in 2016:

| in EUR | Tax loss | Provisions | Adjustment to the value of receivables | Total |
|-------------------------------------|------------------|----------------|--|------------------|
| Balance as at 1 January 2015 | 1,472,880 | 70,689 | 125,169 | 1,668,738 |
| Created in 2015 | 215,900 | 336,782 | 158,128 | 710,810 |
| Balance at 31 December 2015 | 1,688,780 | 407,471 | 283,297 | 2,379,548 |
| Used in 2016 | -761,600 | -36,411 | -88,589 | -886,600 |
| Created in 2016 | 2,329,745 | 5,901 | 0 | 2,335,646 |
| Balance at 31 December 2016 | 3,256,925 | 376,961 | 194,708 | 3,828,594 |

3.6.1.8 Other non-current assets

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---|------------------|------------------|------------------|
| Deferred licence maintenance costs | 596,509 | 596,509 | 0 |
| Deferred costs from the periodic maintenance of locomotives | 937,076 | 1,157,230 | 1,594,421 |
| Deferred costs for the reserve fund for leased housing | 293,177 | 278,262 | 262,583 |
| Total | 1,826,762 | 2,032,001 | 1,857,004 |

3.6.1.9 Inventories

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|-------------------------------|-------------------|-------------------|-------------------|
| Materials | 7,844,054 | 5,754,037 | 4,440,482 |
| Replacement parts | 16,312,970 | 14,057,686 | 12,580,366 |
| Small inventory and packaging | 516,403 | 423,508 | 447,671 |
| Work in progress | 3,416,840 | 2,345,306 | 2,488,089 |
| Products and merchandise | 2,179,994 | 1,974,738 | 1,844,843 |
| Total | 30,270,261 | 24,555,275 | 21,801,451 |

Write-offs and impairments of inventories amounted to EUR 24,945 and EUR 221,408 respectively in 2016 (write-offs of obsolete inventories amounted to EUR 968,736, while impairments of inventories totalled EUR 188,088 in 2015). There are no liens on inventories.

3.6.1.10 Current financial receivables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---|------------------|------------------|----------------|
| Financial assets at fair value through profit or loss | 526,172 | 0 | 0 |
| Deposits at banks | 168,723 | 394,648 | 54,000 |
| Other financial receivables | 101 | 3,333 | 27,594 |
| Total | 694,996 | 397,981 | 81,594 |

Financial assets at fair value through profit or loss comprise the fair value of an FX forward transaction, as explained in the disclosures regarding currency risks (section 4).

3.6.1.11 Trade receivables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---|-------------------|-------------------|-------------------|
| Current trade receivables from domestic customers | 58,058,334 | 26,300,040 | 47,437,409 |
| Current trade receivables from foreign customers | 20,507,090 | 17,809,159 | 18,263,196 |
| Total | 78,565,424 | 44,109,199 | 65,700,605 |

| in EUR | 2016 | | | 2015 | | |
|---|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
| | Gross value | Value adjustment | Net value | Gross value | Value adjustment | Net value |
| Current trade receivables from domestic customers | 63,050,792 | 4,992,458 | 58,058,334 | 31,520,088 | 5,220,048 | 26,300,040 |
| Current trade receivables from foreign customers | 22,581,163 | 2,074,073 | 20,507,090 | 20,397,474 | 2,588,315 | 17,809,159 |
| Total | 85,631,955 | 7,066,531 | 78,565,424 | 51,917,562 | 7,808,363 | 44,109,199 |

Secured receivables amounted to EUR 45,105 as at 31 December 2016 (EUR 53,699 as at 31 December 2015).

Net adjustments to the value of current trade receivables were created as follows:

| in EUR | 2016 | 2015 |
|---------------------------------------|------------------|------------------|
| Balance as at 1 January | 7,808,363 | 7,637,203 |
| Reversal of value adjustments | -673,123 | -167,432 |
| Creation of value adjustments | 653,149 | 1,143,700 |
| Reduction for written-off receivables | -721,858 | -804,555 |
| Change due to exchange differences | 0 | -553 |
| Balance as at 31 December | 7,066,531 | 7,808,363 |

Maturity breakdown of trade receivables

| in EUR | 31 December 2016 | 31 December 2015 |
|---------------------------------|-------------------|-------------------|
| Non-past-due receivables | 71,573,286 | 39,121,063 |
| Past-due receivables | 14,058,669 | 12,796,499 |
| • up to 30 days | 4,614,308 | 2,567,336 |
| • 31 to 90 days | 1,796,449 | 1,767,161 |
| • 91 to 365 days | 823,254 | 549,660 |
| • more than 365 days | 6,824,658 | 7,912,342 |
| Total | 85,631,955 | 51,917,562 |

3.6.1.12 Other current operating receivables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|-------------------|-------------------|-------------------|
| Receivables from government and other institutions | 9,747,036 | 7,102,536 | 8,300,032 |
| Receivables from employees | 290,471 | 277,226 | 256,464 |
| Other receivables associated with finance income | 1,562 | 18,241 | 5,775 |
| Current operating receivables from advances | 165,037 | 1,061,145 | 718,134 |
| Current security deposits | 36,072 | 31,370 | 30,583 |
| Other current operating receivables | 1,732,755 | 18,295,984 | 18,898,153 |
| Deferred costs | 298,546 | 155,435 | 536,532 |
| Accrued income | 16,211,983 | 34,655,530 | 30,803,742 |
| Securities and other current deferred costs and accrued income | 45,058 | 0 | 0 |
| Total | 28,528,520 | 61,597,467 | 59,549,415 |

The majority of accrued income comprises accrued compensation paid to operators due to traffic obstacles as the result of the closure of tracks and lines associated with renovation and construction works on the PRI network in the amount of EUR 3,930,683 (EUR 0 in 2015), accrued income based on the resolution of the Slovenian government as the result of the migrant flow into the Republic of Slovenia in the amount of EUR 4,065,942 (EUR 527,673 in 2015), accrued transport-related reclamations in the amount of EUR 882,755 (EUR 1,016,054 in 2015), accrued rental income for freight and passenger wagons in the amount of EUR 1,558,221 (EUR 1,179,182 in 2015),

accrued income from infrastructure investment maintenance in the amount of EUR 1,468,494 (EUR 0 in 2015), accrued income for loss events associated with diesel and electric locomotives in the amount of EUR 326,784 (EUR 322,374 in 2015), and accrued income from clean-up operations following the derailment of a wagon in the amount of EUR 520,191 (EUR 0 in 2015).

Write-offs and impairments of receivables in 2016 are disclosed in operating expenses in the amount of EUR 883,499 (EUR 1,509,466 in 2015).

3.6.1.13 Cash and cash equivalents

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|-----------------------|-------------------|-------------------|-------------------|
| Cash in hand | 544,283 | 346,429 | 335,649 |
| Cash in bank accounts | 46,097,301 | 61,852,127 | 33,859,078 |
| Total | 46,641,584 | 62,198,556 | 34,194,727 |

3.6.1.14 Equity

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---|--------------------|--------------------|--------------------|
| Called-up capital | 205,274,421 | 205,274,421 | 95,070,230 |
| Share premium | 45,002,140 | 45,002,140 | 45,002,140 |
| Legal reserves | 1,573,711 | 829,108 | 0 |
| Other profit reserves | 6,701,431 | 0 | 0 |
| Fair value reserves | -28,776 | 235,809 | -2,454,949 |
| Retained earnings from previous years | 24,693,260 | 2,912,387 | -9,976,011 |
| Retained earnings from the financial year | 17,161,833 | 23,609,293 | 13,876,912 |
| Exchange differences | -20,638 | -12,077 | -4,222 |
| Non-controlling interest | 5,229,069 | 5,394,795 | 4,040,712 |
| Total | 305,586,451 | 283,245,876 | 145,554,812 |

| Changes in equity | in EUR |
|---|--------------------|
| Balance as at 31 December 2014 | 157,536,485 |
| Changes in equity due to the transition to the IFRS | -11,981,673 |
| Balance as at 1 January 2015 | 145,554,812 |
| Additional paid-up capital | 110,204,191 |
| Net profit for the financial year | 25,830,763 |
| Payment of dividends and shares in profit | -38,279 |
| Actuarial gains and losses | 2,707,422 |
| Attributable changes in equity of associates | -948,898 |
| Net changes in the fair value of available-for-sale instruments | -16,664 |
| Exchange differences from the conversion of foreign companies' financial statements | -7,856 |
| Other decreases | -39,615 |
| Balance as at 31 December 2015 | 283,245,876 |
| Net profit for the financial year | 25,055,577 |
| Payment of dividends and shares in profit | -3,613,437 |
| Actuarial gains and losses | -263,671 |
| Attributable changes in equity of associates | 1,027,395 |
| Net changes in the fair value of available-for-sale instruments | -914 |
| Exchange differences from the conversion of foreign companies' financial statements | -8,560 |
| Other increases | 144,185 |
| Balance as at 31 December 2016 | 305,586,451 |

3.6.1.15 Provisions for jubilee benefits and termination benefits

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|-------------------------------------|-------------------|-------------------|-------------------|
| Provisions for termination benefits | 20,692,730 | 20,198,140 | 23,078,470 |
| Provisions for jubilee benefits | 3,436,675 | 3,634,885 | 3,406,327 |
| Total | 24,129,405 | 23,833,025 | 26,484,797 |

Changes in provisions for jubilee benefits and termination benefits

| in EUR | Termination benefits | Jubilee benefits | Total |
|---|----------------------|------------------|-------------------|
| Balance as at 1 January 2015 | 23,078,470 | 3,406,327 | 26,484,797 |
| Used in 2015 | -316,088 | -633,577 | -949,665 |
| Current employment costs | 852,761 | 794,725 | 1,647,486 |
| Interest (expenses) | 515,709 | 69,515 | 585,224 |
| Reversal of provisions – closure, rights, etc. (revenues) | -1,259,303 | -2,105 | -1,261,408 |
| Actuarial gains/losses | -2,673,409 | 0 | -2,673,409 |
| Balance as at 31 December 2015 | 20,198,140 | 3,634,885 | 23,833,025 |
| Balance as at 1 January 2016 | 20,198,140 | 3,634,885 | 23,833,025 |
| Used in 2016 | -321,119 | -605,798 | -926,917 |
| Current employment costs | 890,839 | 383,404 | 1,274,243 |
| Interest (expenses) | 424,797 | 70,638 | 495,435 |
| Reversal of provisions – closure, rights, etc. (revenues) | -779,381 | -46,454 | -825,835 |
| Actuarial gains/losses | 279,454 | 0 | 279,454 |
| Balance as at 31 December 2016 | 20,692,730 | 3,436,675 | 24,129,405 |

The following material assumptions were taken into account in the calculation of provisions for retirement benefits and jubilee benefits:

| in EUR | 2016 | 2015 |
|--|-----------|-----------|
| Average monthly gross wage in Slovenia | EUR 1,580 | EUR 1,565 |
| Discount rate | 2.12% | 2.25% |
| Overall wage growth | 1.5% | 1.5% |
| Retirement conditions (age) | | |
| • men (transitional period) | 62 | 60 |
| • women (transitional period) | 60 | 59 |
| • men | 65 | 65 |
| • women | 65 | 65 |

Other provisions

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---|------------------|------------------|----------------|
| Provisions for litigation | 796,389 | 1,104,408 | 0 |
| Provisions for guarantees issued | 350,000 | 615,541 | 0 |
| Provisions for the clean-up of a quarry | 89,650 | 86,709 | 78,287 |
| Total | 1,236,039 | 1,806,658 | 78,287 |

3.6.1.16 Non-current deferred income

| in EUR | Waived contributions | Government grants | Deferred income from construction services | Total |
|--|----------------------|-------------------|--|------------------|
| Balance as at 1 January 2015 | 3,702,513 | 2,267,938 | 0 | 5,970,451 |
| • created | 4,929,637 | 41,849 | 202,311 | 5,173,797 |
| • used | -5,229,287 | -1,207,908 | 0 | -6,437,196 |
| Balance as at 31 December 2015 | 3,402,863 | 1,101,879 | 202,311 | 4,707,053 |
| Balance as at 1 January 2016 | 3,402,863 | 1,101,879 | 202,311 | 4,707,053 |
| • created | 4,622,700 | 0 | 23,093 | 4,645,793 |
| • used and/or transferred to current portion | -5,283,655 | -3,410 | -92,728 | -5,379,792 |
| Balance as at 31 December 2016 | 2,741,908 | 1,098,469 | 132,677 | 3,973,054 |

3.6.1.17 Financial liabilities

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|--------------------|--------------------|--------------------|
| Non-current financial liabilities to banks | 18,846,154 | 29,615,385 | 15,484,309 |
| Other non-current financial liabilities | 106,332,302 | 105,018,543 | 101,672,141 |
| Total non-current financial liabilities | 125,178,456 | 134,633,928 | 117,156,450 |
| Current financial liabilities to banks | 11,769,231 | 8,179,539 | 145,739,945 |
| Other current financial liabilities | 2,039,079 | 1,235,872 | 30,754,942 |
| Total current financial liabilities | 13,808,310 | 9,415,411 | 176,494,887 |
| Total | 138,986,766 | 144,049,339 | 293,651,337 |

Non-current financial liabilities

| in EUR | Date of agreement or annex | Date of maturity | Balance 31 December 2016 | Collateral |
|--|----------------------------|-------------------|--------------------------|-------------------|
| Restructuring of liabilities | 27 July 2015 | 31 July 2019 | 18,846,154 | Bills of exchange |
| Financing of locomotive purchases | 7 September 2004 | 10 September 2019 | 36,900,000 | Sureties |
| Financing of locomotive purchases | 7 September 2004 | 9 September 2019 | 37,100,000 | Sureties |
| Financing of locomotive purchases | 19 November 2008 | 15 December 2020 | 30,069,839 | Sureties |
| Loan from the Eco Fund for property, plant and equipment | 12 January 2010 | 30 April 2020 | 39,224 | Mortgage |
| Total | | | 122,955,217 | |

Interest rates are not disclosed as we deem them to be a trade secret.

Non-current financial liabilities from finance leasing in the amount of EUR 2,222,356 (EUR 1,179,365 in 2015) are disclosed in non-current financial liabilities.

Current financial liabilities

In terms of content, current financial liabilities comprise the short-term portion of long-term loans, a new loan for working capital and current liabilities from finance leasing.

3.6.1.18 Operating liabilities

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---|-------------------|-------------------|-------------------|
| Non-current liabilities | 374,479 | 408,355 | 1,958,993 |
| Trade payables | 0 | 0 | 1,926,896 |
| Liabilities based on advances | 0 | 16,500 | 19,523 |
| Other non-current operating liabilities | 374,479 | 391,855 | 12,574 |
| Current liabilities | 52,506,905 | 61,884,007 | 68,901,820 |
| Liabilities based on advances | 1,449,027 | 2,307,169 | 1,790,203 |
| Liabilities to employees | 24,907,433 | 26,342,758 | 14,127,462 |
| Liabilities to the government and government institutions | 8,800,494 | 8,252,668 | 8,981,049 |
| Liabilities to others | 5,498,375 | 5,213,511 | 8,118,309 |
| Deferred income | 877,025 | 2,411,988 | 4,702,061 |
| Accrued costs and expenses | 10,974,551 | 17,355,913 | 31,182,736 |

Accrued costs and expenses

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---------------------------------------|-------------------|-------------------|-------------------|
| Unused annual leave | 6,733,600 | 6,209,521 | 6,103,998 |
| Use of passenger coaches | 1,091,070 | 943,406 | 862,519 |
| Effects of ice storm | 0 | 4,777,339 | 4,368,291 |
| Severance pay for redundant employees | 1,280,285 | 2,636,802 | 15,862,438 |
| Use of freight wagons | 694,484 | 1,275,592 | 1,701,143 |
| Accrued compensation | 120,000 | 150,000 | 170,000 |
| Accrued cross-border services | 111,617 | 118,900 | 146,927 |
| Other | 943,493 | 1,244,353 | 1,967,420 |
| Total | 10,974,551 | 17,355,913 | 31,182,736 |

3.6.1.19 Trade payables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|-------------------------|-------------------|-------------------|-------------------|
| Domestic trade payables | 18,488,620 | 29,994,780 | 37,875,913 |
| Foreign trade payables | 9,464,651 | 8,988,905 | 9,792,213 |
| Total | 27,953,271 | 38,983,685 | 47,668,126 |

| in EUR | 31 December 2016 | 31 December 2015 |
|---------------------------------|-------------------|-------------------|
| Non-past-due liabilities | 20,956,890 | 32,392,030 |
| Past-due liabilities | 6,996,381 | 6,591,655 |
| • up to 30 days | 5,508,719 | 5,339,259 |
| • 31 to 90 days | 1,181,427 | 567,031 |
| • 91 to 365 days | 174,452 | 426,207 |
| • more than 365 days | 131,783 | 259,158 |
| Total | 27,953,271 | 38,983,685 |

Contingent receivables and liabilities

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|--------------------|--------------------|--------------------|
| Mortgages and liens received | 2,816,928 | 2,262,800 | 85,801 |
| Estimated value of superficies assigned to Emonika, d. o. o. | 3,955,500 | 3,955,500 | 3,955,500 |
| Receivables arising from interest rate swaps and FX forward transactions | 133,685,224 | 109,250,000 | 26,660,326 |
| Shares of EUROFIMA from the guarantee reserve | 0 | 629,871 | 629,871 |
| Guarantees and bills of exchange received | 13,804,918 | 30,635,850 | 7,313,406 |
| Unused overdraft facilities and loans | 26,000,000 | 26,942,192 | 830,000 |
| Merchandise on consignment | 9,226 | 5,597 | 0 |
| Enforcement drafts received | 40,435 | 91,086 | 0 |
| Claim for the reimbursement of damage | 0 | 0 | 719,179 |
| Unsettled status of land (forests) in the land register | 0 | 0 | 25,144 |
| Total contingent receivables | 180,312,230 | 173,772,896 | 40,219,227 |
| Liens on real estate and moveable property | 104,124,752 | 103,899,017 | 263,386,127 |
| Guarantees and bills of exchange issued | 72,405,694 | 81,033,183 | 60,495,409 |
| Liabilities arising from interest rate swaps and FX forward transactions | 133,241,073 | 109,250,000 | 26,660,326 |
| Liabilities for merchandise on consignment | 9,226 | 5,597 | 0 |
| Approved revolving loan | 25,000,000 | 20,000,000 | 0 |
| Pledge of receivables | 2,400,000 | 3,050,946 | 5,579,898 |
| Public railway infrastructure under management | 515,690,826 | 393,549,465 | 404,460,010 |
| Total contingent liabilities | 852,871,571 | 710,788,208 | 760,581,770 |

3.6.2 NOTES TO THE STATEMENT OF PROFIT OR LOSS

3.6.2.1 Net sales revenue

| in EUR | 2016 | 2015 |
|---|--------------------|--------------------|
| Revenues on the domestic market | 206,123,925 | 277,348,408 |
| Services and products | 204,294,940 | 275,209,568 |
| • services and products in connection with associates | 291,221 | 306,530 |
| • services and products in connection with others | 204,003,719 | 274,903,038 |
| Merchandise and materials | 1,828,985 | 2,138,840 |
| • merchandise and materials in connection with others | 1,828,985 | 2,138,840 |
| Revenues on the foreign market | 184,685,467 | 185,940,840 |
| Services | 184,685,467 | 185,940,840 |
| • services and products in connection with others | 184,685,467 | 185,940,840 |
| Total | 390,809,392 | 463,289,248 |

Net sales revenue comprises:

| in EUR | Consolidated 2016 | Consolidated 2015 |
|---|--------------------|--------------------|
| • Slovenske železnice, d. o. o. | 1,406,682 | 1,660,196 |
| • SŽ-Tovorni Promet Group | 164,950,623 | 167,711,447 |
| • SŽ-Potniški promet, d. o. o. | 40,342,647 | 40,599,771 |
| • SŽ-Infrastruktura, d. o. o. | 133,041,164 | 163,461,364 |
| • SŽ-VIT, d. o. o. | 11,702,407 | 9,993,713 |
| • SŽ-ŽIP Group | 4,303,542 | 5,028,628 |
| • Prometni institut Ljubljana, d. o. o. | 216,327 | 171,957 |
| • SŽ-Železniška tiskarna Ljubljana, d. d. | 36,918 | 42,841 |
| • SŽ-ŽGP Group | 14,887,032 | 54,414,662 |
| • Fersped Group | 19,922,050 | 20,204,669 |
| Total | 390,809,392 | 463,289,248 |

The majority of the Group's net revenues are generated by SŽ-Tovorni promet, d. o. o., SŽ-Potniški promet, d. o. o., and SŽ-Infrastruktura, d. o. o.

Total transport revenues in the amount of EUR 187,072,631 (EUR 191,975,548 in 2015) were generated on the local and foreign markets by SŽ-Tovorni promet, d. o. o., in the amount of EUR 151,816,972 (EUR 153,238,250 in 2015) and SŽ-Potniški promet, d. o. o., in the amount of EUR 35,255,659 (EUR 38,737,298 in 2015).

SŽ-Infrastruktura, d. o. o., generated the majority of its revenues (EUR 116,305,060) based on agreements with the Slovenian government:

- performance of the public service obligation of public railway infrastructure maintenance in the amount of EUR 79,410,697 (EUR 72,834,658 in 2015) and traffic management in the amount of EUR 35,000,000 (EUR 33,759,812 in 2015);
- management and maintenance of passenger stations in the amount of EUR 409,836 (EUR 3,688,524 in 2015); and
- management of the public railway infrastructure in the amount of EUR 1,484,527 (EUR 1,730,290 in 2015).

3.6.2.2 Capitalised own products and services

| in EUR | 2016 | 2015 |
|---------------------------------------|------------|------------|
| Capitalised own products and services | 32,358,369 | 22,310,484 |

The capitalised own products and services of the SŽ Group comprise capitalised costs of labour and materials associated with the sale of assets and services between Group companies. The majority of capitalised own products and services relate to replacement parts for locomotives, passenger multiple units, and freight and passenger wagons.

3.6.2.3 Other operating revenues

| in EUR | 2016 | 2015 |
|---|-------------------|-------------------|
| Revenues from the performance of the public service obligation of the carriage of passengers in railway transport | 43,835,616 | 41,988,951 |
| Revenues from the sale of property, plant and equipment and the revaluation of receivables | 17,602,059 | 38,359,522 |
| Compensation | 6,523,641 | 3,399,337 |
| Revenues from the reversal of provisions for the wages of disabled persons | 4,640,773 | 4,699,122 |
| Revenues from the reversal of other provisions | 2,002,083 | 6,330,726 |
| Other revenues | 2,831,722 | 3,903,707 |
| Total | 77,435,894 | 98,681,365 |

3.6.2.4 Costs of goods, materials and services

| in EUR | 2016 | 2015 |
|--|--------------------|--------------------|
| Historical cost of goods and materials sold | 5,460,978 | 2,508,875 |
| Costs of materials | 30,147,291 | 34,213,728 |
| Energy costs | 29,650,291 | 31,637,098 |
| Costs of replacement parts | 4,597,906 | 6,112,559 |
| Write-off of small inventory | 1,942,858 | 1,384,826 |
| Costs of office materials | 461,475 | 477,656 |
| Other material costs | 705,152 | 396,554 |
| Total cost of goods and materials sold and cost of materials used | 72,965,951 | 76,731,296 |
| Costs from the manufacture of products and provision of services | 31,714,826 | 62,029,930 |
| Transport services | 26,696,658 | 31,841,180 |
| Maintenance services | 14,072,959 | 21,079,026 |
| Reimbursement of employee expenses | 2,987,672 | 3,230,309 |
| Payment transaction and banking services | 834,352 | 3,096,288 |
| Intellectual and personal services | 3,617,846 | 4,699,996 |
| Insurance premiums | 4,297,513 | 4,164,693 |
| Advertising, publicity and representation | 820,028 | 666,493 |
| Costs under the RIV Rules | 5,623,823 | 6,174,096 |
| Costs under the RIC Rules | 1,061,465 | 943,406 |
| Costs of other services | 29,570,361 | 27,525,331 |
| Total costs of services | 121,297,503 | 165,450,748 |
| Total | 194,263,454 | 242,182,044 |

The costs of goods, materials and services comprise:

| in EUR | Consolidated 2016 | Consolidated 2015 |
|---|----------------------|----------------------|
| • Slovenske železnice, d. o. o. | 3,762,628 | 5,848,046 |
| • SŽ-Tovorni Promet Group | 59,539,320 | 67,036,908 |
| • SŽ-Potniški promet, d. o. o. | 14,797,752 | 13,450,568 |
| • SŽ-Infrastruktura, d. o. o. | 44,827,944 | 52,858,271 |
| • SŽ-VIT, d. o. o. | 31,455,786 | 27,020,589 |
| • SŽ-ŽIP Group | 10,276,195 | 10,933,962 |
| • Prometni institut Ljubljana, d. o. o. | 223,169 | 150,846 |
| • SŽ-Železniška tiskarna Ljubljana, d. d. | 138,020 | 119,575 |
| • SŽ-ŽGP Group | 17,877,461 | 52,317,567 |
| • Fersped Group | 11,365,179 | 12,445,712 |
| Total | 194,263,454 | 242,182,044 |

The most significant material costs comprise the electricity and other fuels used to drive rolling stock in the amount of EUR 23,137,278 (EUR 24,920,046 in 2015) and the costs of materials and replacement parts for rolling stock maintenance in the amount of EUR 3,957,322 (EUR 5,297,816 in 2015).

The largest item amongst costs of services are the costs of services associated with the manufacture of products and provision of services. Those costs are incurred almost entirely by the SŽ-ŽGP Group in the amount of EUR 10,214,804 (EUR 37,954,598 in 2015), Fersped Group in the amount of EUR 8,853,336 (EUR 10,492,120 in 2015), SŽ-ŽIP Group in the amount of EUR 6,205,257 (EUR 7,237,517 in 2015) and SŽ-VIT, d. o. o., in the amount of EUR 6,391,489 (EUR 6,310,717 in 2015), and include the costs of services provided by other (external contractors) in the performance of the aforementioned companies' activities.

The costs of other services primarily comprise the following:

| in EUR | 2016 | 2015 |
|---|-------------------|-------------------|
| Rental costs | 13,268,096 | 12,702,173 |
| <i>of that fee for access to the public railway infrastructure</i> | <i>7,875,488</i> | <i>7,291,372</i> |
| Costs of municipal services | 1,687,989 | 1,510,325 |
| Costs of services provided by the Port of Koper | 3,570,221 | 3,384,721 |
| Costs of student services | 2,998,745 | 2,218,769 |
| Costs of transport services (traction) provided by external operators | 1,851,042 | 1,690,505 |
| Non-deductible VAT from services provided by the offices of the Management Board and re-invoiced to SŽ-Infrastruktura, d. o. o. | 1,418,664 | 1,453,550 |
| Costs of cleaning and surveillance | 618,239 | 291,476 |
| Costs of services associated with contracted work | 668,317 | 219,869 |
| Membership fees and contributions paid to international organisations and other associations | 545,995 | 479,004 |
| Other costs | 2,943,053 | 3,574,939 |
| Total | 29,570,361 | 27,525,331 |

Costs of auditor

| in EUR | 2016 | 2015 |
|-------------------------------|---------------|----------------|
| Auditing of the annual report | 87,870 | 87,870 |
| Other assurance services | 7,220 | 44,420 |
| Other non-audit services | 0 | 3,300 |
| Total | 95,090 | 135,590 |

3.6.2.5 Labour costs

| in EUR | 2016 | 2015 |
|------------------------------------|--------------------|--------------------|
| Costs of wages and salaries | 166,582,826 | 170,582,620 |
| Pension insurance costs | 22,969,215 | 23,051,253 |
| Other social security costs | 12,709,983 | 12,970,895 |
| Other labour costs | 41,952,575 | 42,906,470 |
| • redundant employees | 13,086,134 | 12,235,690 |
| • annual leave allowance | 8,321,498 | 6,430,946 |
| • actuarial calculation | 1,212,777 | 1,636,886 |
| • reimbursements | 19,191,200 | 22,194,802 |
| • other costs | 140,966 | 408,146 |
| Total | 244,214,599 | 249,511,238 |

3.6.2.6 Write-downs

| in EUR | 2016 | 2015 |
|--|-------------------|-------------------|
| Depreciation | 34,244,043 | 34,278,082 |
| Operating expenses for intangible assets and property, plant and equipment | 563,218 | 440,350 |
| Operating expenses for working capital | 1,129,853 | 13,434,311 |
| Total | 35,937,114 | 48,152,743 |

3.6.2.7 Other operating expenses

| in EUR | 2016 | 2015 |
|---|------------------|------------------|
| Bonuses for pupils and students on compulsory job training | 604,939 | 219,645 |
| Fees for the use of building land, and other taxes and levies | 936,129 | 950,955 |
| Accrued costs of operators in connection with the provision of transport services (ice storm) | 279,922 | 409,048 |
| Compensation due to traffic obstacles (track closures) | 150,000 | 121,105 |
| Donations (for sporting, cultural and humanitarian activities) | 241,643 | 151,119 |
| Fines and compensation for damage incurred by legal and natural persons | 366,643 | 632,633 |
| Provisions for guarantees issued | 2,941 | 623,963 |
| Other expenses | 283,306 | 302,531 |
| Total | 2,865,523 | 3,410,999 |

3.6.2.8 Finance income

| in EUR | 2016 | 2015 |
|--|------------------|------------------|
| Finance income from participating interests in associates | 1,138,463 | 980,217 |
| Finance income from participating interests in other companies | 1,132,418 | 31,898 |
| Finance income from other investments | 526,172 | 3,225 |
| Total finance income from participating interests | 2,797,053 | 1,015,340 |
| Finance income from loans to others | 1,611,662 | 3,547,409 |
| Total finance income from loans granted | 1,611,662 | 3,547,409 |
| Finance income from other operating receivables | 400,301 | 638,965 |
| Total finance income from operating receivables | 400,301 | 638,965 |
| Total | 4,809,016 | 5,201,714 |

Finance income from participating interests comprises income from participation in the profit of associates and other companies, and income from other investments, which by their nature are deemed revenues from derivatives.

Finance income from loans granted is accounted for in full by the controlling company SŽ, d. o. o., and primarily comprises revenues from the revaluation of financial liabilities (positive exchange differences in connection with EUROFIMA) in the amount of EUR 1,540,863 (EUR 3,409,220 in 2015).

3.6.2.9 Finance costs

| in EUR | 2016 | 2015 |
|--|------------------|-------------------|
| Finance costs from impairments and write-downs of financial investments in other companies | 0 | 8,651 |
| Finance costs from impairments and write-downs of financial assets | 0 | 8,651 |
| Finance costs from bank loans | 779,484 | 3,500,706 |
| Finance costs from other financial liabilities | 3,772,672 | 13,877,101 |
| Total finance costs from financial liabilities | 4,552,156 | 17,377,807 |
| Finance costs from trade payables | 116,650 | 341,572 |
| Finance costs from other operating liabilities | 27,401 | 77,735 |
| Total finance costs from operating liabilities | 144,051 | 419,307 |
| Total | 4,696,207 | 17,805,765 |

The majority of finance costs from financial liabilities are accounted for by the controlling company SŽ, d. o. o., in the amount of EUR 3,997,806 (EUR 16,488,560 in 2015) and primarily comprise expenses from the revaluation of financial liabilities (exchange differences) in the amount of EUR 1,809,797 (EUR 10,662,514 in 2015), interest on loans received from banks in the amount of EUR 744,510 (EUR 3,228,117 in 2015) and from EUROFIMA in the amount of EUR 481,505 (EUR 1,020,707 in 2015), and costs associated with derivatives in the amount of EUR 931,333 (EUR 1,554,067 in 2015). Interest as the result of actuarial calculations in the total amount of EUR 495,435 (EUR 585,224 in 2015) represents the most significant item at all Group companies.

3.6.2.10 Corporate income tax

| in EUR | 2016 | 2015 |
|--------------------------------------|-----------------|------------------|
| Current tax | 576,480 | 3,350,953 |
| Deferred tax | -877,437 | -710,462 |
| Total corporate income tax | -300,957 | 2,640,491 |
| Pre-tax profit | 24,754,621 | 28,471,254 |
| Tax calculated at effective tax rate | 5,353,987 | 4,764,342 |
| Tax from decrease in revenues | -1,557,418 | -288,700 |
| Tax from increase in revenues | 532 | 1,527 |
| Tax from decrease in expenses | 749,771 | 873,689 |
| Tax from increase in expenses | -156,486 | 215,184 |
| Tax from decrease in tax base | -280,927 | -1,062,629 |
| Tax from increase in tax base | 66,828 | 1,208,691 |
| Tax from tax allowances | -3,599,807 | -2,361,151 |
| Total corporate income tax | -300,956 | 2,640,491 |
| Effective tax rate | -1.22 | 9.27 |

The Group disclosed corporate income tax receivables in the amount of EUR 2,178,438 as at 31 December 2016 (EUR 18,790 in 2015) and corporate income tax liabilities of EUR 1,148 (EUR 2,554,388 in 2015). The Group does not net its receivables and liabilities because they comprise receivables and liabilities vis-à-vis different tax administrations.

The valid corporate income tax rate was 17% in Slovenia in 2016 (17% in 2015), while tax rates for the Group range from 9% to 20%.

The calculation takes into account a change in the tax rate in Slovenia from 17% to 19%, effective 1 January 2017.

3.6.3 TRANSACTIONS WITH RELATED PARTIES

Gross earnings of groups of persons

| in EUR | 2016 | 2015 |
|--|------------------|------------------|
| Management Board of the controlling company | 399,984 | 341,242 |
| Supervisory Board of the controlling company | 119,313 | 122,727 |
| Management boards of subsidiaries | 1,501,889 | 1,482,890 |
| Supervisory boards of subsidiaries | 86,827 | 69,764 |
| Group employees under individual contracts | 4,657,628 | 3,666,156 |
| Total | 6,765,641 | 5,682,779 |

The earnings of members of the controlling company's Management Board and the directors of subsidiaries include wages, bonuses and any other earnings.

The earnings of supervisory bodies comprise gross earnings from payment for the performance of functions on supervisory boards and the committees thereof, session fees and the reimbursement of costs.

Companies of the Slovenske Železnice Group

Transactions with subsidiaries are excluded from the financial statements of the Slovenske Železnice Group during consolidation. Transactions with subsidiaries are presented below:

| in EUR | Sales | Purchases |
|----------------------------|-------------------|----------------|
| 2015 | | |
| Terme Olimia, d. d. | 0 | 16,794 |
| Adria Kombi, d. o. o. | 23,876,124 | 223,184 |
| CKTZ d. d. Zagreb, Croatia | 190,967 | 253,641 |
| Total | 24,067,090 | 493,618 |
| 2016 | | |
| Terme Olimia, d. d. | 0 | 13,820 |
| Adria Kombi, d. o. o. | 21,189,552 | 284,577 |
| CKTZ d. d. Zagreb, Croatia | 232,236 | 170,025 |
| Total | 21,421,788 | 468,422 |

Sales transactions with the associates Adria Kombi, d. o. o., and CKTZ, d. d., relate to rail freight transport services.

Transactions with the government

Slovenske železnice, d. o. o., is 100% owned by the Republic of Slovenia.

Slovenske železnice, d. o. o., did not transact directly with the Republic of Slovenia in 2016 and 2015, except in connection with ordinary transactions, which are not disclosed separately. These include the payment of all taxes. The same applies to other Group companies.

Only the following subsidiaries of the SŽ Group transacted directly with the government:

- SŽ-Infrastruktura, d. o. o.,
- SŽ-Potniški promet, d. o. o., and
- SŽ-Železniško gradbeno podjetje Ljubljana d. d.

An explanation is given below.

Revenues from transactions between the government and the subsidiary SŽ-Infrastruktura, d. o. o.

| in EUR | 2016 | 2015 |
|--|--------------------|--------------------|
| Public service obligation | 79,410,697 | 72,834,658 |
| Public service obligation | 35,000,000 | 33,759,812 |
| Performance of tasks as manager of the PRI | 1,484,527 | 1,730,290 |
| Management and maintenance of housing and buildings that are not part of the PRI | 409,836 | 0 |
| Management and maintenance of passenger stations | 0 | 3,688,524 |
| Total | 116,305,060 | 112,013,284 |

Note: revenues from the management and maintenance of passenger stations, disclosed as a single item in 2015, were allocated in part in 2016 to the PSO and in part to the management and maintenance of housing and buildings that are not part of the PRI.

Transactions are executed on the basis of an agreement on the provision of services by the public railway infrastructure manager for the period 2016–2020 and annexes 1 and 2 to that agreement for the period 1 January 2016 to 31 December 2016.

Revenues from transactions between the government and the subsidiary SŽ-Potniški promet, d. o. o.

| in EUR | 2016 | 2015 |
|---|------------|------------|
| Revenues from the provision of the PSO of passenger transport | 43,835,616 | 41,988,951 |

Based on agreement no. 3/2010-2019 on the performance of the public service obligation of the carriage of passengers in domestic and cross-border regional railway transport for the period 2010–2019 and annex 21 to the aforementioned agreement concluded with the Slovenian government, the Company received compensation of EUR 48,000,000 for services rendered in 2016

in connection with train kilometres travelled to cover a portion of the costs associated with the provision of PSO in accordance with the applicable timetable and the obligations under the tariff. That compensation entails a subsidy linked to the price of services, which includes value-added tax in the amount of 9.5%. Revenues are therefore disclosed in the net amount of compensation.

Revenues from transactions between the government and the subsidiary SŽ-ŽGP Ljubljana, d. d.

| in EUR | 2016 | 2015 |
|--|------------------|-------------------|
| Provision of constructions services for: | | |
| • Ministry of Infrastructure of the Republic of Slovenia | 0 | 37,704,312 |
| • Municipalities | 2,774,778 | 1,063,201 |
| Total | 2,774,778 | 38,767,513 |

3.6.4 EVENTS AFTER THE ACCOUNTING PERIOD

Based on its decision as contracting authority, the Slovenian government concluded an agreement on 13 March 2017 with SŽ-Potniški promet, d. o. o., on the performance of the public service obligation of the carriage of passengers in domestic and cross-border regional railway transport for the period 2017–2031. Based on that agreement, the contractor is also entitled funds for investments

in the refurbishment and upgrading of rolling stock as part of compensation for the provision of PSO.

In May 2017, the Management Board and Supervisory Board of the controlling company SŽ, d. o. o., gave their consent to the subsidiary Fersped, d. o. o. for the purchase of VV-Log, d. o. o., Ankaranska cesta 7B, Koper.

4 FINANCIAL RISKS WITHIN THE SŽ GROUP

The financial risks to which the Slovenske Železnice Group (hereinafter: the SŽ Group) is exposed include interest rate risk, currency risk, liquidity risk and credit risk. Exposure to financial risks is monitored monthly, while measures to manage those risks are adopted continuously.

INTEREST RATE RISK

The SŽ Group manages interest rate risk in accordance with the Rules on the comprehensive management of risks within the Slovenske Železnice Group. The SŽ Group's credit portfolio includes loans bearing a variable

interest rate. However, 77.3% of the entire credit portfolio is hedged using interest rate swaps, meaning those loans may be deemed fixed-rate loans.

| Financial instruments bearing a variable interest rate in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|---|--------------------------------|--------------------------------|
| Financial receivables | 3,740,043 | 3,500,129 |
| Financial liabilities | -138,986,765 | -144,049,339 |
| Net financial instruments bearing a variable interest rate | -135,246,722 | -140,549,210 |

The following instruments are used to hedge exposure to interest rate risk:

- in part through current operations, by linking the interest rates on the SŽ Group's operating receivables to changes in the EURIBOR; and
- in part through the forward market, by entering into interest rate swaps.

Balance of loan liabilities with a variable interest rate:

| in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|--------------------------------|--------------------------------|--------------------------------|
| Total loans (principal) | 134,740,137 | 138,874,018 |

Concluded interest rate swap (IRS) agreements:

| in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|--------------------------------|--------------------------------|--------------------------------|
| Total loans (principal) | 103,615,385 | 109,000,000 |

Concluded IRS agreements by maturity:

| Maturity in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|--------------------------------|--------------------------------|--------------------------------|
| 10 September 2019 | 74,000,000 | 74,000,000 |
| 31 July 2019 | 29,615,385 | 35,000,000 |
| Total loans (principal) | 103,615,385 | 109,000,000 |

Liabilities for IRS at fair value:

| Creditor in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|--------------------------|--------------------------------|--------------------------------|
| Total liabilities | 1,160,804 | 698,156 |

The annual effect on pre-tax profit of a one percentage point change in the reference interest rate would be positive or negative in the amount of EUR 360,818, depending on the direction of the change in the reference interest rate (this relates solely to financial liabilities that are not hedged using an IRS) and under the assumption of stable exchange rates (in particular the CHF/EUR exchange rate).

CURRENCY RISK

The SŽ Group likewise manages currency risk in accordance with the Rules on the comprehensive management of risks within the Slovenske Železnice Group. The SŽ Group is less exposed to currency risk, as the majority of the Group's transactions are in euros, while the number of transactions in other currencies is relatively small and linked exclusively to transactions with subsidiaries in the territory of the former Yugoslavia. We assess that the SŽ Group is not exposed to major risks in this regard, as the volatility of local currencies is relatively low, which is evident from the table below. We manage the majority of such risks using hedges. Thus an unfavourable change in any currency pairing of 10% would not have a significant impact on the Group's operating results.

| for EUR 1 | 31 December 2016 | 31 December 2015 |
|-----------|------------------|------------------|
| HRK | 7.55970 | 7.63800 |
| RSD | 123.60000 | 121.23000 |
| BAM | 1.95583 | 1.95583 |

| 31 December 2016 (in EUR) | EUR | CHF | HRK | RSD | BAM | Total |
|--|--------------------|--------------------|----------------|------------------|----------------|--------------------|
| Cash and cash equivalents | 45,737,822 | | 219,153 | 670,787 | 13,822 | 46,641,584 |
| Current operating receivables (excluding receivables from the government) | 78,537,692 | | 30,167 | 1,449,779 | 280,541 | 80,298,179 |
| Non-current operating receivables | 3,889,816 | | | 1,399 | | 3,891,215 |
| Current financial receivables | 694,996 | | | | | 694,996 |
| Non-current financial receivables | 3,045,047 | | | | | 3,045,047 |
| Non-current operating liabilities (excluding other liabilities) | -374,479 | | | | | -374,479 |
| Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances) | -27,080,323 | | -18,179 | -693,058 | -161,711 | -27,953,271 |
| Non-current financial liabilities | -95,099,486 | -30,069,839 | | - 9,130 | | - 125,178,455 |
| Current financial liabilities | -13,805,267 | | | -3,043 | | -13,808,310 |
| Exposure disclosed in the statement of financial position | -4,454,182 | -30,069,839 | 231,141 | 1,416,734 | 132,652 | -32,743,494 |
| Nominal value of concluded forward transactions | -30,069,839 | 30,069,839 | | | | |
| Net exposure disclosed in the statement of financial position | -34,524,021 | | 231,141 | 1,416,734 | 132,652 | -32,743,494 |

| 31 December 2015 (in EUR) | EUR | CHF | HRK | RSD | BAM | Total |
|--|--------------------|--------------------|---------------|----------------|------------|--------------------|
| Cash and cash equivalents | 61,937,771 | | 69,275 | 177,688 | 13,822 | 62,198,556 |
| Current operating receivables (excluding receivables from the government) | 61,553,501 | | 9,318 | 564,993 | 277,371 | 62,405,183 |
| Non-current operating receivables | 3,417,303 | | | 1,405 | | 3,418,708 |
| Current financial receivables | 397,981 | | | | | 397,981 |
| Non-current financial receivables | 3,102,148 | | | | | 3,102,148 |
| Non-current operating liabilities (excluding other liabilities) | -406,994 | | -1,362 | | | -408,356 |
| Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances) | -38,166,879 | | | -525,893 | -290,913 | -38,983,685 |
| Non-current financial liabilities | -104,818,288 | -29,803,415 | | -12,225 | | -134,633,928 |
| Current financial liabilities | -9,412,355 | | | -3,056 | | -9,415,411 |
| Exposure disclosed in the statement of financial position | -22,395,812 | -29,803,415 | 77,231 | 202,912 | 280 | -51,918,804 |
| Nominal value of concluded forward transactions | | | | | | |
| Net exposure disclosed in the statement of financial position | -22,395,812 | -29,803,415 | 77,231 | 202,912 | 280 | -51,918,804 |

A total of 77.7% of loans in the SŽ Group's credit portfolio are denominated in euros, while 22.3% of loans are denominated in Swiss francs. The Group hedges against the currency risks associated with the latter using a FX

forward transaction concluded in September 2016. This means that the SŽ Group was less exposed to currency risks in 2016 than in 2015.

| Loan liabilities by currency | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|--------------------------------|--------------------------------|--------------------------------|
| EUR | 104,670,298 | 109,070,603 |
| CHF | 30,069,839 | 29,803,415 |
| Total loans (principal) | 134,740,137 | 138,874,018 |

Concluded FX forward contracts:

| in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|------------|--------------------------------|--------------------------------|
| NLB, d. d. | 30,069,839 | 0 |

Concluded FX forward contracts by maturity:

| Maturity in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|-----------------|--------------------------------|--------------------------------|
| 30 June 2017 | 30,069,839 | 0 |

Concluded FX forward contracts by fair value:

| Fair value of FX forward transaction in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|---|--------------------------------|--------------------------------|
| NLB, d. d. | 526,172 | 0 |

Expenses from foreign exchange differences

| in EUR | 2016 | 2015 |
|---|------------------|-------------------|
| Loan liabilities in CHF | 1,805,979 | 10,649,816 |
| Other operating liabilities | 3,818 | 12,698 |
| Total expenses from foreign exchange differences | 1,809,797 | 10,662,514 |

It is evident from the data in the table that practically all exposure as the result of changes in exchange rates derives from a loan denominated in Swiss francs.

LIQUIDITY RISK

The SŽ Group managed the liquidity risk to which it was exposed in 2016, and in doing so acted in accordance with the provisions of the Financial Operations, Insolvency and Compulsory Dissolution Act (ZFPPIPP). With the aim of managing liquidity risk the Group has implemented a policy on the regular management of its liquidity and solvency. It used that policy for the daily, monthly and annual monitoring of the liquidity position of the Group as a whole and of subsidiaries.

Liquidity risk management requires the management of such risks by individual category:

- the management of liquidity risk from operations is closely linked to credit risk; and

- the management of liquidity risk from financing, which represents a risk linked to securing sufficient financial resources for the Group's operations and investments.

Liquidity risk management is centralised at the controlling company for all Group companies. The continuous monitoring of cash flows, the implementation of the SŽ Group's cash management policy (Group companies have signed cash-pooling agreements for the purpose of managing and balancing liquidity within the Group) and the securing and availability of the necessary credit lines ensured that the liquidity of the SŽ Group was secured and controlled in 2016, and that liquidity risk was well-managed.

Maturity breakdown of liabilities:

| in EUR | Carrying amount of liabilities | Contractual cash flows | | | | |
|--|--------------------------------|-------------------------------|-------------------|---------------------------|-------------------|-------------------|
| | | Contractual obligations Total | 0 to 6 months | 6 to 12 months (365 days) | 1 to 3 years | More than 3 years |
| Non-current financial liabilities | 125,178,455 | 128,562,923 | | | 96,349,144 | 32,213,779 |
| Other non-current operating liabilities | 374,479 | 411,552 | | | | 411,552 |
| Current financial liabilities | 13,808,310 | 14,360,642 | | 14,360,642 | | |
| Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances) | 33,451,646 | 33,451,646 | 33,451,646 | | | |
| Balance as at 31 December 2016 | 172,812,890 | 176,786,763 | 33,451,646 | 14,360,642 | 96,349,144 | 32,625,331 |

| in EUR | Carrying amount of liabilities | Contractual cash flows | | | | |
|--|--------------------------------|-------------------------------|-------------------|---------------------------|--------------|--------------------|
| | | Contractual obligations Total | 0 to 6 months | 6 to 12 months (365 days) | 1 to 3 years | More than 3 years |
| Non-current financial liabilities | 134,633,928 | 138,403,678 | | | | 138,403,678 |
| Other non-current operating liabilities | 408,356 | 448,783 | | | | 448,783 |
| Current financial liabilities | 9,415,411 | 9,839,104 | | 9,839,104 | | |
| Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances) | 44,197,196 | 44,197,196 | 44,197,196 | | | |
| Balance as at 31 December 2015 | 188,654,891 | 192,888,761 | 44,197,196 | 9,839,104 | | 138,852,461 |

CREDIT RISK

The deteriorating liquidity of partners on the market requires additional attention when monitoring their credit ratings and thus the provision of the appropriate collateral. Investments in a new system for monitoring the credit ratings of the Group's partners will reduce credit risk, which will be reflected in the reduced value of past-due receivables and more secure operations. The adverse economic conditions and the associated increased probability of failure to fulfil contractually defined obligations by partners require the Company to pay special attention to the management of credit risks. For this reason, the credit risk management process actively includes several departments.

The credit risk management process is supplemented during the formulation of the portfolio through the careful selection of partners, followed by the

regular review of the credit quality of those partners through the assignment of credit ratings.

An active approach is taken to the recovery process, which has ensured a reduction in the proportion of total trade payables accounted for by past-due trade payables relative to the previous year.

Data regarding the operations of the banks with which the Group cooperates are monitored as part of the credit risk management process. Risk is further managed by diversifying the placement of cash at individual banks, by investing cash for current operations over the short term and by entering into transactions to hedge against currency and interest rate risks.

Credit risks were appropriately managed in 2016, and there were no material credit-related events that had a significant impact on operations. A great deal of attention is being given to developing a system for monitoring the credit ratings of business partners based on publicly accessible information and internal experiences in operations with those partners.

Domestic and foreign customers were verified in 2016 according to an internal credit assessment process, with the help of credit ratings and published information. The operations and financial position of specific customers were monitored regularly, as was the Group's exposure to those customers. Risk management measures were adopted as required. Value adjustments are created for older receivables (see note 3.6.1.11).

Maturity of trade receivables (gross amount):

| As at | Maturity | | | | | in EUR |
|------------------|--------------|---------------|---------------|----------------|--------------------|------------|
| | Non-past-due | Past-due | | | | |
| | | up to 30 days | 31 to 90 days | 91 to 365 days | more than 365 days | |
| 31 December 2016 | 71,573,286 | 4,614,308 | 1,796,449 | 823,254 | 6,824,658 | 85,631,955 |
| 31 December 2015 | 39,121,063 | 2,567,336 | 1,767,161 | 549,660 | 7,912,342 | 51,917,562 |

5 CAPITAL ADEQUACY MANAGEMENT

The underlying purpose of capital management is to ensure capital adequacy, the highest possible level of financial stability, long-term solvency and the maximisation of value for the Company's shareholders, which is reflected in stable dividends for the owner.

| in EUR | 2016 | 2015 |
|-----------------------------------|-------------|-------------|
| Non-current financial liabilities | 125,178,455 | 134,633,928 |
| Current financial liabilities | 13,808,310 | 9,415,411 |
| Total financial liabilities | 138,986,765 | 144,049,339 |
| Total equity | 305,586,451 | 283,245,876 |
| Debt/equity | 0.45 | 0.51 |
| Cash and cash equivalents | 46,641,584 | 62,198,556 |
| Net financial liabilities | 92,345,181 | 81,850,783 |
| Net debt/equity | 0.30 | 0.29 |

6 CARRYING AMOUNT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

| in EUR | 31 December 2016 | | 31 December 2015 | |
|---|---------------------|---------------------|---------------------|---------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Non-derivative financial assets at amortised cost | | | | |
| Non-current and current financial receivables (excluding derivatives) | 3,213,871 | 3,213,871 | 3,500,129 | 3,500,129 |
| Non-current and current trade receivables | 82,456,639 | 82,456,639 | 47,527,907 | 47,527,907 |
| Cash and cash equivalents | 46,641,584 | 46,641,584 | 62,198,556 | 62,198,556 |
| Total non-derivative financial assets | 132,312,094 | 132,312,094 | 113,226,592 | 113,226,592 |
| Non-derivative financial liabilities at amortised cost | | | | |
| Non-current and current financial liabilities (excluding derivatives) | -137,825,961 | -137,825,961 | -143,351,183 | -143,351,183 |
| Non-current and current trade payables | -28,327,750 | -28,327,750 | -39,392,041 | -39,392,041 |
| Total non-derivative financial liabilities | -166,153,711 | -166,153,711 | -182,743,224 | -182,743,224 |
| Derivatives at fair value | | | | |
| Derivatives (assets) | 526,172 | 526,172 | 0 | 0 |
| Derivatives (liabilities) | -1,160,804 | -1,160,804 | -698,156 | -698,156 |
| Total derivatives | -634,632 | -634,632 | -698,156 | -698,156 |

Presentation of financial assets and liabilities disclosed at fair value according to the hierarchy used to determine fair value.

Fair value of assets

| in EUR | 31 December 2016 | | | |
|---|------------------|-----------|--------------------|--------------------|
| | 1st level | 2nd level | 3rd level | Total |
| Financial assets at fair value through profit or loss | | | 526,172 | 526,172 |
| Total assets measured at fair value | | | 526,172 | 526,172 |
| Non-current financial receivables | | | 3,045,047 | 3,045,047 |
| Current financial receivables | | | 168,824 | 168,824 |
| Non-current operating receivables | | | 3,891,215 | 3,891,215 |
| Current operating receivables (excluding receivables from the government) | | | 78,565,424 | 78,565,424 |
| Cash and cash equivalents | | | 46,641,584 | 46,641,584 |
| Total assets for which fair value is disclosed | | | 132,312,094 | 132,312,094 |
| Total assets | | | 132,838,266 | 132,838,266 |

| in EUR | 31 December 2015 | | | |
|---|------------------|-----------|--------------------|--------------------|
| | 1st level | 2nd level | 3rd level | Total |
| Financial assets at fair value through profit or loss | | | 0 | 0 |
| Total assets measured at fair value | | | 0 | 0 |
| Non-current financial receivables | | | 3,102,148 | 3,102,148 |
| Current financial receivables | | | 397,981 | 397,981 |
| Non-current operating receivables | | | 3,418,708 | 3,418,708 |
| Current operating receivables (excluding receivables from the government) | | | 44,109,199 | 44,109,199 |
| Cash and cash equivalents | | | 62,198,556 | 62,198,556 |
| Total assets for which fair value is disclosed | | | 113,226,592 | 113,226,592 |
| Total assets | | | 113,226,592 | 113,226,592 |

Fair value of liabilities

| in EUR | 31 December 2016 | | | |
|--|------------------|-----------|--------------------|--------------------|
| | 1st level | 2nd level | 3rd level | Total |
| Financial liabilities at fair value through profit or loss | | | 1,160,804 | 1,160,804 |
| Total liabilities measured at fair value | | | 1,160,804 | 1,160,804 |
| Non-current financial liabilities | | | 125,178,455 | 125,178,455 |
| Current financial liabilities (excluding liabilities measured at fair value) | | | 12,647,506 | 12,647,506 |
| Non-current operating liabilities (excluding other liabilities) | | | 374,479 | 374,479 |
| Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances) | | | 27,953,271 | 27,953,271 |
| Total liabilities for which fair value is disclosed | | | 166,153,711 | 166,153,711 |
| Total liabilities | | | 167,314,515 | 167,314,515 |

| in EUR | 31 December 2015 | | | |
|--|------------------|-----------|--------------------|--------------------|
| | 1st level | 2nd level | 3rd level | Total |
| Financial liabilities at fair value through profit or loss | | | 698,156 | 698,156 |
| Total liabilities measured at fair value | | | 698,156 | 698,156 |
| Non-current financial liabilities | | | 134,633,928 | 134,633,928 |
| Current financial liabilities (excluding liabilities measured at fair value) | | | 8,717,255 | 8,717,255 |
| Non-current operating liabilities (excluding other liabilities) | | | 408,356 | 408,356 |
| Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances) | | | 38,983,685 | 38,983,685 |
| Total liabilities for which fair value is disclosed | | | 182,743,224 | 182,743,224 |
| Total liabilities | | | 183,441,380 | 183,441,380 |

AUDIT REPORT OF THE SŽ GROUP FOR 2016

Deloitte.

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INDEPENDENT AUDITOR'S REPORT to the owners of SLOVENSKE ŽELEZNICE, d. o. o.

Opinion

We have audited the enclosed financial statements of Slovenske železnice, d. o. o. and its subsidiaries (hereinafter: the Group), which include the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the enclosed consolidated financial statements present fairly, in all material aspects, the consolidated financial position of the Slovenske železnice Group as at 31 December 2016, and its consolidated operating results and consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards, as adopted by the European Union (hereinafter: the IFRS).

Basis for our opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities on the basis of those standards are described in detail in our report in the paragraph Auditor's responsibilities for the auditing of the consolidated financial statements. In accordance with the Code of Ethics for Accounting Professionals issued by the International Ethics Board for Accountants (IESBA Code) and the ethical requirements relating to the auditing of financial statements in Slovenia, we hereby confirm our independence from the aforementioned company and our fulfilment of all other ethical obligations in accordance with those requirements and the IESBA Code. We believe that the auditing evidence obtained is a sufficient and appropriate basis for our opinion.

Other information

Other information comprises information presented in the annual report, except the financial statements and the auditor's report regarding those statements. We obtained the aforementioned other information prior to the date of audit report, except the report of the Supervisory Board, which will be available at a later date. The Management Board is responsible for other information.

Our opinion regarding the consolidated financial statements does not relate to the other information referred to above.

In connection with the auditing of the consolidated financial statements, it is our responsibility to interpret other information and assess whether it fails to conform materially to the consolidated financial statements, legal requirements or with the knowledge we have obtained through our audit, and whether that information is otherwise materially misstated. We also assess whether other information has been compiled, in all material aspects, in accordance with the applicable laws and regulations, whether it is in line with those laws and regulations with respect to official requirements and procedures for the compilation of other information in terms of materiality, or whether any instance of non-compliance with those requirements could affect judgements made on the basis of that other information.

Based on procedures conducted and to the extent that we are able to make such an assessment, we report the following:

- The other information referred to above and which describes facts that are also presented in the consolidated financial statements is in line, in all material aspects, with the consolidated financial statements.
- That other information has been compiled in accordance with the applicable laws and regulations.

The name Deloitte refers to Deloitte Touche Tohmatsu Limited, a regularly founded company in accordance with the laws of the United Kingdom of Great Britain and Northern Ireland (in the original "UK" private company limited by guarantee), and its network of members, of which each is a separate and independent legal entity. A detailed description of the legal organisation of the Deloitte Touche Tohmatsu Limited network and its members can be found at <http://www2.deloitte.com/content/dam/Deloitte/global/aboutdeloitteglobalnetwork.pdf>.

Member of Deloitte Touche Tohmatsu Limited

Deloitte Revisija d.o.o. – Company entered in the companies register at Ljubljana District Court; registration number: 164706000; VAT ID no.: SI5460000; share capital: EUR 14,014.00

On the basis of our knowledge and understanding of the Group obtained during our audit, we are also obliged to report whether other information includes any material misstatement of facts. Based on the aforementioned procedures in connection with other information obtained by us, we did not identify any material misstatements of facts.

Responsibility of the Management Board, Supervisory Board and Audit Committee with regard to the consolidated financial statements

The Management Board is responsible for the compilation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards, and for the internal controls it deems necessary to enable the compilation of consolidated financial statements that are free from material misstatements due to fraud or error.

In compiling the consolidated financial statements, the Management Board is responsible for assessing the ability of the Group to continue functioning as a going concern, for the disclosure of matters associated with the Group as a going concern as the basis for accounting, unless the Management Board intends to liquidate or wind up the Group, or if it has no real choice between one or the other.

The Supervisory Board and Audit Committee are responsible for control over the financial reporting process within the Group.

Auditor's responsibility for the auditing of the consolidated financial statements

Our objectives are to obtain acceptable assurance as to whether the consolidated financial statements as a whole are free from material misstatements due to fraud or errors, and to issue an audit report that includes our opinion. Acceptable assurance means a high degree of assurance, but no guarantee, that our audit, conducted in accordance with the International Standards on Auditing (ISA), will uncover all material misstatements should they exist. Misstatements may be the result of fraud or errors, and are deemed material if it is reasonable to expect that they may, individually or collectively, impact the business decisions adopted by users on the basis of the consolidated financial statements.

We make use of professional assessments and verify statements where fraud could be involved in conducting audits in accordance with the IAS. We also:

- Identify and assess the risks associated with material misstatements in the consolidated financial statements due to fraud or errors, formulate and implement audit procedures as a response to assessed risks, and obtain sufficient audit evidence as the basis for our opinion. The risk that we will fail to uncover material misstatements due to fraud is greater than the risk associated with the failure to uncover material misstatements due to errors, as fraud may include secret agreements, forgery, intentional omissions, erroneous interpretations or the avoidance of internal controls.
- Carry out procedures to verify and understand internal controls relevant to auditing for the purpose of formulating audit procedures appropriate to the environment, but not for the purpose of expressing an opinion regarding the effectiveness of the Group's internal controls.
- Assess the appropriateness of applied accounting policies, as well as the acceptability of accounting estimates and the associated disclosures by the Management Board.
- Adopt a decision on the acceptability of the Management Board's application of the assumption of the Group as a going concern as an accounting basis, taking into account audit evidence obtained regarding the existence of significant uncertainties with regard to events or circumstances that raise doubts about the ability of the organisation to continue operating as a going concern. Should we adopt a decision on the existence of significant uncertainties, we are responsible for using the auditor's report as a vehicle to raise concerns regarding the appropriateness of disclosures in the consolidated financial statements, and for amending our opinion if those disclosures are inappropriate. The auditor's decisions are based on audit evidence obtained up to the date of issuance of the auditor's report. However, subsequent events or circumstances may cause an organisation to cease functioning as a going concern.

- Assess the general presentation, structure and content of the consolidated financial statements, including disclosures, and assess whether the consolidated financial statements present transactions and events in such a way that a fair presentation is achieved.

- Obtain sufficient and appropriate evidence in connection with the financial statements of the Company and Group, and their business activities, in order to express our opinion about the consolidated financial statements. We are responsible for managing, overseeing and conducting the audit of the Group. We are solely responsible for our audit opinion.

We notify the Supervisory Board and Audit Committee, inter alia, about the planned scope and timing of the audit, and about significant audit findings, including the lack of internal controls that we identified during our audit.

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Katarina Kadunc
Certified Auditor



Ljubljana, 7 July 2017

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Ljubljana, Slovenija 3

7 IMPACT OF THE INTRODUCTION OF THE IFRS FOR SLOVENSKE ŽELEZNICE, D. O. O.

The Company's General Meeting adopted a resolution based on point 11 of Article 54 of the ZGD to compile financial statements in accordance with the International Financial Reporting Standards. The reporting period that ends on 31 December 2016 was defined as the transition date. In accordance with the requirements of IFRS 1 First-time Adoption of the International Financial Reporting

Standards, the opening statement of financial position (as at 31 December 2015) is also compiled in accordance with the International Financial Reporting Standards.

The effects of the International Financial Reporting Standards relative to the Slovenian Accounting Standards applied previously by the Company are presented below.

STATEMENT OF FINANCIAL POSITION

| in EUR | IFRS | | SAS | | DIFFERENCE | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 31 December 2015 | 1 January 2015 | 31 December 2015 | 1 January 2015 | 31 December 2015 | 1 January 2015 |
| ASSETS | 516,965,085 | 565,790,439 | 527,908,574 | 583,407,409 | -10,943,489 | -17,616,970 |
| A. Non-current assets | 462,142,232 | 361,970,638 | 473,085,720 | 379,587,608 | -10,943,488 | -17,616,970 |
| Intangible assets | 339,304 | 402,728 | 610,622 | 657,368 | -271,318 | -254,640 |
| Property, plant and equipment | 10,165,284 | 9,761,890 | 14,373,745 | 13,978,188 | -4,208,462 | -4,216,298 |
| Investment property | 44,623,566 | 15,334,050 | 51,358,593 | 28,734,722 | -6,735,027 | -13,400,672 |
| Investments in subsidiaries | 260,317,431 | 150,113,240 | 260,317,431 | 150,113,240 | 0 | 0 |
| Investments in associates | 3,079,623 | 3,079,623 | 3,079,623 | 3,079,623 | 0 | 0 |
| Other financial assets | 3,460,322 | 3,460,322 | 3,460,322 | 3,460,322 | 0 | 0 |
| Financial receivables | 135,822,353 | 118,691,792 | 135,822,353 | 118,691,792 | 0 | 0 |
| Non-current operating receivables | 3,466,521 | 60,872,352 | 3,466,521 | 60,872,352 | 0 | 0 |
| Other non-current assets | 867,827 | 254,640 | 596,509 | 0 | 271,318 | 254,640 |
| B. Current assets | 54,822,853 | 203,819,801 | 54,685,300 | 203,377,727 | 137,553 | 442,074 |
| Inventories | 671 | 0 | 671 | 0 | 0 | 0 |
| Financial receivables | 27,761,864 | 173,138,028 | 27,761,864 | 173,138,028 | 0 | 0 |
| Trade receivables | 3,070,955 | 3,144,296 | 3,070,955 | 3,144,296 | 0 | 0 |
| Other operating receivables | 854,659 | 1,346,109 | 717,106 | 904,035 | 137,553 | 442,074 |
| Cash and cash equivalents | 23,134,705 | 26,191,369 | 23,134,705 | 26,191,369 | 0 | 0 |
| C. Current deferred costs and accrued income | 0 | 0 | 137,553 | 442,074 | -137,553 | -442,074 |

| in EUR | IFRS | | SAS | | DIFFERENCE | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 31 December 2015 | 1 January 2015 | 31 December 2015 | 1 January 2015 | 31 December 2015 | 1 January 2015 |
| EQUITY AND LIABILITIES | 516,965,085 | 565,790,439 | 527,908,574 | 583,407,409 | -10,943,489 | -17,616,970 |
| A. Equity | 274,606,232 | 145,539,160 | 283,501,249 | 156,589,127 | -8,895,018 | -11,049,967 |
| Called-up capital | 205,274,421 | 95,070,230 | 205,274,421 | 95,070,230 | 0 | 0 |
| Share premium | 45,002,140 | 45,002,140 | 45,002,140 | 45,002,140 | 0 | 0 |
| Legal reserves | 829,108 | 0 | 829,108 | 0 | 0 | 0 |
| Fair value reserves | -166,904 | -299,282 | 8,721,588 | 14,126,377 | -8,888,492 | -14,425,659 |
| Retained earnings | 23,667,466 | 5,766,071 | 23,673,992 | 2,390,380 | -6,526 | 3,375,691 |
| B. Non-current liabilities | 155,076,752 | 192,481,781 | 157,125,223 | 199,048,784 | -2,048,471 | -6,567,003 |
| Provisions for jubilee benefits and termination benefits | 1,628,165 | 1,628,515 | 1,628,165 | 1,628,515 | 0 | 0 |
| Other provisions | 300,372 | 0 | 300,372 | 0 | 0 | 0 |
| Non-current deferred income | 2,848 | 2,843 | 230,784 | 3,615,193 | -227,936 | -3,612,350 |
| Financial liabilities | 133,424,493 | 116,349,908 | 133,424,493 | 116,349,908 | 0 | 0 |
| Non-current operating liabilities | 19,720,874 | 74,500,515 | 19,720,874 | 74,500,515 | 0 | 0 |
| Deferred tax liabilities | 0 | 0 | 1,820,534 | 2,954,653 | -1,820,534 | -2,954,653 |
| C. Current liabilities | 87,282,101 | 227,769,498 | 86,711,795 | 225,605,674 | 570,306 | 2,163,824 |
| Financial liabilities | 73,269,822 | 221,269,776 | 73,269,822 | 221,269,776 | 0 | 0 |
| Trade payables | 8,732,856 | 2,122,017 | 8,732,856 | 2,122,017 | 0 | 0 |
| Other operating liabilities | 4,005,748 | 4,068,550 | 3,435,442 | 1,904,726 | 570,306 | 2,163,824 |
| Liabilities for corporate income tax | 1,273,675 | 309,155 | 1,273,675 | 309,155 | 0 | 0 |
| D. Current accrued costs and deferred income | | | 570,306 | 2,163,824 | -570,306 | -2,163,824 |

Differences are explained below:

- **Intangible assets:** in accordance with the SAS, we disclosed assets of the reserve fund for multi-dwelling buildings as intangible assets, while the same item is disclosed as other non-current assets under the IAS.
- **Property, plant and equipment:** the entire disclosed difference relates to the reversal of the revaluation of property, plant and equipment on account of the use of the historical cost model.
- **Investment property:** we determined fair value as at 1 January 2015 in accordance with IFRS 1; in cases where the identified fair value was not equal to the original carrying amount, we used fair value as the deemed cost. Historical cost was reduced by EUR 236,659 for this reason. The remaining effect in the amount of EUR 13,164,013 represents the reversal of the revaluation of property, plant and equipment as the result of the use of the historical cost model. The amount disclosed as at 31 December 2015 was reduced due to the sale of investment property in 2015 and the effect of the reduction in depreciation in the amount of EUR 27,103.
- **Other non-current assets:** in accordance with the SAS, we disclosed assets of the reserve fund for multi-dwelling buildings as intangible assets, while the same item is disclosed as other non-current assets under the IAS.
- **Other operating receivables and deferred costs and accrued income:** deferred costs and accrued income recognised under the SAS are disclosed as other operating receivables under the IAS.
- **Fair value reserves:** fair value reserves were reduced by EUR 17,380,311 due to the reversal of the revaluation of property, plant and equipment and investment property, and were increased by EUR 2,954,653 due to the reversal of deferred tax liabilities.
- **Retained earnings:** non-current deferred income that does not meet the conditions set out in IAS 20 was reversed in the amount of EUR 3,612,350 and credited to retained earnings. That effect also includes the impairment of investment property in the amount of EUR 236,659.
- **Non-current deferred income:** non-current deferred income that does not meet the conditions set out in IAS 20 was reversed and credited to retained earnings. The reversal is the result of sales in 2015.
- **Deferred tax liabilities:** the reversal of deferred tax liabilities is the result of the reversal of the revaluation of property, plant and equipment.
- **Other operating liabilities and current accrued costs and deferred income:** accrued costs and deferred income recognised under the SAS are disclosed as other operating liabilities under the IAS.

STATEMENT OF PROFIT OR LOSS

| in EUR | IAS 2015 | SAS 2015 | DIFFERENCE |
|--|-------------------|-------------------|------------------|
| 1. Net sales revenue | 21,642,470 | 21,642,470 | 0 |
| 2. Change in the value of inventories of finished goods and work in progress | 0 | 0 | 0 |
| 3. Capitalised own products and services | 42,535 | 42,535 | 0 |
| 4. Other operating revenues | 40,854,897 | 37,592,931 | 3,261,965 |
| 5. Costs of goods, materials and services | 7,078,456 | 7,078,456 | 0 |
| 6. Labour costs | 14,804,084 | 14,804,084 | 0 |
| 7. Write-downs | 11,918,007 | 11,945,110 | -27,103 |
| 8. Other operating expenses | 5,023,732 | 5,023,732 | 0 |
| 9. Operating profit/loss (1 ± 2 + 3 + 4 – 5 – 6 – 7 – 8) | 23,715,623 | 20,426,555 | 3,289,068 |
| 10. Finance income | 18,533,539 | 18,533,539 | 0 |
| 11. Finance costs | 21,713,558 | 21,713,558 | 0 |
| 12. Net finance income/costs (10 – 11) | -3,180,018 | -3,180,018 | 0 |
| 13. Pre-tax profit or loss (9 + 12) | 20,535,605 | 17,246,537 | 3,289,068 |
| 14. Current tax | 1,798,498 | 1,798,498 | 0 |
| 15. Deferred taxes | 0 | -1,134,119 | 1,134,119 |
| 16. Corporate income tax (14 ± 15) | 1,798,498 | 664,379 | 1,134,119 |
| 17. Net profit/loss for the accounting period (13 - 16) | 18,737,107 | 16,582,158 | 2,154,949 |

Differences are explained below:

- **Other operating revenues:** the net increase in revenues according to the IAS is the result of the reversal of revaluation to fair value as at 1 January 2015 in the amount of EUR 6,646,379 and a reduction in revenues in the amount of EUR 3,384,464 as the result of the reversal of non-current deferred income as at 1 January 2015.
- **Write-downs:** the difference represents the effect of a change in depreciation due to the use of the appraised value as the deemed cost of investment property.
- **Deferred taxes:** the reversal of deferred tax liabilities is the result of the reversal of the revaluation of property, plant and equipment.
- **Other differences:** under the IAS, changes were made to the titles of certain items in the statement of profit or loss. Those changes are not disclosed as differences between the SAS and IAS, as they do not represent material changes.

8 FINANCIAL STATEMENTS OF SLOVENSKE ŽELEZNICE, D. O. O.

8.1 STATEMENT OF FINANCIAL POSITION

| in EUR | Note | Balance as at | | |
|--|----------|--------------------|--------------------|--------------------|
| | | 31 December 2016 | 31 December 2015 | 1 January 2015 |
| ASSETS | | 530,043,603 | 516,965,085 | 565,790,439 |
| A. Non-current assets | | 465,573,055 | 462,142,232 | 361,970,638 |
| Intangible assets | 8.6.1.1 | 907,274 | 339,304 | 402,728 |
| Property, plant and equipment | 8.6.1.2 | 11,172,286 | 10,165,284 | 9,761,890 |
| Investment property | 8.6.1.3 | 44,530,178 | 44,623,566 | 15,334,050 |
| Investments in subsidiaries | 8.6.1.4 | 270,866,958 | 260,317,431 | 150,113,240 |
| Investments in associates | 8.6.1.4 | 3,079,623 | 3,079,623 | 3,079,623 |
| Other financial assets | 8.6.1.4 | 4,117,175 | 3,460,322 | 3,460,322 |
| Financial receivables | 8.6.1.5 | 125,319,445 | 135,822,354 | 118,691,793 |
| Operating receivables | 8.6.1.6 | 3,868,605 | 3,466,521 | 60,872,352 |
| Deferred tax assets | 8.6.1.7 | 827,603 | 0 | 0 |
| Other non-current assets | | 883,908 | 867,827 | 254,640 |
| B. Current assets | | 64,470,548 | 54,822,853 | 203,819,801 |
| Assets held for sale | | 19,804 | 0 | 0 |
| Inventories | | 0 | 671 | 0 |
| Financial receivables | 8.6.1.8 | 20,320,288 | 27,761,864 | 173,138,028 |
| Trade receivables | 8.6.1.9 | 2,724,110 | 3,070,955 | 3,144,295 |
| Other operating receivables | 8.6.1.10 | 1,929,478 | 854,658 | 1,346,109 |
| Receivables for corporate income tax | | 1,195,618 | 0 | 0 |
| Cash and cash equivalents | 8.6.1.11 | 38,281,250 | 23,134,705 | 26,191,369 |
| EQUITY AND LIABILITIES | | 530,043,603 | 516,965,085 | 565,790,439 |
| A. Equity | 8.6.1.12 | 286,650,240 | 274,606,231 | 145,539,160 |
| Called-up capital | | 205,274,421 | 205,274,421 | 95,070,230 |
| Share premium | | 45,002,140 | 45,002,140 | 45,002,140 |
| Legal reserves | | 1,573,711 | 829,108 | 0 |
| Other profit reserves | | 6,701,431 | 0 | 0 |
| Fair value reserves | | -203,250 | -166,904 | -299,281 |
| Retained earnings | | 28,301,787 | 23,667,466 | 5,766,071 |
| 1. Retained earnings from previous years | | 20,855,752 | 5,759,467 | 2,971,282 |
| 2. Retained earnings from the financial year | | 7,446,035 | 17,907,999 | 2,794,789 |
| B. Non-current liabilities | | 132,025,806 | 155,076,753 | 192,481,781 |
| Provisions for jubilee benefits and termination benefits | 8.6.1.13 | 1,667,232 | 1,628,165 | 1,628,515 |
| Other provisions | | 19,000 | 300,372 | 0 |
| Non-current deferred income | | 3,163 | 2,848 | 2,843 |
| Financial liabilities | 8.6.1.14 | 122,917,859 | 133,424,494 | 116,349,908 |
| Operating liabilities | 8.6.1.15 | 7,418,552 | 19,720,874 | 74,500,515 |
| C. Current liabilities | | 111,367,557 | 87,282,101 | 227,769,498 |
| Financial liabilities | 8.6.1.14 | 101,256,658 | 73,269,822 | 221,269,776 |
| Trade payables | 8.6.1.16 | 6,288,215 | 8,732,856 | 2,122,017 |
| Other operating liabilities | 8.6.1.15 | 3,822,684 | 4,005,748 | 4,068,550 |
| Liabilities for corporate income tax | | 0 | 1,273,675 | 309,155 |

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

8.2 STATEMENT OF PROFIT OR LOSS

| in EUR | Note | 2016 | 2015 |
|--|----------------|-------------------|-------------------|
| 1. Net sales revenue | 8.6.2.1 | 19,780,194 | 21,642,470 |
| 3. Capitalised own products and services | | 257,000 | 42,535 |
| 4. Other operating revenues (including revaluation operating revenues) | 8.6.2.2 | 13,776,974 | 40,854,897 |
| 5. Costs of goods, materials and services | 8.6.2.3 | 5,195,274 | 7,078,456 |
| 6. Labour costs | 8.6.2.4 | 16,703,384 | 14,804,084 |
| 7. Write-downs | 8.6.2.5 | 1,163,740 | 11,918,007 |
| 8. Other operating expenses | 8.6.2.6 | 4,015,561 | 5,023,732 |
| 9. Operating profit/loss (1 ± 2 + 3 + 4 – 5 – 6 – 7 – 8) | | 6,736,209 | 23,715,623 |
| 11. Finance income | 8.6.2.7 | 14,281,483 | 18,533,540 |
| 12. Finance costs | 8.6.2.8 | 6,500,221 | 21,713,558 |
| 13. Net finance income/costs (11 – 12) | | 7,781,262 | -3,180,018 |
| 14. Pre-tax profit or loss (9 + 13) | | 14,517,471 | 20,535,605 |
| 15. Current tax | | 453,005 | 1,798,498 |
| 16. Deferred taxes | 8.6.1.7 | -827,603 | 0 |
| 17. Corporate income tax | 8.6.2.9 | -374,598 | 1,798,498 |
| 18. Net profit/loss for the accounting period | | 14,892,069 | 18,737,107 |

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

8.3 STATEMENT OF OTHER COMPREHENSIVE INCOME

| in EUR | Note | 2016 | 2015 |
|---|------|-------------------|-------------------|
| Net profit/loss for the accounting period | | 14,892,069 | 18,737,107 |
| Items that will not be reclassified subsequently to profit or loss | | -37,083 | 125,774 |
| Actuarial gains/losses | | -37,083 | 125,774 |
| Other comprehensive income for the financial year | | -37,083 | 125,774 |
| Total comprehensive income for the reporting period | | 14,854,986 | 18,862,881 |

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

8.4 STATEMENT OF CASH FLOWS

| in EUR | Note | 2016 | 2015 |
|--|-----------------|---------------------|---------------------|
| A. CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| a) Net profit/loss | | 14,892,069 | 18,737,107 |
| Pre-tax profit/loss | 8.2 | 14,517,471 | 20,535,605 |
| Corporate income tax and other taxes not included in operating expenses | | -374,598 | 1,798,498 |
| b) Adjustments for | | -7,365,563 | -25,786,928 |
| amortisation and depreciation (+) | 8.6.2.5 | 958,943 | 989,666 |
| revaluation operating revenues (-) | | -13,584,586 | -33,880,686 |
| revaluation operating expenses (+) | | 204,798 | 11,043,368 |
| finance income, excluding finance income from operating receivables (-) | 8.6.2.7 | -14,210,318 | -18,441,936 |
| finance costs, excluding finance costs from operating liabilities (+) | 8.6.2.8 | 6,274,055 | 20,404,628 |
| other adjustments to revenues and expenses | | -3,112,296 | -1,934,227 |
| other adjustments to balance sheet operating items | | 16,103,841 | -3,967,741 |
| c) Changes in net working capital (and provisions and deferred tax assets and liabilities) from balance sheet operating items | | -12,533,195 | 8,898,738 |
| Opening less closing operating receivables | | -2,341,758 | 57,357,435 |
| Opening less closing deferred tax assets | | -827,602 | 0 |
| Opening less closing available-for-sale assets (disposal groups) | | -19,804 | 0 |
| Opening less closing inventories | | 671 | -671 |
| Closing less opening operating liabilities | | -16,203,701 | -47,267,084 |
| Closing less opening provisions | | -241,991 | 300,027 |
| Inflows from interest received and shares in the profit of others | | 9,450,949 | 18,441,936 |
| Outflows for interest paid | | -2,349,959 | -19,932,905 |
| d) Net cash flows from operating activities (a + b + c) | | -5,006,689 | 1,848,917 |
| B. CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| a) Inflows from investing activities | | 158,683,883 | 255,726,089 |
| Inflows from the disposal of property, plant and equipment | 8.6.1.2 | 1,398,008 | 1,121,811 |
| Inflows from the disposal of investment property | 8.6.1.3 | 1,231,242 | 33,721,557 |
| Inflows from the disposal of financial assets | | 156,054,633 | 220,882,721 |
| b) Outflows from investing activities | | -162,749,535 | -242,385,895 |
| Outflows for the acquisition of intangible assets | 8.6.1.1 | -985,189 | 319,963 |
| Outflows for the acquisition of property, plant and equipment | 8.6.1.2 | -2,308,942 | -371,778 |
| Outflows for the acquisition of investment property | 8.6.1.3 | -999,687 | -39,492,772 |
| Outflows for the acquisition of financial assets | 8.6.1.4 | -158,455,717 | -202,841,308 |
| c) Net cash flows from investing activities (a + b) | | -4,065,652 | 13,340,194 |
| C. CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| a) Inflows from financing activities | | 526,740,489 | 409,956,665 |
| Inflows from paid-up capital | | 0 | 110,204,251 |
| Inflows from increase in financial liabilities | | 526,740,489 | 299,752,414 |
| b) Outflows from financing activities | | -502,521,603 | -428,202,439 |
| Outflows for the repayment of financial liabilities | | -499,521,603 | -428,202,439 |
| Outflows for the payment of dividends and other shares in profit | | -3,000,000 | 0 |
| c) Net cash flow from financing activities (a + b) | | 24,218,886 | -18,245,774 |
| D. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS | 8.6.1.11 | 38,281,250 | 23,134,705 |
| x) Net cash flow in period (sum of Ac, Bc and Cc) | | 15,146,545 | -3,056,663 |
| +/- Calculated exchange differences from foreign currency assets | | | |
| y) Opening balance of cash and cash equivalents | 8.6.1.11 | 23,134,705 | 26,191,368 |

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

8.5 STATEMENT OF CHANGES IN EQUITY

in the period 1 January to 31 December 2016

| | Share capital | Share premium | Legal reserves | Other profit reserves | Fair value reserves | Retained earnings | | Total |
|---|---------------|---------------|----------------|-----------------------|---------------------|-----------------------------|--|-------------|
| | | | | | | Profit/loss brought forward | Net profit/loss for the financial year | |
| Opening balance for the reporting period | 205,274,421 | 45,002,140 | 829,108 | 0 | -166,904 | 5,759,467 | 17,907,999 | 274,606,231 |
| Changes in equity – transactions with owners | 0 | 0 | 0 | 0 | 0 | -3,000,000 | 0 | -3,000,000 |
| Payment of shares in profit | | | | | | -3,000,000 | | -3,000,000 |
| Changes in total comprehensive income for the reporting period | 0 | 0 | 0 | 0 | -36,346 | -736 | 14,892,069 | 14,854,987 |
| Entry of net profit/loss for the reporting period | | | | | | | 14,892,069 | 14,892,069 |
| Other items of comprehensive income in the reporting period | | | | | -36,346 | -736 | | -37,082 |
| Changes within equity | 0 | 0 | 744,603 | 6,701,431 | 0 | 18,097,021 | -25,354,033 | 189,022 |
| Allocation of remaining portion of net profit for the comparable reporting period to other components of equity | | | | | | 17,907,999 | -17,907,999 | 0 |
| Allocation of a portion of net profit from the reporting period to other components of equity pursuant to resolution of management and supervisory bodies | | | 744,603 | 6,701,431 | | | -7,446,034 | 0 |
| Other changes in equity | | | | | | 189,022 | | 189,022 |
| Closing balance for the reporting period | 205,274,421 | 45,002,140 | 1,573,711 | 6,701,431 | -203,250 | 20,855,752 | 7,446,035 | 286,650,240 |
| Distributable profit | | | | | | 20,855,752 | 7,446,035 | 28,301,787 |

in the period 1 January to 31 December 2015

| | Share capital | Share premium | Legal reserves | Fair value reserves | Retained earnings | | Total |
|--|---------------|---------------|----------------|---------------------|-----------------------------|------------------------------------|-------------|
| | | | | | Profit/loss brought forward | Profit/loss for the financial year | |
| Balance at end of the previous reporting period | 95,070,230 | 45,002,140 | | 14,126,378 | -404,410 | 2,794,789 | 156,589,127 |
| Transition to the IFRS | | | | -14,425,660 | 3,375,692 | | -11,049,968 |
| Opening balance for the reporting period | 95,070,230 | 45,002,140 | 0 | -299,282 | 2,971,282 | 2,794,789 | 145,539,159 |
| Changes in equity – transactions with owners | 110,204,191 | 0 | 0 | 0 | 0 | 0 | 110,204,191 |
| Entry of additional paid-up capital | 110,204,191 | | | | | | 110,204,191 |
| Changes in total comprehensive income for the reporting period | 0 | 0 | 0 | 132,378 | -6,604 | 18,737,107 | 18,862,881 |
| Entry of net profit/loss for the reporting period | | | | | | 18,737,107 | 18,737,107 |
| Items that will not be reclassified subsequently to profit or loss | | | | 132,378 | -6,604 | | 125,774 |
| Changes within equity | 0 | 0 | 829,108 | 0 | 2,794,789 | -3,623,897 | 0 |
| Allocation of remaining portion of net profit for the comparable reporting period to other components of equity | | | | | 2,794,789 | -2,794,789 | 0 |
| Allocation of a portion of net profit for the creation of additional reserves pursuant to the General Meeting resolution | | | 829,108 | | | -829,108 | 0 |
| Closing balance for the reporting period | 205,274,421 | 45,002,140 | 829,108 | -166,904 | 5,759,467 | 17,907,999 | 274,606,231 |
| Distributable profit | | | | | 5,759,467 | 17,907,999 | 23,667,466 |

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

8.6 NOTES TO THE FINANCIAL STATEMENTS

8.6.1 NOTES TO THE STATEMENT OF FINANCIAL POSITION

8.6.1.1 Intangible assets

Intangible assets comprise licences and software.

Changes to intangible assets

| in EUR | Long-term property rights | Non-current deferred development costs | Total |
|--------------------------------|---------------------------|--|-----------|
| Historical cost | | | |
| Balance as at 1 January 2015 | 3,576,857 | 129,683 | 3,706,540 |
| Acquisitions | 133,799 | 0 | 133,799 |
| Disposals | -1,736 | 0 | -1,736 |
| Balance as at 31 December 2015 | 3,708,920 | 129,683 | 3,838,603 |
| Balance as at 1 January 2016 | 3,708,920 | 129,683 | 3,838,603 |
| Acquisitions | 783,737 | 0 | 783,737 |
| Disposals | | | |
| Write-downs | -1,668 | 0 | -1,668 |
| Balance as at 31 December 2016 | 4,490,989 | 129,683 | 4,620,672 |
| Value adjustment | | | |
| Balance as at 1 January 2015 | 3,174,129 | 129,683 | 3,303,812 |
| Write-downs | -1,736 | 0 | -1,736 |
| Amortisation | 197,223 | 0 | 197,223 |
| Balance as at 31 December 2015 | 3,369,616 | 129,683 | 3,499,299 |
| Balance as at 1 January 2016 | 3,369,616 | 129,683 | 3,499,299 |
| Write-downs | -1,668 | 0 | -1,668 |
| Amortisation | 215,767 | 0 | 215,767 |
| Balance as at 31 December 2016 | 3,583,715 | 129,683 | 3,713,398 |
| Carrying amount | | | |
| Balance as at 1 January 2015 | 402,728 | 0 | 402,728 |
| Balance as at 31 December 2015 | 339,304 | 0 | 339,304 |
| Balance as at 1 January 2016 | 339,304 | 0 | 339,304 |
| Balance as at 31 December 2016 | 907,274 | 0 | 907,274 |

Slovenske železnice, d. o. o., had no commitments for the acquisition of intangible assets as at 31 December 2015 and 31 December 2016, nor had the Company pledged intangible assets as collateral.

A total of 65.1% of all intangible assets in use as at 31 December 2016 have been depreciated in full (that proportion stood at 72.9% as at 31 December 2015). That proportion is calculated taking into account the historical cost of intangible assets.

8.6.1.2 Property, plant and equipment

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|-------------------|-------------------|------------------|
| Land | 1,095,402 | 1,130,482 | 1,124,177 |
| Buildings | 7,063,293 | 7,041,340 | 7,692,688 |
| Equipment | 1,220,590 | 850,921 | 798,728 |
| Property, plant and equipment in acquisition | 1,793,001 | 1,142,541 | 146,297 |
| Total | 11,172,286 | 10,165,284 | 9,761,890 |

Changes in property, plant and equipment

| in EUR | Land | Buildings | Plant and equipment | Equipment under finance leasing | Property, plant and equipment in acquisition | Total Property, plant and equipment |
|---------------------------------------|------------------|-------------------|---------------------|---------------------------------|--|-------------------------------------|
| Historical cost | | | | | | |
| Balance as at 31 December 2014 | 4,831,098 | 17,175,472 | 11,432,732 | 19,348 | 146,297 | 33,604,947 |
| Adjustments to the IFRS | -3,706,921 | -603,416 | 0 | 0 | 0 | -4,310,337 |
| Balance as at 1 January 2015 | 1,124,177 | 16,572,056 | 11,432,732 | 19,348 | 146,297 | 29,294,610 |
| Acquisitions | 11,300 | 18,000 | 313,050 | 0 | 996,244 | 1,338,594 |
| Disposals – sales | -4,995 | -1,074,963 | -449,356 | 0 | 0 | -1,529,314 |
| Balance as at 31 December 2015 | 1,130,482 | 15,515,093 | 11,296,426 | 19,348 | 1,142,541 | 29,103,890 |
| Balance as at 1 January 2016 | 1,130,482 | 15,515,093 | 11,296,426 | 19,348 | 1,142,541 | 29,103,890 |
| Acquisitions | 0 | 1,120 | 631,783 | 0 | 650,460 | 1,283,363 |
| Disposals | -35,080 | -981,437 | 0 | 0 | 0 | -1,016,517 |
| Write-downs | 0 | 0 | -483,544 | 0 | 0 | -483,544 |
| Transfers | | 4,867,992 | 0 | 0 | 0 | 4,867,992 |
| Balance as at 31 December 2016 | 1,095,402 | 19,402,768 | 11,444,665 | 19,348 | 1,793,001 | 33,755,184 |
| Value adjustment | | | | | | |
| Balance as at 31 December 2014 | 0 | 8,973,407 | 10,646,903 | 6,449 | 0 | 19,626,759 |
| Adjustments to the IFRS | 0 | -94,039 | 0 | 0 | 0 | -94,039 |
| Balance as at 1 January 2015 | 0 | 8,879,368 | 10,646,903 | 6,449 | 0 | 19,532,720 |
| Increases | 0 | 18,000 | 4,319 | 0 | 0 | 22,319 |
| Decreases | 0 | -633,445 | -423,892 | 0 | 0 | -1,057,337 |
| Depreciation | 0 | 209,830 | 227,204 | 3,870 | 0 | 440,904 |
| Balance as at 31 December 2015 | 0 | 8,473,753 | 10,454,534 | 10,319 | 0 | 18,938,606 |
| Balance as at 1 January 2016 | 0 | 8,473,753 | 10,454,534 | 10,319 | 0 | 18,938,606 |
| Increases | 0 | 4,177,453 | 1,991 | 0 | 0 | 4,179,444 |
| Decreases | 0 | -571,566 | -472,031 | 0 | 0 | -1,043,597 |
| Depreciation | 0 | 259,835 | 244,740 | 3,870 | 0 | 508,445 |
| Balance as at 31 December 2016 | 0 | 12,339,475 | 10,229,234 | 14,189 | 0 | 22,582,898 |
| Carrying amount | | | | | | |
| Balance as at 1 January 2015 | 1,124,177 | 7,692,688 | 785,829 | 12,899 | 146,297 | 9,761,890 |
| Balance as at 31 December 2015 | 1,130,482 | 7,041,340 | 841,892 | 9,029 | 1,142,541 | 10,165,284 |
| Balance as at 1 January 2016 | 1,130,482 | 7,041,340 | 841,892 | 9,029 | 1,142,541 | 10,165,284 |
| Balance as at 31 December 2016 | 1,095,402 | 7,063,293 | 1,215,431 | 5,159 | 1,793,001 | 11,172,286 |

The Company's moveable property and real estate were not pledged as guarantees for long-term loans as at 31 December 2016, nor at 31 December 2015.

The Company had commitments for the purchase of property, plant and equipment in the amount of EUR 134,053,915 as at 31 December 2016 (EUR 140,650,327 as at 31 December 2015).

A total of 45.2% of all items of property, plant and equipment in use as at 31 December 2016 have been depreciated in full (that proportion stood at 42.0% as at 31 December 2015). That proportion is calculated taking into account the historical cost of property, plant and equipment.

8.6.1.3 Investment property

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---------------------|-------------------|-------------------|-------------------|
| Investment property | 44,530,178 | 44,623,566 | 15,334,050 |
| Total | 44,530,178 | 44,623,566 | 15,334,050 |

Investment property comprises warehouses, commercial buildings and land that the Company leases to others.

Changes in investment property

| in EUR | Land | Buildings | Total |
|--|-------------------|-------------------|-------------------|
| Historical cost | | | |
| Balance as at 31 December 2014 | 17,323,411 | 26,217,839 | 43,541,250 |
| Adjustments to the IFRS | -12,447,504 | -1,158,008 | -13,605,512 |
| Balance as at 1 January 2015 | 4,875,907 | 25,059,831 | 29,935,738 |
| Acquisitions | 33,139,428 | 92,339 | 33,231,767 |
| Disposals | -220,822 | -4,170,965 | -4,391,787 |
| Balance as at 31 December 2015 | 37,794,513 | 20,981,205 | 58,775,718 |
| Balance as at 1 January 2016 | 37,794,513 | 20,981,205 | 58,775,718 |
| Acquisitions | 9,185 | 990,502 | 999,687 |
| Disposals | -114,395 | -661,791 | -776,186 |
| Transfers for sale | 0 | -18,366 | -18,366 |
| Transfers to property, plant and equipment | 0 | -4,867,992 | -4,867,992 |
| Balance as at 31 December 2016 | 37,689,303 | 16,423,558 | 54,112,861 |
| Value adjustment | | | |
| Balance as at 31 December 2014 | 0 | 14,806,528 | 14,806,528 |
| Adjustments to the IFRS | 0 | -204,840 | -204,840 |
| Balance as at 1 January 2015 | 0 | 14,601,688 | 14,601,688 |
| Depreciation | 0 | 332,272 | 332,272 |
| Disposals | 0 | -781,808 | -781,808 |
| Balance as at 31 December 2015 | 0 | 14,152,152 | 14,152,152 |
| Balance as at 1 January 2016 | 0 | 14,152,152 | 14,152,152 |
| Depreciation | 0 | 234,731 | 234,731 |
| Disposals | 0 | -626,747 | -626,747 |
| Transfers to property, plant and equipment | 0 | -4,177,453 | -4,177,453 |
| Balance as at 31 December 2016 | 0 | 9,582,683 | 9,582,683 |
| Carrying amount | | | |
| Balance as at 1 January 2015 | 4,875,907 | 10,458,143 | 15,334,050 |
| Balance as at 31 December 2015 | 37,794,513 | 6,829,053 | 44,623,566 |
| Balance as at 1 January 2016 | 37,794,513 | 6,829,053 | 44,623,566 |
| Balance as at 31 December 2016 | 37,689,303 | 6,840,875 | 44,530,178 |

The Company has not pledged investment property as collateral.

Slovenske železnice, d. o. o., generated rental income of EUR 1,628,821 in 2016 (EUR 1,412,469 in 2015). Depreciation costs associated with investment property totalled EUR 234,731 (EUR 332,272 in 2015).

A total of 26.9% of all investment property in use as at 31 December 2016 have been depreciated in full (that proportion stood at 28.4% as at 31 December 2015). That proportion is calculated taking into account the historical cost of investment property.

The fair value of investment property was determined with the help of certified real estate valuers and amounted to EUR 79,335,475 as at 31 December 2016 (EUR 81,274,841 as at 31 December 2015).

8.6.1.4 Non-current financial assets

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|-------------------------------------|--------------------|--------------------|--------------------|
| Investments in subsidiaries | 270,866,958 | 260,317,431 | 150,113,240 |
| Investments in associates | 3,079,623 | 3,079,623 | 3,079,623 |
| Available-for-sale financial assets | 4,117,175 | 3,460,322 | 3,460,322 |
| Total | 278,063,756 | 266,857,376 | 156,653,185 |

Changes to non-current financial investments

| in EUR | Investments in subsidiaries | Investments in associates | Other financial assets |
|--------------------------------|-----------------------------|---------------------------|------------------------|
| Historical cost | | | |
| Balance as at 1 January 2015 | 150,313,186 | 5,609,252 | 3,479,800 |
| Increase in share capital | 110,204,191 | | |
| Balance as at 31 December 2015 | 260,517,377 | 5,609,252 | 3,479,800 |
| Balance as at 1 January 2016 | 260,517,377 | 5,609,252 | 3,479,800 |
| Subsequent payments | 10,549,527 | | 656,853 |
| Balance as at 31 December 2016 | 271,066,904 | 5,609,252 | 4,136,653 |
| Value adjustment | | | |
| Balance as at 1 January 2015 | 199,946 | 2,529,629 | 19,478 |
| Balance as at 31 December 2015 | 199,946 | 2,529,629 | 19,478 |
| Balance as at 1 January 2016 | 199,946 | 2,529,629 | 19,478 |
| Balance as at 31 December 2016 | 199,946 | 2,529,629 | 19,478 |
| Carrying amount | | | |
| Balance as at 1 January 2015 | 150,113,240 | 3,079,623 | 3,460,322 |
| Balance as at 31 December 2015 | 260,317,431 | 3,079,623 | 3,460,322 |
| Balance as at 1 January 2016 | 260,317,431 | 3,079,623 | 3,460,322 |
| Balance as at 31 December 2016 | 270,866,958 | 3,079,623 | 4,117,175 |

Participating interests in subsidiaries

| in EUR | Participating interest* 31 December 2016 | Share capital* 31 December 2016 | Carrying amount of participating interest | |
|--|---|------------------------------------|---|--------------------|
| | | | 31 December 2016 | 31 December 2015 |
| SŽ-Tovorni promet, d. o. o. | 100% | 36,860,942 | 61,615,541 | 61,615,541 |
| SŽ-Potniški promet, d. o. o. | 100% | 131,684,161 | 133,832,158 | 133,832,158 |
| SŽ-Infrastruktura, d. o. o. | 100% | 15,828,186 | 17,411,005 | 17,411,005 |
| SŽ-Vleka in tehnika, d. o. o. | 100% | 26,068,145 | 41,718,205 | 31,168,678 |
| Prometni institut Ljubljana, d. o. o. | 100% | 162,328 | 338,846 | 338,846 |
| SŽ-ŽIP, storitve, d. o. o. | 100% | 6,072,597 | 3,094,551 | 3,094,551 |
| Fersped, d. o. o. | 100% | 3,138,557 | 8,940,000 | 8,940,000 |
| SŽ-Železniško gradbeno podjetje Ljubljana, d. d. | 79.82% | 3,152,412 | 3,388,034 | 3,388,034 |
| SŽ-Železniška tiskarna Ljubljana, d. d. | 64.28% | 265,160 | 528,618 | 528,618 |
| Total | | | 270,866,958 | 260,317,431 |

* The amount of share capital and participating interests were unchanged in 2016.

Information regarding associates as at 31 December 2016

| Business name of associate | Business address of associate | Core activity | Ownership as at 31 December 2016 | Ownership as at 31 December 2015 |
|----------------------------|----------------------------------|--|-------------------------------------|-------------------------------------|
| Terme Olimia, d. d. | Zdraviliška cesta 24, Podčetrtek | Activities of hotels, campgrounds, catering, sports facilities and health care | 23.87% | 23.87% |
| Adria Kombi, d. o. o. | Tivolska cesta 50, Ljubljana | Freight rail transport | 33.72% | 26.00% |

Balance of investments in associates

| in EUR | 31 December 2016 | 31 December 2015 |
|--|------------------|------------------|
| Terme Olimia, d. d. | 3,064,172 | 3,064,172 |
| Adria Kombi, d. o. o. | 15,451 | 15,451 |
| Total investments in associates | 3,079,623 | 3,079,623 |

Available-for-sale financial assets

| in EUR | Participating interest 31 December 2016 | Value of investment | |
|---|--|---------------------|------------------|
| | | 31 December 2016 | 31 December 2015 |
| Emonika NS, d. o. o. | 3.0000% | 1,953,330 | 1,953,330 |
| EUROFIMA, Basel | 0.4200% | 2,033,709 | 1,376,856 |
| Other available-for-sale financial assets | | 130,136 | 130,136 |
| Total | | 4,117,175 | 3,460,322 |

8.6.1.5 Non-current financial receivables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|--------------------|--------------------|--------------------|
| Non-current financial receivables from Group companies | 122,915,993 | 133,418,800 | 116,288,137 |
| Other non-current financial receivables | 2,403,452 | 2,403,554 | 2,403,656 |
| Total | 125,319,445 | 135,822,354 | 118,691,793 |

The majority of non-current financial receivables relate to the receivables of SŽ, d. o. o., from the subsidiary SŽ-Tovorni promet, d. o. o., as the result of the latter's

non-current liabilities to banks and others, for which SŽ, d. o. o., discloses non-current financial receivables from the aforementioned subsidiary (see note 6.6.1.14).

8.6.1.6 Non-current operating receivables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|------------------|------------------|-------------------|
| Non-current operating receivables from Group companies | 516,276 | 597,504 | 641,162 |
| Non-current trade receivables | 293 | 0 | 0 |
| Other non-current operating receivables | 3,352,036 | 2,869,017 | 60,231,190 |
| Total | 3,868,605 | 3,466,521 | 60,872,352 |

Other non-current operating receivables comprise loans granted for the purchase of housing and other real estate in the amount of EUR 3,352,036 (EUR 2,869,017 as at 31 December 2015).

The Company believes that its non-current operating receivables, which are otherwise unsecured, are not exposed to risks. The Company did not disclose any receivables from members of management and supervisory bodies.

8.6.1.7 Deferred tax assets

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|----------------------------|------------------|------------------|----------------|
| Deferred tax assets | 827,603 | 0 | 0 |

| in EUR | Tax loss | Provisions | Tax allowances for investments | Total |
|-------------------------------------|----------------|------------|--------------------------------|----------------|
| Balance as at 1 January 2015 | 0 | 0 | 0 | 0 |
| Balance at 31 December 2015 | 0 | 0 | 0 | 0 |
| Balance at 1 January 2016 | 0 | 0 | 0 | 0 |
| Debited/credited to profit or loss | 827,603 | 0 | 0 | 827,603 |
| Balance at 31 December 2016 | 827,603 | 0 | 0 | 827,603 |

The Company recognises deferred tax assets for non-deductible expenses arising from tax losses, but only to the extent of revenues from positive tax bases for the next five years. Taking into account planned operating results,

the Company assesses that the probability of a reduction in tax bases as the result of non-deductible expenses is higher. Deferred tax assets were therefore higher relative to 2015.

Total sources for the creation of deferred tax assets are as follows:

| in EUR | Tax loss |
|-----------------------------|-----------|
| Balance at 31 December 2015 | 8,178,064 |
| Balance at 31 December 2016 | 4,355,803 |

8.6.1.8 Current financial receivables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---|-------------------|-------------------|--------------------|
| Financial receivables from subsidiaries | 19,794,014 | 27,761,762 | 173,137,926 |
| Financial receivables from forward transactions | 526,172 | 0 | 0 |
| Financial receivables from others | 102 | 102 | 102 |
| Total | 20,320,288 | 27,761,864 | 173,138,028 |

Current financial receivables primarily comprise receivables that arose on the basis of cash-pooling agreements and from current credit lines granted to Group companies in the amount of EUR 8,745,473 (EUR 22,097,836 as at 31 December 2015), and from the transfer of the current portion of long-term loans that mature in 2017

in the amount of EUR 10,769,231 (EUR 5,384,615 as at 31 December 2015).

Interest is charged between Group companies at the tax-deductible interest rate applicable for related parties.

8.6.1.9 Trade receivables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---|------------------|------------------|------------------|
| Current receivables from Group companies | 2,082,134 | 2,780,191 | 2,756,088 |
| Current trade receivables from domestic customers | 633,880 | 279,940 | 380,420 |
| Current trade receivables from foreign customers | 8,096 | 10,824 | 7,787 |
| Total | 2,724,110 | 3,070,955 | 3,144,295 |

| in EUR | Gross value as at 31 December 2016 | Value adjustments as at 31 December 2016 | Net value as at 31 December 2016 | Net value as at 31 December 2015 |
|---|------------------------------------|--|----------------------------------|----------------------------------|
| Current receivables from Group companies | 2,082,134 | 0 | 2,082,134 | 2,780,191 |
| Current trade receivables from domestic customers | 779,083 | 145,203 | 633,880 | 279,940 |
| Current trade receivables from foreign customers | 8,096 | 0 | 8,096 | 10,824 |
| Total | 2,869,313 | 145,203 | 2,724,110 | 3,070,955 |

Net adjustments to the value of current trade receivables were created as follows:

| in EUR | 2016 | 2015 |
|---------------------------------------|----------------|----------------|
| Balance as at 1 January | 203,142 | 196,636 |
| Reduction for written-off receivables | -27,425 | -3,268 |
| Reversal of value adjustments | -30,514 | 0 |
| Creation of value adjustments | 0 | 9,774 |
| Balance as at 31 December | 145,203 | 203,142 |

Maturity breakdown of receivables:

| in EUR | 31 December 2016 | 31 December 2015 |
|---------------------------------|------------------|------------------|
| Non-past-due receivables | 2,396,775 | 2,326,853 |
| Past-due receivables | 472,538 | 947,244 |
| • up to 30 days | 164,327 | 515,236 |
| • 31 to 90 days | 76,910 | 239,161 |
| • 91 to 365 days | 51,285 | 42,310 |
| • more than 365 days | 180,016 | 150,537 |
| Total | 2,869,313 | 3,274,097 |

8.6.1.10 Other current operating receivables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|------------------|------------------|------------------|
| Receivables from government and other institutions | 815,885 | 431,978 | 606,392 |
| Receivables from employees | 252,575 | 235,629 | 214,440 |
| Other receivables associated with finance income | 1,477 | 1,565 | 2,993 |
| Current operating receivables from advances | 27,150 | 3,544 | 5,505 |
| Other current operating receivables | 536,622 | 44,389 | 74,705 |
| Deferred costs | 148,509 | 94,027 | 64,928 |
| Accrued income | 147,260 | 43,526 | 377,146 |
| Total | 1,929,478 | 854,658 | 1,346,109 |

Write-offs and impairments of current operating receivables in 2016 are disclosed in operating expenses in the amount of EUR 5,305 (EUR 36,991 in 2015).

8.6.1.11 Cash and cash equivalents

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|-----------------------|-------------------|-------------------|-------------------|
| Cash in hand | 2,910 | 2,369 | 3,123 |
| Cash in bank accounts | 38,278,340 | 23,132,336 | 26,188,246 |
| Total | 38,281,250 | 23,134,705 | 26,191,369 |

8.6.1.12 Equity

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---|--------------------|--------------------|--------------------|
| Called-up capital | 205,274,421 | 205,274,421 | 95,070,230 |
| Share premium | 45,002,140 | 45,002,140 | 45,002,140 |
| Legal reserves | 1,573,711 | 829,108 | 0 |
| Other profit reserves | 6,701,431 | 0 | 0 |
| Fair value reserves | -203,250 | -166,904 | -299,281 |
| Retained earnings from previous years | 20,855,752 | 5,759,467 | 2,971,282 |
| Retained earnings from the financial year | 7,446,035 | 17,907,999 | 2,794,789 |
| Total | 286,650,240 | 274,606,231 | 145,539,160 |

| Changes in equity | in EUR |
|---|--------------------|
| Balance as at 31 December 2014 | 156,589,128 |
| Changes in equity due to the transition to the IFRS | -11,049,968 |
| Balance as at 1 January 2015 | 145,539,160 |
| Capital increase | 110,204,191 |
| Net profit for the financial year | 18,737,107 |
| Actuarial gains and losses | 125,773 |
| Balance as at 31 December 2015 | 274,606,231 |
| Net profit for the financial year | 14,892,069 |
| Payment of shares in profit | -3,000,000 |
| Actuarial gains and losses | -37,082 |
| Other increases | 189,022 |
| Balance as at 31 December 2016 | 286,650,240 |

8.6.1.13 Provisions and non-current deferred income

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|------------------|------------------|------------------|
| Provisions for jubilee benefits and termination benefits | 1,667,232 | 1,628,165 | 1,628,515 |
| Other provisions | 19,000 | 300,372 | 0 |
| Non-current deferred income | 3,163 | 2,848 | 2,843 |
| Total | 1,689,395 | 1,931,385 | 1,631,358 |

Changes in provisions for jubilee benefits and termination benefits

| in EUR | Termination benefits | Jubilee benefits | Total |
|---|----------------------|------------------|------------------|
| Balance as at 1 January 2015 | 1,480,206 | 148,309 | 1,628,515 |
| Used in 2015 | -33,075 | -36,962 | -70,037 |
| Current employment costs | 128,225 | 41,981 | 170,206 |
| Interest (expenses) | 32,933 | 2,921 | 35,854 |
| Reversal of provisions – closure, rights, etc. (revenues) | -8,728 | -1,872 | -10,600 |
| Actuarial gains/losses | -125,773 | 0 | -125,773 |
| Balance as at 31 December 2015 | 1,473,788 | 154,377 | 1,628,165 |
| Balance as at 1 January 2016 | 1,473,788 | 154,377 | 1,628,165 |
| Used in 2016 | -6,780 | -29,112 | -35,892 |
| Current employment costs | 53,652 | 29,777 | 83,429 |
| Interest (expenses) | 31,172 | 2,964 | 34,136 |
| Reversal of provisions – closure, rights, etc. (revenues) | -79,689 | 0 | -79,689 |
| Actuarial gains/losses | 37,083 | 0 | 37,083 |
| Balance as at 31 December 2016 | 1,509,226 | 158,006 | 1,667,232 |

The following material assumptions were taken into account in the calculation of provisions for retirement benefits and jubilee benefits:

| | 2016 | 2015 |
|--|-----------|-----------|
| Average monthly gross wage in Slovenia | EUR 1,580 | EUR 1,565 |
| Discount rate | 2.12% | 2.25% |
| Overall wage growth | 1.5% | 1.5% |
| Retirement conditions (age) | | |
| • men (transitional period) | 62 | 60 |
| • women (transitional period) | 60 | 59 |
| • men | 65 | 65 |
| • women | 65 | 65 |

8.6.1.14 Financial liabilities

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|--------------------|--------------------|--------------------|
| Non-current financial liabilities to domestic banks | 18,846,154 | 29,615,385 | 15,484,309 |
| Other non-current financial liabilities | 104,071,705 | 103,809,109 | 100,865,599 |
| Total non-current financial liabilities | 122,917,859 | 133,424,494 | 116,349,908 |
| Current financial liabilities to Group companies | 89,133,070 | 67,077,043 | 53,514,797 |
| Current financial liabilities to domestic banks | 10,769,231 | 5,384,615 | 134,217,489 |
| Current financial liabilities to foreign banks | 0 | 0 | 3,183,643 |
| Liabilities to banks arising from interest rate swaps | 1,160,804 | 698,156 | 0 |
| Other current financial liabilities to domestic entities | 193,553 | 110,008 | 381,235 |
| Other current financial liabilities to foreign entities | 0 | 0 | 29,972,612 |
| Total current financial liabilities | 101,256,658 | 73,269,822 | 221,269,776 |
| Total | 224,174,517 | 206,694,316 | 337,619,684 |

Non-current financial liabilities

| in EUR | Date of agreement or annex | Date of maturity | Balance 31 December 2016 | Collateral |
|-------------------------------------|----------------------------|-------------------|-----------------------------|-------------------|
| • Restructuring of liabilities | 27 July 2015 | 31 July 2019 | 18,846,154 | Bills of exchange |
| • Financing of locomotive purchases | 7 September 2004 | 10 September 2019 | 36,900,000 | Sureties |
| • Financing of locomotive purchases | 7 September 2004 | 9 September 2019 | 37,100,000 | Sureties |
| • Financing of locomotive purchases | 19 November 2008 | 15 December 2020 | 30,069,839 | Sureties |
| Total | | | 122,915,993 | |

Slovenske železnice, d. o. o., discloses both liabilities to the creditor and receivables from the subsidiary SŽ-Tovorni promet, d. o. o., for the loans stated above.

The balance of non-current financial liabilities to domestic banks was reduced in 2016 for the transfer of a portion to current liabilities in the amount of EUR 10,769,231 (EUR 20,868,924 was transferred to current liabilities, while loans totalling EUR 35,000,000 were drawn down in 2015).

Other non-current financial liabilities rose by EUR 262,596 (EUR 2,943,510 in 2015) as the result of exchange differences in the amount of EUR 266,424 (EUR 2,947,128 in 2015), and were reduced by EUR 3,813 (EUR 3,618 in 2015) for the transfer of non-current liabilities for financing leasing to current liabilities and by EUR 15 for other reasons.

Current financial liabilities

Current financial liabilities comprise:

- current financial liabilities to Group companies comprising the controlling company's liabilities under cash-pooling agreements in the amount of EUR 89,073,100 (EUR 67,015,500 as at 31 December 2015) and accrued interest in the amount of EUR 59,970 (EUR 61,543 as at 31 December 2015);
- current financial liabilities to domestic banks in the amount of EUR 10,769,231 (EUR 5,384,615 as at 31 December 2015) as the result of a loan raised to reschedule EUROFIMA loans (liabilities mature on 31 December 2017);
- the fair value of derivatives from interest rate swaps in the amount of EUR 1,160,804 (EUR 698,156 as at 31 December 2015); and
- other current financial liabilities in the form of interest on derivatives transactions in the amount of EUR 189,740 (EUR 106,390 as at 31 December 2015), and the current portion of non-current finance leases in the amount of EUR 3,813 (EUR 3,618 as at 31 December 2015).

8.6.1.15 Operating liabilities

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|---|-------------------|-------------------|-------------------|
| Non-current liabilities | 7,418,552 | 19,720,874 | 74,500,515 |
| Liabilities to Group companies | 7,409,319 | 19,709,970 | 74,484,918 |
| Liabilities based on advances | 0 | 0 | 3,023 |
| Other operating liabilities | 9,233 | 10,904 | 12,574 |
| Current liabilities | 3,822,684 | 4,005,748 | 4,068,550 |
| Liabilities for advances received | 37,956 | 999,294 | 36,885 |
| Liabilities to employees | 1,922,183 | 1,533,312 | 862,681 |
| Liabilities to the government and government institutions | 583,119 | 559,657 | 418,183 |
| Liabilities to others | 353,098 | 343,179 | 586,977 |
| Deferred income | 14,297 | 11,716 | 6,038 |
| Accrued costs and expenses | 912,031 | 558,590 | 2,157,786 |
| Total | 11,241,236 | 23,726,622 | 78,569,065 |

Non-current operating liabilities

Non-current liabilities to Group companies in the amount of EUR 7,345,995 comprise the non-current liabilities of the transferring company SŽ, d. o. o., to SŽ-Tovorni promet, d. o. o., in the amount of EUR 6,493,538 (EUR 17,356,082 as at 31 December 2015) and to SŽ-Potniški promet, d. o. o., in the amount of EUR 852,457 (EUR 2,278,466 as at 31 December 2015). In 2010, pursuant to Article 5a of the Act Amending the Slovenske Železnice Act (Official Gazette of the Republic of Slovenia, No 43/2011 of 3 September 2011), a claim was established against the Ministry of Infrastructure and Spatial Planning for compensation for the fall in equity in the amount of EUR 134,261,600, which remained on the post-demerger balance sheet as an asset of the transferring company SŽ, d. o. o. With the adoption of the Fiscal Balance Act (Official Gazette of the Republic of Slovenia, No 40 of 30 May 2012), Article 5a of the aforementioned act was amended, such that the government will settle that claim in the period 2014 to 2023.

In 2014, Slovenske železnice, d. o. o., sold four instalments of the aforementioned claim to banks, while the Company sold the remaining five instalments in 2015. The Company used the consideration it received to settle a portion of its debt. Liabilities to both companies were increased in 2016 by accrued interest in the amount of EUR 219,210 based on an agreement regulating mutual relations, and reduced for the transfer of the current portion of non-current liabilities in the amount of EUR 1,224,332, which fall due for payment in 2017 and the write-off of liabilities under annex 2 to the aforementioned agreement (EUR 11,283,431).

Current operating liabilities

Accrued costs and expenses primarily comprise the accrued costs of unused annual leave in the amount of EUR 448,590 (EUR 343,480 as at 31 December 2015) and accrued costs of severance pay for redundant employees in the amount of EUR 456,946 (there were no such costs in 2015).

8.6.1.16 Trade payables

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--------------------------------|------------------|------------------|------------------|
| Liabilities to Group companies | 5,456,652 | 6,356,716 | 1,186,195 |
| Domestic trade payables | 805,157 | 2,350,260 | 915,004 |
| Foreign trade payables | 26,406 | 25,880 | 20,818 |
| Total | 6,288,215 | 8,732,856 | 2,122,017 |

| in EUR | 31 December 2016 | 31 December 2015 |
|---------------------------------|------------------|------------------|
| Non-past-due liabilities | 6,234,574 | 5,757,857 |
| Past-due liabilities | 53,641 | 2,974,999 |
| • up to 30 days | 41,334 | 2,944,505 |
| • 31 to 90 days | 1,118 | 2,984 |
| • 91 to 365 days | 0 | 0 |
| • more than 365 days | 11,189 | 27,510 |
| Total | 6,288,215 | 8,732,856 |

Contingent receivables and liabilities

| in EUR | 31 December 2016 | 31 December 2015 | 1 January 2015 |
|--|--------------------|--------------------|--------------------|
| Mortgages and liens received | 2,816,112 | 2,261,762 | 17,788,999 |
| Estimated value of superficies assigned to Emonika, d. o. o. | 1,725,000 | 1,725,000 | 1,725,000 |
| Receivables arising from interest rate swaps and FX forward transactions | 133,685,224 | 109,250,000 | 26,660,326 |
| Shares of EUROFIMA from the guarantee reserve | 0 | 629,870 | 629,870 |
| Guarantees and bills of exchange received | 55,914,097 | 77,356,541 | 597,112 |
| Unused overdraft facilities and loans | 25,000,000 | 0 | 0 |
| Merchandise on consignment | 484 | 0 | 0 |
| Total contingent receivables | 219,140,917 | 191,223,173 | 47,401,307 |
| Liens on real estate and moveable property | 42,964 | 29,843,142 | 177,019,823 |
| Guarantees and bills of exchange issued | 54,051,867 | 78,905,003 | 26,916,329 |
| Liabilities arising from interest rate swaps and FX forward transactions | 133,241,073 | 109,250,000 | 26,660,326 |
| Liabilities for merchandise on consignment | 484 | 0 | 0 |
| Approved revolving loan | 72,454,527 | 0 | 0 |
| Total contingent liabilities | 259,790,915 | 217,998,145 | 230,596,478 |

8.6.2 NOTES TO THE STATEMENT OF PROFIT OR LOSS

8.6.2.1 Sales revenues

| in EUR | 2016 | 2015 |
|--|-------------------|-------------------|
| Revenues on the domestic market | 19,686,973 | 21,516,790 |
| Services and products | 19,686,973 | 21,516,790 |
| • services and products in connection with Group companies | 18,280,291 | 19,856,595 |
| • services and products in connection with others | 1,406,682 | 1,660,195 |
| Revenues on the foreign market | 93,221 | 125,680 |
| Services and products | 93,221 | 125,680 |
| • services and products in connection with Group companies | 93,221 | 125,680 |
| Total | 19,780,194 | 21,642,470 |

Sales revenue primarily comprises revenues from transactions with Group companies. These include support services (professional, technical and organisational) that the controlling company Slovenske železnice, d. o. o., provided on the basis of agreements with subsidiaries in the amount of EUR 16,189,054 (EUR 16,309,061 in 2015).

8.6.2.2 Other operating revenues

| in EUR | 2016 | 2015 |
|---|-------------------|-------------------|
| Revenues from the reversal of provisions | 79,689 | 181,624 |
| Revenues from the reversal of accruals and deferrals for grants received | 18,366 | 3,434,869 |
| Revenues from the sale of property, plant and equipment, and the revaluation of receivables and liabilities | 13,593,358 | 37,142,651 |
| Other revenues | 85,561 | 95,753 |
| Total | 13,776,974 | 40,854,897 |

A large portion of other operating revenues comprises operating revenues from the reduction of the receivables of SŽ-Tovorni promet, d. o. o., and SŽ-Potniški promet, d. o. o., from SŽ, d. o. o., in the amount of EUR 11,283,431

(annex 2 to the agreement on the regulation of mutual relations from SŽ, d. o. o.'s receivables from the Slovenian government in the amount of EUR 134 million).

8.6.2.3 Costs of goods, materials and services

| in EUR | 2016 | 2015 |
|--|------------------|------------------|
| Costs of materials | 230 | 251 |
| Energy costs | 181,364 | 175,596 |
| Costs of replacement parts | 6,817 | 4,045 |
| Write-off of small inventory | 8,808 | 5,554 |
| Costs of office materials | 77,306 | 92,678 |
| Other material costs | 42,316 | 31,180 |
| Total cost of goods and materials sold and cost of materials used | 316,841 | 309,304 |
| Transport services | 186,750 | 158,027 |
| Maintenance services | 1,170,131 | 980,215 |
| Reimbursement of employee expenses | 105,865 | 58,828 |
| Payment transaction and banking services | 293,914 | 2,387,594 |
| Intellectual and personal services | 800,493 | 917,635 |
| Insurance premiums | 78,761 | 86,377 |
| Advertising, publicity and representation | 415,619 | 458,628 |
| Costs of other services | 1,826,900 | 1,721,848 |
| Total costs of services | 4,878,433 | 6,769,152 |
| Total | 5,195,274 | 7,078,456 |

Major costs of other services include the costs of building surveillance and cleaning and landscaping in the amount of EUR 406,491 (EUR 398,799 in 2015), membership fees and contributions to international organisations and other associations in the amount of EUR 375,053

(EUR 373,849 in 2015), the costs of services under work contracts in the amount of EUR 254,013 (EUR 184,577 in 2015) and the costs of municipal services in the amount of EUR 175,960 (EUR 168,688 in 2015).

Costs of auditor

| in EUR | 2016 | 2015 |
|-------------------------------|---------------|---------------|
| Auditing of the annual report | 12,000 | 12,000 |
| Other assurance services | 500 | 0 |
| Other non-audit services | 0 | 3,300 |
| Total | 12,500 | 15,300 |

8.6.2.4 Labour costs

| in EUR | 2016 | 2015 |
|------------------------------------|-------------------|-------------------|
| Costs of wages and salaries | 11,541,598 | 11,084,136 |
| Pension insurance costs | 1,231,340 | 1,093,967 |
| Other social security costs | 895,706 | 811,834 |
| Other labour costs | 3,034,740 | 1,814,147 |
| • redundant employees | 1,410,907 | 100,705 |
| • actuarial calculation | 83,430 | 170,206 |
| • reimbursements | 1,017,045 | 1,121,037 |
| • other costs | 523,358 | 422,199 |
| Total | 16,703,384 | 14,804,084 |

8.6.2.5 Write-downs

| in EUR | 2016 | 2015 |
|--|------------------|-------------------|
| Depreciation | 958,943 | 962,563 |
| Operating expenses for intangible assets and property, plant and equipment | 199,493 | 152,818 |
| Operating expenses for working capital | 5,304 | 10,802,626 |
| Total | 1,163,740 | 11,918,007 |

8.6.2.6 Other operating expenses

| in EUR | 2016 | 2015 |
|--|------------------|------------------|
| Costs of the programme for resolving the issue of a subsidiary's redundant workers | 3,043,137 | 0 |
| Bonuses for pupils and students on compulsory job training | 389,793 | 177,702 |
| Fees for the use of building land, and other taxes and levies | 162,054 | 169,638 |
| Donations (for sporting, cultural and humanitarian activities) | 238,947 | 156,400 |
| Expenses for the refund of performance bonuses | 0 | 3,865,188 |
| Compensation for damage incurred by legal and natural persons | 14,800 | 552,804 |
| Other expenses | 166,830 | 102,000 |
| Total | 4,015,561 | 5,023,732 |

8.6.2.7 Finance income

| in EUR | 2016 | 2015 |
|--|-------------------|-------------------|
| Finance income from participating interests in Group companies | 6,851,581 | 339,509 |
| Finance income from participating interests in associates | 891,835 | 37,066 |
| Finance income from participating interests in other companies | 1,130,218 | 4,048 |
| Finance income from other investments | 526,172 | 0 |
| Total finance income from participating interests | 9,399,806 | 380,623 |
| Finance income from loans to Group companies | 3,213,614 | 14,576,870 |
| Finance income from loans to others | 1,596,898 | 3,484,444 |
| Total finance income from loans granted | 4,810,512 | 18,061,314 |
| Finance income from operating receivables from Group companies | 8,146 | 44,775 |
| Finance income from other operating receivables | 63,019 | 46,828 |
| Total finance income from operating receivables | 71,165 | 91,603 |
| Total | 14,281,483 | 18,533,540 |

Finance income from participating interests comprises revenues from participation in the profit of subsidiaries, associates and other companies, and revenues from other investments, which by their nature are deemed revenues from derivatives.

Finance income from loans granted primarily comprises:

- revenues from the revaluation of financial liabilities: positive exchange differences in connection with EUROFIMA in the amount of EUR 1,540,863 (EUR 3,409,220 in 2015) and in connection with SŽ-Tovorni promet, d. o. o., in the amount of EUR 1,805,979 (EUR 10,649,816 in 2015); and
- interest on bank loans re-invoiced to SŽ-Tovorni promet, d. o. o., in the amount of EUR 1,246,963 (EUR 3,821,256 in 2015).

8.6.2.8 Finance costs

| in EUR | 2016 | 2015 |
|--|------------------|-------------------|
| Finance costs from loans from Group companies | 2,276,248 | 3,916,068 |
| Finance costs from bank loans | 744,510 | 3,228,117 |
| Finance costs from other financial liabilities | 3,253,297 | 13,260,443 |
| Total finance costs from financial liabilities | 6,274,055 | 20,404,628 |
| Finance costs from operating liabilities to Group companies | 220,047 | 1,179,125 |
| Finance costs from trade payables and liabilities from bills of exchange | 4,044 | 119,524 |
| Finance costs from other operating liabilities | 2,075 | 10,281 |
| Total finance costs from operating liabilities | 226,166 | 1,308,930 |
| Total | 6,500,221 | 21,713,558 |

Finance costs from financial liabilities comprise:

- expenses from relations within the Group, including interest expenses from loans and the pooling of assets based on cash-pooling agreements in the amount of EUR 736,693 (EUR 508,182 in 2015) and expenses from the conversion of a loan denominated in a foreign currency in the amount of EUR 1,539,555 (EUR 3,407,886 in 2015); and
- the majority of expenses vis-à-vis banks and others comprise expenses from the revaluation of financial liabilities (exchange differences) in the amount of EUR 1,805,979 (EUR 10,649,816 in 2015), interest on loans received from banks in the amount of EUR 744,510 (EUR 3,228,117 in 2015) and from EUROFIMA in the amount of EUR 481,505 (EUR 1,020,707 in 2015) and costs associated with derivatives in the amount of EUR 931,333 (EUR 1,554,067 in 2015).

8.6.2.9 Corporate income tax

| in EUR | 2016 | 2015 |
|--------------------------------------|-----------------|------------------|
| Current tax | 453,005 | 1,798,498 |
| Deferred tax | -827,603 | 0 |
| Total taxes | -374,598 | 1,798,498 |
| Pre-tax profit | 14,517,471 | 20,535,605 |
| Tax calculated at effective tax rate | 2,467,970 | 3,491,053 |
| Tax from decrease in revenues | -1,330,616 | -64,706 |
| Tax from decrease in expenses | 105,558 | 109,806 |
| Tax from increase in expenses | -9,134 | -4,056 |
| Tax from decrease in tax base | -63 | 0 |
| Tax from increase in tax base | 65,853 | 500,137 |
| Tax from tax allowances | -846,564 | -2,233,736 |
| Total taxes | -374,598 | 1,798,498 |
| Effective tax rate | -2.58 | 8.76 |

The valid corporate income tax rate was 17% in Slovenia in 2016 (17% in 2015). The calculation takes into account a change in the tax rate in Slovenia from 17% to 19%, effective 1 January 2017.

8.6.3 TRANSACTIONS WITH RELATED PARTIES

The table below presents transactions with Group companies and associates:

| in EUR | Sales | Purchases | Loans received | Loans granted |
|---|-------------------|------------------|--------------------|--------------------|
| 2015 | | | | |
| SŽ-Tovorni promet, d. o. o. | 5,340,312 | 903,378 | 79,877,100 | 122,781,502 |
| SŽ-Potniški promet, d. o. o. | 1,991,216 | 780,278 | 89,646,100 | 0 |
| SŽ-Infrastruktura, d. o. o. | 9,347,328 | 1,627,490 | 70,891,564 | 71,680,500 |
| SŽ-VIT Ljubljana, d. o. o. | 4,159,778 | 1,054,645 | 0 | 4,490,000 |
| SŽ-ŽIP, Storitve, d. o. o. | 785,378 | 1,329,822 | 1,788,000 | 0 |
| SŽ-ŽGP Ljubljana, d. d. | 734,732 | 2,811 | 0 | 931,034 |
| Prometni institut Ljubljana, d. o. o. | 93,248 | 148,683 | 370,000 | 0 |
| SŽ-Železniška tiskarna Ljubljana, d. d. | 5,274 | 45,318 | 220,000 | 0 |
| Fersped, d. o. o. | 103,082 | 26,710 | 0 | 1,949,310 |
| Kamnlom Verd, d. o. o. | 1,209 | 0 | 0 | 0 |
| Calidus sol, d. o. o., Croatia | 128,449 | 150 | 0 | 0 |
| Total Group companies: | 22,690,006 | 5,919,285 | 242,792,764 | 201,832,346 |

| in EUR | Sales | Purchases | Loans received | Loans granted |
|---|-------------------|------------------|--------------------|--------------------|
| 2016 | | | | |
| SŽ-Tovorni promet, d. o. o. | 5,264,107 | 5,636 | 154,271,389 | 296,977 |
| SŽ-Potniški promet, d. o. o. | 1,944,190 | 150,272 | 76,774,000 | 0 |
| SŽ-Infrastruktura, d. o. o. | 9,003,607 | 262,606 | 73,448,000 | 57,397,000 |
| SŽ-VIT Ljubljana, d. o. o. | 4,029,870 | 3,569,928 | 0 | 62,376,000 |
| SŽ-ŽIP, Storitve, d. o. o. | 822,103 | 2,280,703 | 4,345,000 | 11,016,000 |
| SŽ-ŽGP Ljubljana, d. d. | 725,612 | 23,702 | 13,600,000 | 0 |
| Prometni institut Ljubljana, d. o. o. | 95,041 | 294,264 | 1,338,000 | 0 |
| SŽ-Železniška tiskarna Ljubljana, d. d. | 5,439 | 36,683 | 500,000 | 0 |
| Fersped, d. o. o. | 106,710 | 305,880 | 0 | 7,305,000 |
| Kamnlom Verd, d. o. o. | 352 | 0 | 0 | 0 |
| Calidus sol, d. o. o., Croatia | 93,746 | 19,323 | 0 | 0 |
| Total Group companies: | 22,090,777 | 6,948,997 | 324,276,389 | 138,390,977 |

| | | | | |
|--------------------------|----------|--------------|----------|----------|
| 2016 | | | | |
| Terme Olimia, d. d. | 0 | 9,323 | 0 | 0 |
| Total associates: | 0 | 9,323 | 0 | 0 |

| | | | | |
|------------------------------|-------------------|------------------|--------------------|--------------------|
| 2015 | | | | |
| Total all associates: | 22,690,006 | 5,919,285 | 242,792,764 | 201,832,346 |

| | | | | |
|------------------------------|-------------------|------------------|--------------------|--------------------|
| 2016 | | | | |
| Total all associates: | 22,090,777 | 6,958,320 | 324,276,389 | 138,390,977 |

Group companies transact on the basis of concluded agreements, where the market prices of products and services are applied.

Interest is charged between Group companies at the tax-deductible interest rate applicable for related parties.

GROSS EARNINGS OF GROUPS OF PERSONS

| in EUR | 2016 | 2015 |
|--|------------------|------------------|
| Members of the Management Board of the controlling company | 399,984 | 341,242 |
| Members of the Supervisory Board | 119,113 | 122,727 |
| Employees on individual contracts | 1,506,527 | 1,737,185 |
| Total | 2,025,624 | 2,201,154 |

The earnings of members of the Management Board include wages, bonuses and any other earnings.

The earnings of supervisory bodies comprise gross earnings from payment for the performance of functions on supervisory boards and the committees thereof, session fees and the reimbursement of costs.

8.6.4 EVENTS AFTER THE ACCOUNTING PERIOD

There were no business events at Slovenske železnice, d. o. o., after the statement of financial position date that could have a significant effect on the presented financial statements.

9 FINANCIAL RISKS AT SŽ, d. o. o.

FINANCIAL RISKS

The financial risks to which Slovenske železnice, d. o. o., is exposed include interest rate risk, currency risk, liquidity risk and credit risk. Exposure to financial risks is monitored monthly, while measures to manage those risks are adopted continuously.

INTEREST RATE RISK

SŽ, d. o. o., manages interest rate risk in accordance with the Rules on the comprehensive management of risks within the Slovenske Železnice Group. SŽ d. o. o.'s credit portfolio vis-à-vis banks includes loans bearing a variable interest rate. However, 77.3% of the entire credit portfolio vis-à-vis banks is hedged using interest rate swaps, meaning those loans may be deemed fixed-rate loans.

| Financial instruments bearing a variable interest rate in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|---|-----------------------------------|-----------------------------------|
| Financial receivables | 145,639,733 | 163,584,218 |
| Financial liabilities | -224,174,517 | -206,694,316 |
| Net financial instruments bearing a variable interest rate | -78,534,784 | -43,110,098 |

| Financial instruments bearing a variable interest rate in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|---|-----------------------------------|-----------------------------------|
| Financial receivables from Group companies | 142,710,007 | 161,180,562 |
| Financial receivables from others | 2,929,726 | 2,403,656 |
| Total financial receivables | 145,639,733 | 163,584,218 |

| Financial liabilities in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|---|-----------------------------------|-----------------------------------|
| Financial liabilities to Group companies | 89,133,070 | 67,077,043 |
| Liabilities to banks from credit transactions (principal) | 133,685,224 | 138,803,415 |
| Liabilities arising from interest rate swaps | 1,160,804 | 698,156 |
| Other financial liabilities | 195,419 | 115,702 |
| Total financial liabilities | 224,174,517 | 206,694,316 |

The following instruments are used to hedge exposure to interest rate risk:

- in part through current operations, by linking the interest rates on SŽ, d. o. o.'s operating receivables and financing within the SŽ Group to changes in the EURIBOR; and
- in part through the forward market, by entering into interest rate swaps.

Balance of loan liabilities (principal) with a variable interest rate:

| in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|--------------------------------|-----------------------------------|-----------------------------------|
| Total loans (principal) | 133,685,224 | 138,803,415 |

Concluded interest rate swap (IRS) agreements:

| in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|--------------------------------|-----------------------------------|-----------------------------------|
| Total loans (principal) | 103,615,385 | 109,000,000 |

Concluded IRS agreements by maturity:

| Maturity in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|--------------------------------|-----------------------------------|-----------------------------------|
| 10 September 2019 | 74,000,000 | 74,000,000 |
| 31 July 2019 | 29,615,385 | 35,000,000 |
| Total loans (principal) | 103,615,385 | 109,000,000 |

Liabilities for IRS at fair value:

| Creditor in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|--------------------------|-----------------------------------|-----------------------------------|
| Total liabilities | 1,160,804 | 698,156 |

The annual effect on pre-tax profit of a one percentage point change in the reference interest rate would be positive or negative in the amount of EUR 300,698, depending on the direction of the change in the reference interest rate (this relates solely to financial liabilities that are not hedged using an IRS) and under the assumption that exchange rates (in particular the Swiss franc rate) remain unchanged.

CURRENCY RISK

The SŽ Group likewise manages currency risk in accordance with the Rules on the comprehensive management of risks within the Slovenske Železnice Group. The SŽ Group is less exposed to currency risk, as the majority of the Group's transactions are in euros, while the number of transactions in other currencies is negligible.

A total of 77.3% of loans in SŽ, d. o. o.'s credit portfolio are denominated in euros, while 22.7% of loans are denominated in Swiss francs. The Company hedges against the currency risks associated with the latter using a FX forward transaction concluded in September 2016. This means that SŽ d. o. o., was less exposed to currency risks in 2016 than in 2015.

| As at in EUR | | Trade receivables | Loan liabilities (current and non-current - principal) | Trade payables |
|------------------|-----|-------------------|---|----------------|
| 31 December 2016 | EUR | 2,862,393 | 103,615,385 | 6,288,150 |
| | CHF | 0 | 30,069,839 | 0 |
| | HRK | 6,920 | 0 | 65 |
| 31 December 2015 | EUR | 3,266,339 | 109,000,000 | 8,732,831 |
| | CHF | 0 | 29,803,415 | 0 |
| | HRK | 7,758 | 0 | 25 |

Concluded FX forward contracts:

| in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|------------|-----------------------------------|-----------------------------------|
| NLB, d. d. | 30,069,839 | 0 |

Concluded FX forward contracts by maturity:

| Maturity in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|-----------------|-----------------------------------|-----------------------------------|
| 30 June 2017 | 30,069,839 | 0 |

Concluded FX forward contracts by fair value:

| Fair value of FX forward transaction in EUR | Balance as at 31 December 2016 | Balance as at 31 December 2015 |
|---|-----------------------------------|-----------------------------------|
| NLB, d. d. | 526,172 | 0 |

Total effects of exchange differences on trade receivables and trade payables:

| in EUR | 2016 | 2015 |
|--|-----------------|-------------------|
| Loan liabilities in CHF | -265,116 | -7,240,596 |
| Other operating receivables and liabilities | -2,965 | -3,241 |
| Total expenses from foreign exchange differences: | -268,081 | -7,243,837 |

It is evident from the data in the table that practically all exposure as the result of changes in exchange rates derives from a loan denominated in Swiss francs.

LIQUIDITY RISK

The SŽ Group managed the liquidity risk to which it was exposed in 2016, and in doing so acted in accordance with the provisions of the Financial Operations, Insolvency and Compulsory Dissolution Act (ZFPPIPP). With the aim of managing liquidity risk the Group has implemented a policy on the regular management of its liquidity and solvency. It used that policy for the daily, monthly and annual monitoring of the liquidity position of the Group as a whole and of subsidiaries.

Liquidity risk management requires the management of such risks by individual category:

- the management of liquidity risk from operations is closely linked to credit risk; and
- the management of liquidity risk from financing, which represents a risk linked to securing sufficient financial resources for the Group's operations and investments.

Liquidity risk management is centralised at the controlling company

for all Group companies. The continuous monitoring of cash flows, the implementation of the SŽ Group's cash management policy (Group companies have signed a cash-pooling agreement for the purpose of managing and balancing liquidity within the Group) and the securing and availability of the necessary credit lines ensured that the liquidity of the SŽ Group was secured and controlled in 2016, and that liquidity risk was well-managed. The same was true for SŽ, d. o. o.

Maturity breakdown of liabilities:

| in EUR | Carrying amount of liabilities | Contractual cash flows | | | | |
|--|--------------------------------|------------------------|---------------|---------------------------|--------------|-------------------|
| | | Liabilities | 0 to 6 months | 6 to 12 months (365 days) | 1 to 3 years | More than 3 years |
| Non-current financial liabilities | 122,917,859 | 125,150,867 | | | 92,937,088 | 32,213,779 |
| Non-current liabilities within the Group | 7,409,319 | 8,446,624 | | | | 8,446,624 |
| Other non-current operating liabilities | 9,223 | 10,145 | | | | 10,145 |
| Current financial liabilities | 12,123,588 | 13,310,051 | | 13,310,051 | | |
| Current financial liabilities within the Group | 89,133,070 | 90,915,731 | 90,915,731 | | | |
| Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances) | 6,288,215 | 6,288,215 | 6,288,215 | | | |
| Balance as at 31 December 2016 | 237,881,274 | 244,121,633 | 97,203,946 | 13,310,051 | | 133,607,636 |

| in EUR | Carrying amount of liabilities | Contractual cash flows | | | | |
|--|--------------------------------|------------------------|---------------|---------------------------|--------------|-------------------|
| | | Liabilities | 0 to 6 months | 6 to 12 months (365 days) | 1 to 3 years | More than 3 years |
| Non-current financial liabilities | 133,424,494 | 137,104,695 | | | | 137,104,695 |
| Non-current liabilities within the Group | 19,709,970 | 22,469,366 | | | | 22,469,366 |
| Other non-current operating liabilities | 10,904 | 12,212 | | | | 12,212 |
| Current financial liabilities | 6,192,779 | 7,466,942 | | 7,466,942 | | |
| Current financial liabilities within the Group | 67,077,043 | 68,418,584 | | 68,418,584 | | |
| Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances) | 8,732,856 | 8,732,856 | 8,732,856 | | | |
| Balance as at 31 December 2015 | 235,148,046 | 244,204,655 | 8,732,856 | 75,885,526 | | 159,586,273 |

CREDIT RISK

The deteriorating liquidity of partners on the market requires additional attention when monitoring their credit ratings and the provision of the appropriate collateral. Investments in a new system for monitoring the credit ratings of the Group's partners will reduce credit risk, which will be reflected in the reduced value of past-due receivables and more secure operations. The adverse economic conditions and the associated increased probability of failure to fulfil contractually defined obligations by partners require the Company to pay special attention to the management of credit risks. For this reason, the credit risk management process actively includes several departments.

The credit risk management process is supplemented during the formulation of the portfolio through the careful selection of partners, followed by the regular review of the credit quality of those partners through the assignment of credit ratings.

An active approach is taken to the recovery process, which has ensured a reduction in the proportion of total trade payables accounted for by past-due trade payables relative to the previous year.

Data regarding the operations of the banks with which the Group cooperates are monitored as part of the credit risk management process. Risk is further managed by diversifying the placement of cash at individual banks, by investing cash for current operations over the short term and by entering into transactions to hedge against currency and interest rate risks.

Credit risks were appropriately managed in 2016, and there were no material credit-related events that had a significant impact on operations. A great deal of attention is being given to developing a system for monitoring the credit ratings of business partners based on publicly accessible information and internal experiences in operations with those partners.

Domestic and foreign customers were verified in 2016 according to an internal credit assessment process, with the help of credit ratings and published information. The operations and financial position of specific customers were monitored regularly, as was the Group's exposure to those customers. Risk management measures were adopted as required. Value adjustments are created for older receivables (see note 8.6.1.9).

Maturity of trade receivables (gross amount):

| As at | Maturity | | | | | in EUR Total |
|------------------|--------------|---------------|---------------|----------------|--------------------|-----------------|
| | Non-past-due | Past-due | | | | |
| | | up to 30 days | 31 to 90 days | 91 to 365 days | more than 365 days | |
| 31 December 2016 | 2,396,775 | 164,327 | 76,910 | 51,285 | 180,016 | 2,869,313 |
| 31 December 2015 | 2,326,853 | 515,236 | 239,161 | 42,310 | 150,537 | 3,274,097 |

10 CAPITAL ADEQUACY MANAGEMENT

The underlying purpose of capital management is to ensure capital adequacy, the highest possible level of financial stability, long-term solvency and the maximis-

ation of value for the Company's shareholders, which is reflected in stable dividends for the owner.

| in EUR | 2016 | 2015 |
|-----------------------------------|-------------|-------------|
| Non-current financial liabilities | 122,917,859 | 133,424,494 |
| Current financial liabilities | 101,256,658 | 73,269,822 |
| Total financial liabilities | 224,174,517 | 206,694,316 |
| Total equity | 286,650,240 | 274,606,231 |
| Debt/equity | 0.78 | 0.75 |
| Cash and cash equivalents | 38,281,250 | 23,134,705 |
| Net financial liabilities | 185,893,267 | 183,559,611 |
| Net debt/equity | 0.65 | 0.67 |

11 CARRYING AMOUNT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

| in EUR | 31 December 2016 | | 31 December 2015 | |
|---|---------------------|---------------------|---------------------|---------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Non-derivative financial assets at amortised cost | | | | |
| Non-current and current financial receivables (excluding derivatives) | 145,113,561 | 145,113,561 | 163,584,218 | 163,584,218 |
| Non-current and current trade receivables | 6,592,715 | 6,592,715 | 6,537,476 | 6,537,476 |
| Cash and cash equivalents | 38,281,250 | 38,281,250 | 23,134,705 | 23,134,705 |
| Total non-derivative financial assets | 189,987,526 | 189,987,526 | 193,256,399 | 193,256,399 |
| Non-derivative financial liabilities at amortised cost | | | | |
| Non-current and current financial liabilities (excluding derivatives) | -223,013,713 | -223,013,713 | -206,694,316 | -206,694,316 |
| Non-current and current trade payables | -13,706,767 | -13,706,767 | -28,453,730 | -28,453,730 |
| Total non-derivative financial liabilities | -236,720,480 | -236,720,480 | -235,148,046 | -235,148,046 |
| Derivatives are disclosed at fair value. | | | | |
| Derivatives (assets) | 526,172 | 526,172 | 0 | 0 |
| Derivatives (liabilities) | -1,160,804 | -1,160,804 | -698,156 | -698,156 |
| Total derivatives | -634,632 | -634,632 | -698,156 | -698,156 |

Presentation of financial assets and liabilities disclosed at fair value according to the hierarchy used to determine fair value.

Fair value of assets

| in EUR | 31 December 2016 | | | |
|---|------------------|-----------|--------------------|--------------------|
| | 1st level | 2nd level | 3rd level | Total |
| Financial assets at fair value through profit or loss | | | 526,172 | 526,172 |
| Total assets measured at fair value | | | 526,172 | 526,172 |
| Non-current financial receivables | | | 125,319,445 | 125,319,445 |
| Current financial receivables | | | 19,794,116 | 19,794,116 |
| Non-current operating receivables | | | 3,868,605 | 3,868,605 |
| Current operating receivables (excluding receivables from the government) | | | 2,724,110 | 2,724,110 |
| Cash and cash equivalents | | | 38,281,250 | 38,281,250 |
| Total assets for which fair value is disclosed | | | 189,987,526 | 189,987,526 |
| Total assets | | | 190,513,698 | 190,513,698 |

| in EUR | 31 December 2015 | | | |
|---|------------------|-----------|--------------------|--------------------|
| | 1st level | 2nd level | 3rd level | Total |
| Financial assets at fair value through profit or loss | | | 0 | 0 |
| Total assets measured at fair value | | | 0 | 0 |
| Non-current financial receivables | | | 135,822,354 | 135,822,354 |
| Current financial receivables | | | 27,761,864 | 27,761,864 |
| Non-current operating receivables | | | 3,466,521 | 3,466,521 |
| Current operating receivables (excluding receivables from the government) | | | 3,070,955 | 3,070,955 |
| Cash and cash equivalents | | | 23,134,705 | 23,134,705 |
| Total assets for which fair value is disclosed | | | 193,256,399 | 193,256,399 |
| Total assets | | | 193,256,399 | 193,256,399 |

Fair value of liabilities

| in EUR | 31 December 2016 | | | |
|--|------------------|-----------|--------------------|--------------------|
| | 1st level | 2nd level | 3rd level | Total |
| Financial liabilities at fair value through profit or loss | | | 1,160,804 | 1,160,804 |
| Total liabilities measured at fair value | | | 1,160,804 | 1,160,804 |
| Non-current financial liabilities | | | 122,917,859 | 122,917,859 |
| Current financial liabilities (excluding liabilities measured at fair value) | | | 100,095,854 | 100,095,854 |
| Non-current operating liabilities (excluding other liabilities) | | | 7,418,552 | 7,418,552 |
| Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances) | | | 6,288,215 | 6,288,215 |
| Total liabilities for which fair value is disclosed | | | 236,720,480 | 236,720,480 |
| Total liabilities | | | 237,881,284 | 237,881,284 |

| in EUR | 31 December 2015 | | | |
|--|------------------|-----------|--------------------|--------------------|
| | 1st level | 2nd level | 3rd level | Total |
| Financial liabilities at fair value through profit or loss | | | 698,156 | 698,156 |
| Total liabilities measured at fair value | | | 698,156 | 698,156 |
| Non-current financial liabilities | | | 133,424,494 | 133,424,494 |
| Current financial liabilities (excluding liabilities measured at fair value) | | | 73,269,822 | 73,269,822 |
| Non-current operating liabilities (excluding other liabilities) | | | 19,720,874 | 19,720,874 |
| Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances) | | | 8,732,856 | 8,732,856 |
| Total liabilities for which fair value is disclosed | | | 235,148,046 | 235,148,046 |
| Total liabilities | | | 235,846,202 | 235,846,202 |

AUDIT REPORT OF SŽ, d. o. o., FOR 2016

Deloitte.

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INDEPENDENT AUDITOR'S REPORT to the owners of SLOVENSKE ŽELEZNICE, d. o. o.

Opinion

We have audited the enclosed financial statements of Slovenske železnice, d. o. o. (hereinafter: the Company), which include the statement of financial position as at 31 December 2016, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the enclosed financial statements present fairly, in all material aspects, the financial position of the Company as at 31 December 2016, and its operating results and cash flows for the year then ended, in accordance with the International Financial Reporting Standards, as adopted by the European Union (hereinafter: the IFRS).

Basis for our opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities on the basis of those standards are described in detail in our report in the paragraph Auditor's responsibilities for the auditing of the financial statements. In accordance with the Code of Ethics for Accounting Professionals issued by the International Ethics Board for Accountants (IESBA Code) and the ethical requirements relating to the auditing of financial statements in Slovenia, we hereby confirm our independence from the aforementioned company and our fulfilment of all other ethical obligations in accordance with those requirements and the IESBA Code. We believe that the auditing evidence obtained is a sufficient and appropriate basis for our opinion.

Other information

Other information comprises information presented in the annual report, except the financial statements and the auditor's report regarding those statements. We obtained the aforementioned other information prior to the date of audit report, except the report of the Supervisory Board, which will be available at a later date. The Management Board is responsible for other information.

Our opinion regarding the financial statements does not relate to the other information referred to above.

In connection with the auditing of the financial statements, it is our responsibility to interpret other information and assess whether it fails to conform materially to the financial statements, legal requirements or with the knowledge we have obtained through our audit, and whether that information is otherwise materially misstated. We also assess whether other information has been compiled, in all material aspects, in accordance with the applicable laws and regulations, whether it is in line with those laws and regulations with respect to official requirements and procedures for the compilation of other information in terms of materiality, or whether any instance of non-compliance with those requirements could affect judgements made on the basis of that other information.

Based on procedures conducted and to the extent that we are able to make such an assessment, we report the following:

- The other information referred to above and which describes facts that are also presented in the financial statements is in line, in all material aspects, with the financial statements.
- That other information has been compiled in accordance with the applicable laws and regulations.

The name Deloitte refers to Deloitte Touche Tohmatsu Limited, a legal entity founded in accordance with the laws of the United Kingdom of Great Britain and Northern Ireland (in its original "UK" form: company limited by guarantee), and its network of members, of which Deloitte is a separate and independent legal entity. A detailed description of the legal organisation of the Deloitte Touche Tohmatsu Limited network and its members can be found at <http://www.deloitte.com/about-us/deloitte-network/deloitte.htm>.

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Deloitte Revizija d.o.o. – Company entered in the companies register at Ljubljana District Court, registration number: 48476004, vdt 0100, 580260000, share capital: EUR 14,714.30

On the basis of our knowledge and understanding of the Company obtained during our audit, we are also obliged to report whether other information includes any material misstatement of facts. Based on the aforementioned procedures in connection with other information obtained by us, we did not identify any material misstatements of facts.

Responsibility of the Management Board, Supervisory Board and Audit Committee with regard to the financial statements

The Management Board is responsible for the compilation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, and for the internal controls its deems necessary to enable the compilation of financial statements that are free from material misstatements due to fraud or error.

In compiling the financial statements, the Management Board is responsible for assessing the ability of the Company to continue functioning as a going concern, for the disclosure of matters associated with the Company as a going concern as the basis for accounting, unless the Management Board intends to liquidate or wind up the Company, or if it has no real choice between one or the other.

The Supervisory Board and Audit Committee are responsible for control over the financial reporting process at the Company.

Auditor's responsibility for the auditing of the financial statements

Our objectives are to obtain acceptable assurance as to whether the financial statements as a whole are free from material misstatements due to fraud or errors, and to issue an audit report that includes our opinion. Acceptable assurance means a high degree of assurance, but no guarantee, that our audit, conducted in accordance with the International Standards on Auditing (ISA), will uncover all material misstatements should they exist. Misstatements may be the result of fraud or errors, and are deemed material if it is reasonable to expect that they may, individually or collectively, impact the business decisions adopted by users on the basis of the financial statements.

We make use of professional assessments and verify statements where fraud could be involved in conducting audits in accordance with the IAS. We also:

- Identify and assess the risks associated with material misstatements in the financial statements due to fraud or errors, formulate and implement audit procedures as a response to assessed risks, and obtain sufficient audit evidence as the basis for our opinion. The risk that we will fail to uncover material misstatements due to fraud is greater than the risk associated with the failure to uncover material misstatements due to errors, as fraud may include secret agreements, forgery, intentional omissions, erroneous interpretations or the avoidance of internal controls.
- Carry out procedures to verify and understand internal controls relevant to auditing for the purpose of formulating audit procedures appropriate to the environment, but not for the purpose of expressing an opinion regarding the effectiveness of the Company's internal controls.
- Assess the appropriateness of applied accounting policies, as well as the acceptability of accounting estimates and the associated disclosures by the Management Board.
- Adopt a decision on the acceptability of the Management Board's application of the assumption of the Company as a going concern as an accounting basis, taking into account audit evidence obtained regarding the existence of significant uncertainties with regard to events or circumstances that raise doubts about the ability of the organisation to continue operating as a going concern. Should we adopt a decision on the existence of significant uncertainties, we are responsible for using the auditor's report as a vehicle to raise concerns regarding the appropriateness of disclosures in the financial statements, and for amending our opinion if those disclosures are inappropriate. The auditor's decisions are based on audit evidence obtained up to the date of issuance of the auditor's report. However, subsequent events or circumstances may cause an organisation to cease functioning as a going concern.

• Assess the general presentation, structure and content of the financial statements, including disclosures, and assess whether the financial statements present transactions and events in such a way that a fair presentation is achieved.

We notify the Supervisory Board and Audit Committee, inter alia, about the planned scope and timing of the audit, and about significant audit findings, including the lack of internal controls that we identified during our audit.

Deloitte revizija, d. o. o.

Katarina Kadunc
Certified Auditor



Deloitte.

Ljubljana, 7 July 2017

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

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