

ANNUAL REPORT

FAST FORWARD!





ANNUAL REPORT





ABOUT SLOVENSKE ŽELEZNICE

Key performance indicators of the Slovenske	
železnice Group for 2017	5
Significant events in 2017	6
Significant events after the end of the 2017	
financial year	12
Statement of the Director General	14
Statement of responsibility of the	
Management Board	16
Report of the Supervisory Board	18
General information	22
Business model and development policies	24
Implementation of systemic measures	25
Implementation of key internal measures	26
Key stakeholders	27
Corporate Governance Statement	30
Statement regarding non-financial operations	39

Statement regarding non-financial operations



BUSINESS REPORT

	Operating environment	41
5	Performance analysis	41
	Analysis by activity	49
	Freight transport	49
	Fersped	53
	Passenger transport	56
	Traction and Technical Services	64
	PRI management	66
	Construction	72
	Support activities	74
	Analysis of financial position	77
	Profit and loss by individual company/activity	80
	Collection of statements of financial position of	
	Group companies as at 31 December 2017	94
	Social responsibility	98
	Social responsibility in 2017	99
	Employees	100
	Traffic safety and regulation	109
	Engagement with the wider environment	109
	Environmental responsibility	114
	Disclosures by key activity	119
	Quality management system	119
	Investments	124
	Participation in the international environment	128
	Information technology	129
	Digitalisation	131
	Research and development	132
	Management of risks and opportunities	136
	Status and development of corporate reporting	
	by Slovenske železnice	139
	GRI table	141
	General standard disclosures	141
	Specific standard disclosures	144

FINANCIAL REPORT

1	Introductory notes to the financial statements	147
	1.1 Basis for compiling the financial statements	147
	1.2 Significant accounting policies	148
2	Consolidated financial statements of the	
	Slovenske železnice Group	158
	2.1 Consolidated statement of financial position	158
	2.2 Consolidated statement of profit or loss	159
	2.3 Consolidated statement of other	
	comprehensive income	159
	2.4 Consolidated statement of cash flows	160
	2.5 Consolidated statement of changes in equity	161
	2.6 Notes to the consolidated financial	
	statements	162
3	Financial risks within the Slovenske železnice	
	Group	190
	Interest rate risk	190
	Currency risk	191
	Liquidity risk	193
	Credit risk	194
	Capital adequacy management	195
5	Carrying amount and fair value of financial	
	instruments	196
	Audit report of the Slovenske železnice	
	Group for 2017	199
6	Financial statements of	
	Slovenske železnice, d. o. o.	202
	6.1 Statement of financial position	202
	6.2 Statement of profit or loss	203
	6.3 Statement of other comprehensive income	203
	6.4 Statement of cash flows	204
	6.5 Statement of changes in equity	205
7	6.6 Notes to the financial statements	207
/	Financial risks at Slovenske železnice, d. o. o.	225
	Interest rate risk	225
	Currency risk	226
	Liquidity risk	227
0	Credit risk	228
	Capital adequacy management	229
9		230
	instruments Audit report of Slovenske želoznice, d. e. e	230
	Audit report of Slovenske železnice, d. o. o. for 2017	222
		233

WE SUCCEEDED

In the context of ambitious objectives set for Slovenske železnice, the 2017 financial year was dynamic, but exceeded expectations. Despite numerous negative factors, we succeeded in maintaining the positive trend in key performance indicators, and made significant progress in the implementation of systemic and internal measures that were set out in the Strategic Business Plan of the Slovenske železnice Group for the period 2016–2020.

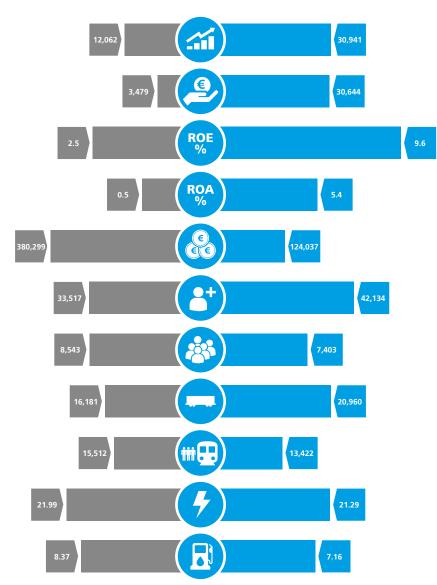
ABOUT SLOVENSKE ŽELEZNICE



KEY PERFORMANCE INDICATORS OF THE SLOVENSKE ŽELEZNICE GROUP FOR 2017

OPERATING RESULTS comparison 2012–2017

2012 **2017**



EARNINGS BEFORE INTEREST AND TAXES (EBIT; EUR thousand)

NET PROFIT OR LOSS (EUR thousand)

RETURN ON EQUITY (ROE; in %)

RETURN ON ASSETS (ROA; in %)

FINANCIAL LIABILITIES (EUR thousand)

> VALUE-ADDED PER EMPLOYEE (in EUR)

AVERAGE NUMBER OF EMPLOYEES

GOODS TRANSPORTED (in thousand tonnes)

PASSENGERS CARRIED

SPECIFIC ELECTRICITY CONSUMPTION FOR TRACTION (kWh/thousand GTKM)

> SPECIFIC GAS OIL CONSUMPTION (kg/thousand GTKM)

SIGNIFICANT EVENTS IN 2017

January

Slovenske železnice was acknowledged for its Integrated Public Passenger Transport project and received the Transport Ticketing Global Award 2017 for Most Innovative Customer Serving Operator. Slovenske železnice received first prize amongst fierce global competition.



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



February



■ The Supervisory Board of Slovenske železnice, d. o. o. approved the appointment of Melita Rozman Dacar 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, approved 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, based on the proposal of the works council of companies linked through capital investments within the system of Slovenian Railway Companies, appointed Albert Pavlič to the position of member of the Management Board – Workers' 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 14 February 2017. On the same day, Mr Jelenc 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. approved 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 operations for the period 2018–2019.

▶ The Slovenian government adopted a resolution on the conclusion of the Agreement on the discharge of public service obligation in the inland 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 the inland and cross-border regional transport of passengers by rail was signed for the period from 1 January 2017 to 31 December 2031. The aforementioned agreement set out the amount of funds for the financing of obligations arising from the public service obligation, and the maximum amount of investment costs included in compensation for the public service obligation.

The transportation of grains was reorganised. Activities included the optimisation of train movements and ensuring the improved 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 raise awareness of the need for train connections between Ljubljana and Trieste. A representative of the Austrian Federal Railways (ÖBB) also attended the event. There are currently 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

May



Slovenske železnice was visited by a delegation from Republika Srpska Railways, which is planning corporate restructuring in cooperation with the World Bank, and is gathering experience from other railway companies.



▶ The season of museum train rides from Celje to Podčetrtek began. 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, the Chamber of Publishing and Book-Selling and the Transport Association (both within the Chamber of Commerce and Industry of Slovenia) hosted the EU Commissioner for Transport Violeta Bulc as part of the Reading is the Best Journey event. The Commissioner read 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.



• The Ljubljana Container Terminal received a Holland Container Innovations certificate as recognition of the qualifications required to work with that organisation's containers.



▶ The Slovenian government and SŽ-Infrastruktura, d. o. o. concluded Annex 3 to the Agreement on the provision of services by the manager of the public rail infrastructure for the period 2016–2020. The aforementioned annex covers the period 1 January 2017 to 31 December 2017.

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



SŽ-Tovorni promet and SŽ-VIT made presentations at a joint exhibition stall at the Transport Logistic trade fair in Munich. The aforementioned trade fair 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 users 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 with both customers and other operators. Fersped, a Slovenske železnice Group company, also made a presentation under the auspices of the SPIRIT Slovenia public agency.



In cooperation with the Ljubljana Festival, a now-traditional special train ride was held for representatives of the media, during which presentations were made about train trips to Stanjel and packages for travelling by train to Ljubljana Festival events.



June

A ceremony to mark the Slovenian Railways Day was held at the Divača railway station on 2 June, when we celebrated three anniversaries. The section of the Southern Railway line between Ljubljana and Trieste was completed 160 years ago, while the line between Divača and Koper was completed 50 years ago. The Istrian line, which was opened 141 years ago, also celebrated an anniversary in that area of Slovenia.



After several years, passenger trains began running between Maribor and Prevalje on Saturdays during the summer. All trains between Maribor, Prevalje and Pliberk facilitate the transport of accommodate bicycles. Capacities for the transport of bicycles were also increased in the summer on the line between Maribor and Ormož.



The day train between Ljubljana and Belgrade was joined by a night train between 24 June and 10 September.

July



The Slovenian government and SŽ-Potniški promet, d. o. o. concluded annex 1 to the Agreement on the discharge of the public service obligation in the inland and cross-border regional transport of passengers by rail for the period 2017–2031, under which the value and scope of services to be provided by the provider of services under the public service obligation were defined for the period 1 January 2017 to 31 December 2017.

We opened the renovated railway station in Medvode. This is a case in which the local community has assumed responsibility for the maintenance and management of a station building. A cooperation agreement was signed that serves as the basis for targeted cooperation in the development of tourism and public passenger transport in the aforementioned municipality.



The Supervisory Board of Slovenske železnice, d. o. o. confirmed the audited annual report of Slovenske železnice, d. o. o. and the Slovenske železnice Group for 2016.®

GRI

In its role as founder of Slovenske železnice, d. o. o., SDH, d. d. was briefed on the annual report of Slovenske železnice, d. o. o. and the Slovenske železnice Group for 2016, and adopted a resolution on the use of distributable profit as at 31 December 2016 and approved the new Articles of Association of Slovenske železnice, d. o. o.

A grand celebration to mark the 160th anniversary of the Southern Railway (Vienna–Trieste line) was held in Borovnica. The keynote speakers at the event were the Minister of Infrastructure Peter Gašperšič, the European Commissioner for Transport Violeta Bulc and the General Director of Slovenske železnice Dušan Mes. To mark the occasion, Slovenske železnice donated a total of EUR 5,000 to Municipality of Borovnica for the construction of a children's playground.



August

A Trenitalia train was tested in August, and will operate twice a day next year on the Ljubljana–Trieste–Venice line, thus re-establishing a line between Ljubljana and Venice. The train will also stop at a new station at the airport in Ronchi, Italy. The rail link will contribute significantly to commercial and tourism contacts on both sides of the border, both in Italy (Friuli-Venezia Giulia) and in Slovenia.



▶ Following the introduction of the single ticket for secondary school and university students and adult education students in 2016, the e-application service was introduced on 21 August. The new service allows those entitled to a subsidised single integrated public passenger transport (IPPT) pass to send an application and receive subsidised single tickets online, and thus avoid waiting in queues.

September

• We launched two preventive campaigns on the first day of school, Safe Way to School by Train and Correct Crossing of Railway Tracks, which ran throughout Slovenia for one week. At the beginning of the new school year we also tightened other safety measures, paying particular attention to those who were taking the train to school for the first time.



Slovenske železnice became the general sponsor of the Olimpija Hockey Club on 6 September. Slovenske železnice Group companies have supported Slovenian hockey in previous years, and thus contribute directly to the development of aforementioned sport in Slovenia.



We were present at the 50th International Trade Fair in Celje, where several Group companies, including SŽ-Potniški promet, SŽ-Tovorni promet, Fersped and SŽ-ŽIP presented their services in Slovenske železnice's exhibition area.

All passengers who arrived at points of sale with cheerleading gear were taken free of charge on 18 September, from all over Slovenia, to the official reception of the Slovenian national basketball team, which was crowned European champion in Turkey a day earlier. Some 5,000 fans rode trains to the reception.



A restored train from the World War II was presented at the Pivka Military History Park during the Festival of Military History organised from 11 to 17 September. The train, which was lended to the park by Slovenske železnice, received the new designation '52 4936', and is the largest and heaviest museum piece on display at the Military History Park.



Slovenske železnice participated in the final event of the Ustavi se! (Stop!) campaign, for which it assumed the role of ambassador during the summer. We participated in the more than four-month-long campaign, which encouraged people to stop and take the time to consider their health while riding the train to their destination. At the final event held in Radovljica, participants signed a commitment entitled Promoting Public Health in Slovenia.



October

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. approved the proposed business plan of the Slovenske železnice Group and Slovenske železnice, d. o. o. for 2018, including a forecast of operations for the period 2019–2020.

• We organised a gathering of all railway enthusiasts and friends at the Rail Museum on 21 October. The event was attended by a record number of visitors.



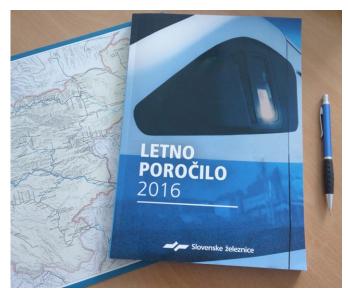
November

▶ The Slovenian government and SŽ-Infrastruktura, d. o. o. concluded annex 4 to the Agreement on the provision of services by the manager of the public rail infrastructure for the period 2016–2020. The aforementioned annex defines the value and scope of additional replacements planned in the period 1 November 2017 to 31 December 2017 as part of the maintenance of the public rail infrastructure, and the value and scope of services expected to be provided by the manager of the public rail infrastructure in the period 1 January 2018 to 31 December 2018.

▶ The Slovenian Competition Protection Agency issued a decision stating that the merger of Fersped, d. o. o. and VV-LOG, d. o. o. was in line with competition rules. The suspensive condition for the acquisition of the latter was thus fulfilled.



▶ In the competition for best annual report for 2016, organised for the 18th year by Akademija Finance, the annual report of Slovenske železnice for 2016 took ninth place amongst all reports. We took first place in the accounting report and risk management report categories amongst the reports of large enterprises (non-public interest according to the Companies Act). Slovenske železnice's annual report ranked third in the communications category.



We began the revision and modernisation of vital elements on the first of twelve 642/643-type diesel locomotives.

An agreement was signed on the adaptation of business premises at the container terminal in Ljubljana. Works began on 18 December, with a deadline for completion set for the beginning of April 2018.

December

The acquisition of VV-LOG, d. o. o. was completed.

We took possession of the first 20 of 70 special freight wagons and leased 40 containers for the transport of bulk cargo.

▶ The Network Programme of the Republic of Slovenia for 2019 and the third revision of the Network Programme of the Republic of Slovenia for 2018 were published.

Agreements were concluded with operators on access to the public rail infrastructure and on access along tracks to facilities for the provision of railway services in the 2017/2018 timetable period.

▶ The 2017/2018 operational timetable entered into force with the publication of the associated documents, and with part II of the rules of operation of stations and the technological work processes at stations.



SIGNIFICANT EVENTS AFTER THE END OF THE 2017 FINANCIAL YEAR

January

▶ The Forum Train Europe (FTE) conference for the preparation of timetables for international transport during the 2018/2019 season was held in Ljubljana.

The assessment of the appropriateness of bids began following the acceptance of two binding bids for a strategic partnership in the freight transport segment.

February

At our initiative, a meeting was organised between the directors of SŽ-Tovorni promet, d. o. o., HŽ Cargo d. o. o., Akcionarsko društvo za železnički prevoz robe (Srbija Kargo), Belgrade, Željeznice Republike Srpske a. d., Makedonski železnici transport a. d., Skopje, Macedonia and AD Montecargo. The managing directors of railway freight transport operators signed a memorandum of understanding. With it they agreed that they will strive to work together for the development of new, high-quality services for customers, which will likewise have a positive effect on the development of the region, and a shift of goods from road to rail.



Remzija Cinac resigned from the function of Workers' Director at SŽ-Potniški promet, d. o. o. on 1 February.

March

On 23 March, the Slovenian government and SŽ-Potniški promet, d. o. o. signed amendments to the Agreement on the discharge of the public service obligation in the inland and cross-border regional transport of passengers by rail for the period 2017–2031.

▶ 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. approved amendments to the business plan in connection with planned transactions between Slovenske železnice Group companies in 2018, and approved the consolidated text of the business plan of the Slovenske železnice Group and Slovenske železnice, d. o. o. for 2018, including a forecast of operations for the period 2019–2020. Sava Express, a new direct freight train, began running between Slovenia and Serbia. That new product, which was developed at the initiative of Slovenske železnice, offers a reliable rail service from Ljubljana, and in transit through Slovenia (Austria, Italy, Germany and the Czech Republic), to Belgrade and in transit to other countries in the region.



Albert Pavlič resigned from the position of Workers' Director of Slovenske železnice, d. o. o. on 5 March. Nina Avbelj Lekić was appointed to that position on 21 March.

April

Silvo Berdajs resigned from his function as member of

Silvo Berdajs resigned from his function as member of the supervisory boards of Slovenske železnice, d. o. o., SŽ-Infrastruktura, d. o. o. and SŽ-ŽGP Ljubljana, d. d. on 11 April 2018.

The National Assembly adopted the new Railway Safety Act and the Act Amending the Railway Transport Act (ZZeIP-K) on 17 April 2018.

SŽ-Potniški promet, d. o. o. signed an agreement on the purchase of new trains with Stadler on 17 April. The total value of the ordered trains (10 single-deck multi-system electric trains, 10 double-deck, single-system electric trains and five diesel passenger trains) is EUR 169 million, excluding VAT.



▶ The works council of companies linked through capital investments and the Works Council of Slovenske železnice, d. o. o. adopted a resolution appointing Zlatko Ratej to the function of member and employee representative of the Supervisory Board of Slovenske železnice, d. o. o., effective 24 April 2018. ▶ The Works Council of SŽ-ŽGP Ljubljana, d. d. appointed Stanislav Debeljak to the function of member of the aforementioned company's Supervisory Board on 24 April 2018, while the Works Council of SŽ-Infrastruktura, d. o. o. appointed Matjaž Hribar to serve as employee representative on that company's Supervisory Board on 25 April 2018.





STATEMENT OF THE DIRECTOR GENERAL®

Dear owners, colleagues, users and business partners,

The Slovenske železnice Group performs an extremely wide range of activities. For good reason. Just as non-financial factors facilitate the generation of positive financial results, many seemingly less important activities facilitate the sustained growth of our core activities of freight transport, logistics, passenger transport and the infrastructure. The annual report before you is an illustration of the breadth of those activities, and of the ever increasing awareness of numerous factors that are ultimately seen in the 'bottom line'. This report comprehensively presents the important details of our operations in 2017. I would like to highlight only the most important in this introduction.

The bottom line: we succeeded.

In the context of ambitious objectives set for Slovenske železnice, the 2017 financial year was above all dynamic, but exceeded expectations. Despite the numerous negative factors that threatened many of our established objectives, we succeeded in maintaining the positive trend in key performance indicators, and made significant progress in the implementation of systemic and internal measures that were set out in the Strategic Business Plan of the Slovenske železnice Group for the period 2016–2020.

Our performance improved significantly. With a record volume of freight transported in the amount of 20.9 million tonnes, we exceeded last year's results by 8.9%. We are completing our assessment regarding the selection of a strategic freight transport partner, and through the acquisition of a logistics company, began the implementation of our strategy to strengthen the Group's logistics activity. We concluded a long-term agreement with the Government of the Republic of Slovenia on the financing of public passenger rail transport services, and began the implementation of the Group's digitalisation strategy and investments in the upgrading of rolling stock.

Improved productivity and commercial success

The key performance indicators of the Slovenske železnice Group have been improving since 2012. The operating results we achieved place us in the ranks of the most successful companies in the sector. Return on equity (as a key indicator of the successful management of capital assets of the state) in 2017 in the amount of 9.6% exceeded the target value of 8%. The EBIT generated in 2017 in the amount of EUR 30.9 million was up by 25.6% relative to the previous year, while EBITDA in the amount of EUR 65.8 million was up by 11.7%. Value-added per employee was likewise up, by 2.9%, to stand at EUR 42,134. We succeeded in maintaining the net financial debt to EBIT-DA ratio at a low level (1.4), which improves the Group's ability to finance future investments.



Strategic partnership in freight transport and strengthening of the logistics activity

Advances in the areas of freight transport and logistics in 2017 will have a significant impact on both the success of those activities and the Group as a whole in the future.

In the process of searching for a strategic partnership, we identified potential partners, where the key criteria for assessment were compatibility for cooperation, strategic orientation and the ability to contribute both financial and other resources to increase the scope of Group companies' operations and to accelerate the breakthrough to new markets. The assessment of the appropriateness of bids began following the acceptance of two binding bids. A decision regarding the aforementioned strategic freight transport partnership will be made in 2018.

Growth in operations is a precondition for improving financial indicators, as one of the Group's strategic objectives. Increasing the scope of operations cannot be achieved through organic growth in sales alone, but also requires the acquisition of the activities of small and medium-sized transport-logistics companies that contribute to an increase in synergistic effects. We thus purchased the logistics company VV-LOG, d. o. o. in 2017. That purchase will help Fersped, d. o. o. strengthen Slovenske železnice's market position in the logistics sector.

Investments

We will soon delight our passengers with new passenger trains. An agreement was signed in 2018 on the purchase of 26 new trains that will be delivered between 2019 and 2021. At the same time, we are upgrading our freight transport with new shunting locomotives and wagons.

The total investments of the Slovenske železnice Group amounted to EUR 38.3 million in 2017. Of that amount,

75.3% was earmarked for rolling stock that is required for the uninterrupted provision of passenger and freight transport services. The first part of the investment to upgrade freight transport rolling stock was completed with the purchase of 20 new specialised wagons. Significant investments were also earmarked for the digitalisation of operations, which is urgent in our activities and represents a competitive advantage.

Development of public transport

One of the most important milestones for Slovenske železnice was the signing of the Agreement on the discharge of the public service obligation in the inland and cross-border regional transport of passengers by rail for the period 2017–2031, under which we secured funds for the discharge of the public service obligation and funds to finance investments in new rail passenger transport rolling stock. The signing of that long-term agreement is also crucial for ensuring effective integrated public passenger transport in the Republic of Slovenia in the future.

Effective management of the public rail infrastructure

We performed planned tasks in the scope of the public service obligations to maintain the public rail

infrastructure and manage rail traffic, and

ensured the appropriate serviceability of the public rail infrastructure for all passengers on the Slovenian railway network, despite numerous impediments in traffic due to extensive investments in the rail infrastructure.

Digitalisation strategy of Slovenske železnice

The decision was made in the middle of 2017 to expand the upgrading of the business information system to all activities, in particular the Group's strategic activities. In September, we adopted the Information and Digitalisation Strategy, which represents an important factor in the implementation of the Group's strategic plan. Implementation of the digitalisation strategy will allow Group companies to use state-of-the-art technologies to increase the efficiency of operations and their competitiveness.

Our aim is to become lean and efficient – optimisation of operations

With the help of external experts with experience in the restructuring of railway companies abroad, we audited the efficiency of processes at Slovenske železnice Group companies, with a focus on the Group's core and support activities. Based on the findings of that audit, we have drafted an action plan in which we defined measures to increase efficiency. Back in September, we began the implementation of those measures that will bring the fastest positive results.

Environment and user-friendly services

The satisfaction of the users of our services is one of our core values. Concern for that satisfaction is thus an inte-

gral part of all levels of our operations and development. The guiding principle is to establish high-quality conditions to promote public passenger transport by shortening train travel times, improving the quality of services, reducing air and noise pollution, and increasing energy efficiency. In the environmental policy of the Slovenske železnice Group, Slovenske železnice's Management Board undertook to adhere to the highest environmental protection standards in Slovenia and the EU.

Social responsibility

Slovenske železnice is aware of its socially responsible roles. Social responsibility at all levels of our operations facilitates increased recognition, a competitive advantage, and the securing of new transactions on the logistics and mobility markets. We ensure constructive engagement with the environment, and improve the quality of life of employees and their families, and of the local and other communities. By supporting various cultural and sporting activities, we strive for close links with the so-

cial environment and the creation of good relationships.

In that respect, we are aware of the importance of non-financial information and a comprehensive approach to reporting with the aim of creating value for our stakeholders. This report thus

sets out the foundations for the continued development of the Group's corporate reporting, in the scope of which we will strive in the future to enhance communications regarding the creation of value and the links between financial and non-financial information regarding operations.

Together on the path to success with a clearly defined vision and development strategy

We ended 2017 successfully and look forward with great optimism to the future, which will bring many new business opportunities and strategic decisions for Slovenske železnice. I believe that we will travel that path successfully and safely.

I would like to thank all stakeholders and employees, and especially all business partners and the users of our services, as you have all contributed to what we have achieved to date and are the reason and motivation for our work and progress in the future.

> Dušan Mes, Director General of Slovenske železnice

The results achieved in 2017 make the following promise possible: Fast forward!

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 2017. The members of the Management Board find that, to the best of their knowledge, 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 2017.

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 thereto, 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.

In accordance with Directive 2014/95/EU regarding the disclosure of non-financial and diversity information by certain large undertakings and groups and the guidelines issued by SDH on non-financial reporting, and in accordance with the diligence of a good manager, the Management Board uses this report as a vehicle to raise the level of non-financial reporting by including that in-formation in the system of key success factors of Sloven-ske železnice, and thus in a traceable reporting system.

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 26 April 2018.

Dušan Mes, Director General

mag. Tomaž Kraškovic, Member of the Management Board

Nina Avbelj Lekić, Workers' Director

Wind Arbely Letic



REPORT OF THE SUPERVISORY BOARD

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, four of whom are appointed and recalled by the founder, while the remaining two members, who represent the interests of employees, are appointed and recalled in accordance with the Workers' Participation in Management Act.

The composition of the Supervisory Board (Bojan Brank (Chairman), Aleksander Nagode, Mitja Križaj and Jože Oberstar, all appointed by the founder, and Silvo Berdajs and Jože Pavšek, both appointed by the Works Council), was unchanged in 2017.

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 sessions 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 functions. 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 achievement of planned business objectives.

Details regarding the composition and powers of the Supervisory Board are presented in the section Corporate governance statement in the annual report of Slovenske železnice, d. o. o. and the Slovenske železnice Group for 2017.

The Supervisory Board held a total of 12 sessions in 2017, 11 of which were regular sessions (from the 17th to the 27th session), while one was a correspondence session (4th correspondence session). The Supervisory Board held no extraordinary sessions in 2017. Sessions were held at the Company's registered office. All members of the Supervisory Board attended all sessions held in 2017, except for the 23rd regular session from which Chairman of the Supervisory Board Bojan Brank was excused, the 24th regular session from which member of the Supervisory Board Silvo Berdajs was excused, and the 26th regular session from which member of the Supervisory Board Jože Oberstar was absent.

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

MOST IMPORTANT TOPICS OF SUPER-VISORY BOARD SESSIONS IN 2017

The Supervisory Board dedicated a great deal of attention to topics linked to the implementation of the Strategic Business Plan of the Slovenske železnice Group for the period 2016–2020. It was regularly briefed on information regarding the status of strategic projects and on progress in the establishment of the main project office of the Slovenske železnice Group.

On 1 February 2017, the Supervisory Board approved 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 operations for the period 2018–2019.

It was regularly briefed on work on the strategic partnership project in freight transport, and on efforts regarding the potential diversification of operations and potential acquisitions in the logistics segment.

It was also regularly briefed on the status of the project to purchase passenger transport rolling freight at SŽ-Potniški promet, d. o. o. With the aim of further ensuring consistent compliance with public procurement procedures and regulations, the Supervisory Board requested the assistance of a court expert in this area and the former chairwoman of the National Review Commission, who provided the appropriate professional assistance as an adviser to the Supervisory Board. It was also briefed on activities and progress in the drafting of tender documentation. At its session at the end of May, it was briefed on the report on the implementation of risk management mechanisms as they relate to the prevention, identification and avoidance of conflicts of interest with respect to the tender itself, and approved the final version of tender documentation in connection with the purchase of passenger transport rolling stock. In June, it approved the start of procedures to secure long-term financing for the purchase of new rolling stock.

It was briefed on the investment programme for the purchase of rolling stock, and on documentation in connection with the investment programme for the purchase of freight transport rolling stock. It confirmed the investment value for the first phase, which includes the purchase of four diesel shunting locomotives and 70 freight wagons. It was also briefed on the proposed tender documentation for the purchase of diesel shunting locomotives and approved the signing of the agreement on the purchase of freight wagons. It also approved the start of procedures to secure a long-term loan to finance the purchase of freight transport rolling stock and to refinance liabilities to EUROFIMA.

It confirmed the updated investment programme for the installation of GSM-R devices in freight and passenger transport rolling stock, and approved the start of procurement procedures in accordance with that programme.

It regularly monitored activities in the scope of the programme to upgrade the Slovenske železnice Group's business information system. It was briefed on Slovenske železnice's digitalisation strategy and on the investment programme aimed at information support for the transport-logistics activity.

It reviewed the Slovenske železnice Group's real estate portfolio, and tasked the Management Board with drafting a real estate management strategy for the Group. It also approved proposed annex 3 to the agreement on the sale of commercial buildings with appurtenant land in the area of the freight railway station in the Moste district of Ljubljana.

It approved the acquisition of VV-LOG, d. o. o., through which Fersped, d. o. o. acquired a 100% participating interest in the management rights of that company. It also approved the resolution of Slovenske železnice, d. o. o.'s Management Board, under which SŽ-ŽIP, storitve, d. o. o. was recapitalised by means of a non-cash contribution to cover that company's accumulated losses. It was also briefed on the report on problems faced by SŽ-Železniški zdravstveni dom Ljubljana and possible solutions.

Based on monthly data regarding operations, reports on financial risks and unaudited quarterly reports on the operations of the Slovenske železnice Group drafted by the Management Board, the Supervisory Board was briefed regularly on the operating results and liquidity position of the Slovenske železnice Group, the controlling company and individual subsidiaries, and on the achievement of planned business objectives.

The Management Board also notified the Supervisory Board of other issues related to operations, and drafted additional clarifications and reports upon request regarding potential ambiguities and unresolved matters in connection with operations.

The Supervisory Board was also briefed on the compliance report of the Slovenske železnice Group for 2016 and on the report on the resolutions of Slovenske železnice, d. o. o.'s Management Board, through which subsidiaries in the Slovenske železnice Group were provided binding instructions for 2016 and 2017. It was also briefed on the review of pending judicial proceedings, received and filed lawsuits, and on the report on agreements published on the websites of Slovenske železnice Group companies. It also discussed the benchmark analysis of the Slovenske železnice Group's operations, freight and passenger transport with foreign railway operators, the report of the manager of the public rail infrastructure on the availability and utilisation of sections of main railway lines in 2017 and on information regarding the analysis of purchases in 2016 by primary purchase types for the Slovenske železnice Group.

It was briefed on the proposed new system of regular reporting on the operations of the Slovenske železnice Group and approved the system for handling individual reports in terms of the delegation of powers between the audit committee and Supervisory Board. At its 22nd session of 13 July 2017, the Supervisory Board of Slovenske železnice, d. o. o. approved the audited annual report of Slovenske železnice, d. o. o. and the Slovenske železnice Group for 2016, and proposed that the founder of Slovenske železnice, d. o. o. approve the Management Board's proposal regarding the use of distributable profit. It was briefed on the report on the auditor's work, on the Management Board's presentation in connection with the audit of the financial statements of Slovenske železnice, d. o. o. and the Slovenske železnice Group, and on the Management Board's responses to the auditor's questions regarding events after the statement of financial position date.

At its 25th session of 13 October 2017, the Supervisory Board of Slovenske železnice d. o. o. approved the proposed business plan of the Slovenske železnice Group and Slovenske železnice, d. o. o. for 2018, including a forecast of operations for the period 2019–2020. This represents a major step forward in the planning process, in accordance with the expectations of Slovenski državni holding, d. d.

The work of the Supervisory Board was effectively complemented, in terms of content, by the conclusions and proposals made by its committees. Significant topics discussed by the Supervisory Board after they had been discussed in advance by the Supervisory Board's 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 has functioned in the following composition since 11 September 2015: chair Mitja Križaj, and members Aleksander Nagode and Silvo Berdajs. Barbara Nose was appointed as external member on 19 September 2015.

All materials put forth 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's 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 2017, primarily in the areas of financial reporting, corporate integrity, internal auditing and the risk management system. Through the recommendations that followed from its findings, the audit committee provided advice and proposed specific solutions to resolve individual issues.

The four-member audit committee met at nine ordinary sessions and two correspondence sessions in 2017, at which it:

communicated actively with representatives of the audit firm Deloitte revizija, d. o. o. regarding areas and the progress of the external audit of the financial statements, monitored the independence of the external auditor and discussed the auditor's letter to the Management Board;

- approved the revised work plan of the Internal Audit Department for 2017 and the work plan of the Internal Audit Department for 2018, as well as the Internal Audit Charter and Rules of Procedure of the Internal Audit Department, discussed the register of internal and external audit recommendations, and was briefed on the summaries of the Internal Audit Department's final reports on regular and extraordinary internal audits;
- was briefed on the financial reporting procedures and system, on implemented internal controls and on the revision of the regular reports within the Slovenske železnice Group;
- was briefed on information regarding the operations of Slovenske železnice for the 2016 and 2017 reporting periods, and on the audited and unaudited financial statements of the controlling company and Group;
- discussed long-term borrowing procedures to finance the purchase of new passenger transport rolling stock, and inter-company borrowing agreements during the year and expectations in this area in 2018;
- was briefed on the development of a comprehensive risk management system and the risk management policy, and discussed periodic risk management reports and issued recommendations;
- discussed procurement rules within the Slovenske železnice Group, accounting rules and rules governing the recovery of receivables;
- was briefed on public information and on associated reports on the agreements published on the websites of Group companies;
- discussed progress reports on the upgrading of the business information system (BIS), progress reports on strategic projects and reports on corporate integrity within the Slovenske železnice Group; and
- performed a self-assessment of its work.

WORK OF THE SUPERVISORY BOARD'S HR COMMITTEE

A new HR committee was established on 31 March 2016 comprising the following members: Jože Oberstar (chair), and Bojan Brank and Jože Pavšek (members). The HR committee met at six sessions in 2017.

The most significant matters discussed by the HR committee related to the powers of the Supervisory Board in the approval of the appointment and recall of the management staff of subsidiaries, the approval of the rules on the conclusion of individual employment contracts and the approval of the Rules of Procedure of the Management Board. In accordance with the above, the HR committee discussed, inter alia, the following matters: the appointment of Melita Rozman Dacar as the managing director of SŽ-Tovorni promet, d. o. o., the appointment of Dušan Žičkar as the managing director of SŽ-VIT., d. o. o., the appointment of Tine Svolišak as the managing director of SŽ-ŽGP, d. d., the appointment of Janez Brezovar as the managing director of SŽ-Železniška tiskarna Ljubljana, d. d. and the appointment of Dean Peršič and Daniel Tomljanovič as managing directors of VV-LOG, d. o. o.

The committee also held several discussions regarding the rules and elements for the conclusion of individual contracts 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, set the basis for the calculation of wages under individual employment contracts for 2017. It also adopted the performance criteria for setting the variable element of remuneration for 2017.

APPROVAL OF THE ANNUAL REPORT AND THE PROPOSED USE OF DISTRIBUTABLE PROFIT FOR 2017

The unaudited annual report of Slovenske železnice, d. o. o. and the Slovenske železnice Group for 2017 was discussed by the Supervisory Board's audit committee on 10 and 16 May 2018.

The certified audit firm Deloitte revizija, d. o. o., Dunajska cesta 165, 1000 Ljubljana, which audited the financial statements and disclosures for 2017 for all Group companies and for the Slovenske železnice Group, reported its findings and the progress of the audit for 2017.

The Management Board discussed and approved the annual report of Slovenske železnice, d. o. o. and the consolidated annual report of the Slovenske železnice Group for 2017 at its session of 21 May 2018, and submitted them to the Supervisory Board for review and verification on 21 May 2018 in accordance with paragraph 3 of Article 272 of the ZGD-1, together with the independent auditor's report. The members of the audit committee and Supervisory Board received the audited annual report for 2017 on 21 May 2018. The Supervisory Board and its audit committee discussed the annual report of Slovenske železnice, d. o. o. and the consolidated annual report of the Slovenske železnice Group for 2017 at their sessions held on 22 May 2018. The certified auditors thus reported to both the Supervisory Board and the audit committee.

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 the Slovenske železnice Group as at 31 December 2017, and of their operating results and cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the EU.

After the audit committee's review and verification of the business and financial reports for 2017, the Supervisory Board found, based on the findings of the audit committee, that the audited annual report and the consolidated annual report for the 2017 financial year were compiled in a clear and transparent manner, and in accordance with the provisions of the Companies Act. The business report is in line with the audited financial statements. After 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, which amounted to EUR 9,304 thousand as at 31 December 2017.

Based on its review of the annual report and the proposed use of distributable profit for 2017, and its review of the certified auditor's report, the Supervisory Board confirmed the annual report of Slovenske železnice, d. o. o. and the Slovenske železnice Group for 2017, in accordance with the provisions of Article 282 of the ZGD-1 and the Articles of Association of Slovenske železnice, d. o. o.

Ljubljana, 22 May 2018

Bojan Brank, Chairman of the Supervisory Board

GENERAL INFORMATION

General information regarding the controlling company as at 26 April 2018

Director General: Dušan Mes

Member of the

Tomaž Kraškovic

Workers' Director:

Nina Avbelj Lekić

GRI

G4-34

Management Board:

Company name:[®] Slovenske železnice, d. o. o.

Address:® Kolodvorska ulica 11 1000 Ljubljana Slovenia

Phone: +386 (01) 291 40 00

E-mail: info@slo-zeleznice.si

Website: www.slo-zeleznice.si



Management board®

nt board[®] Members of the supervisory board[®]

Chairman: Bojan Brank

> Deputy Chairman: Aleksander Nagode

Members: Mitja Križaj Jože Oberstar Jože Pavšek Zlatko Ratej



Other data regarding the company

Core activity: 70.100 (Activities of head offices)

Quality management certificate: ISO 9001:2015, January 2018

Environmental management certificate: ISO 14001:2004, January 2018

Registration number: 10537000

Company registration number: 5142733000

VAT ID number: 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 AS AT 26 APRIL 2018®

	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 activity	49.200 Freight rail transport	49.100 Rail passenger transport	68. 320 Management of real estate on a fee or contract basis	
Registration number	1	1	1	
		6017274000	6017177000	
VAT ID number	SI84667044	SI89393686	SI94995737	
Senior management	Melita Rozman Dacar Drago Savič (Workers' Director)	Boštjan Koren -	Matjaž Kranjc Matjaž Skutnik (Workers' Director	
Supervisory Board	1	1	Darja Kocjan Matej Čepeljnik Matjaž Hribar	
General Meeting	SŽ, d. o. o. as founder	SŽ, d. o. o. as founder	SŽ, d. o. o. as founder	
	SŽ–VIT, d. o. o.	SŽ–ŽIP, storitve, d. o. o.	SŽ–ŽGP Ljubljana, d. d.	
Address	Zaloška cesta 217 1000 Ljubljana	Kolodvorska ulica 11 1000 Ljubljana	Ob zeleni jami 2 1000 Ljubljana	
Core activity	33.170 Repair and maintenance of other transport equipment	80.100 Private security activities	42.120 Construction of railways and underground railways	
Registration number	12596100	12501700	10011300	
Company 5865824000 registration number		5824290000	5143004000	
VAT ID number	SI99181762	SI61613223	SI46621474	
Senior management	Dušan Žičkar Zdravko Skrbiš (Workers' Director)	Vojka Martinčič Vesna Ritlop (Workers' Director)	Tine Svoljšak Pavel Piškur (Workers' Director)	
Supervisory Board	/	1	Gorazd Podbevšek Dušan Mes Stanislav Debeljak	
General Meeting	SŽ, d. o. o. as founder	SŽ, d. o. o. as founder	General meeting of shareholders	
	Prometni institut Ljubljana, d. o. o.	SŽ–Železniška tiskarna Ljubljana, d. d.	Forsped d.o. o	
Address	Kolodvorska ulica 11 1000 Ljubljana	Hladilniška pot 28 1000 Ljubljana	Parmova ulica 37 1000 Ljubljana	
Core activity 72.200 Research and experimental development on social sciences and humanities		18.120 Other printing	52.290 Other transportation support activities	
Registration number	11645100	10004600	10125000	
Company registration number	5674522000	5142881000	5069084000	
VAT ID number	SI34722645	SI41764544	SI76557995	
Senior management	Peter Verlič	Janez Brezovar	Jožef Petrovič	
Supervisory Board	1	Boštjan Koren Istok Puš Miran Parkelj	1	
General Meeting	SŽ, d. o. o. as founder	General meeting of shareholders	SŽ, d. o. o. as founder	



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., approved the strategic business plan of the Slovenske železnice Group for the period 2016–2020 in January 2016.

The bases for the strategic plan of the Slovenske železnice Group for the period 2016–2020 are as follows:

- the Strategy of Slovenske železnice until 2020 Rehabilitation and Reorganisation of the System of Slovenian Railway Companies (May 2011);
- the points of departure for the drafting of the strategic plan (February 2013); and
- the Decree on the State Assets Management Strategy (July 2015).

The purpose of the strategic plan is to define the vision, mission and priority strategic objectives, and policies and projects whose implementation will contribute to the achievement of business and financial objectives, and to sustainable development.

One of the basic assumptions of the strategic business plan was the arrangement of long-term agreements on the discharge of public service obligations for the infrastructure and passenger transport. The profitability targets set out in the State Assets Management Strategy cannot be attained unless we meet the criteria set for individual segments of operations, which depend on the level of funds for public service obligations.

One of the basic assumptions of the aforementioned plan is the upgrading of rolling stock. The purchase of new passenger transport rolling stock requires a systemic financing solution in the scope of a new long-term agreement on the discharge of the public service obligation. Excessive indebtedness means that the purchase of new rolling stock requires recapitalisation or the entry of a strategic partner. Without the latter, the funds required for the upgrading the vehicle fleet will be obtained through the sell-off of non-strategic investments.

In the logistics and mobility pillar, we aim to diversify operations and to facilitate growth by strengthening logistics activities. This can be achieved through the takeover of activities and through corporate acquisitions.

To meet the turnover targets and projections set out in the Slovenske železnice Group's strategic business plan for the period 2016–2020, the Slovenian government must ensure the appropriate maintenance and upgrading of the infrastructure. Projections of freight transport transactions take into account the state of the existing infrastructure.

Monitoring the implementation of the business model and development policies

Implementation and supervision of the implementation of the strategic plan will be carried out in the scope of the preparation and implementation of annual plans that represent the main instruments through which strategic objectives are achieved. Annual planning links strategic development tasks and planned changes in short-term capacities.

Slovenske železnice monitors the implementation of the vision and the functioning of the business model through a multi-tier system of indicators. At the highest level are a set of indicators of systemic measures and a set of indicators of key internal measures. The two aforementioned sets represent the basic non-financial factors of Slovenske železnice's sustainable development, and simultaneously facilitate short-term liquidity and long-term development.

The monitoring of the achievement of key performance indicators and the implementation of projects is used to monitor the implementation of annual plans and the strategic plan. The core elements that are subject to control are deviations in individual key indicators that arise between the planned objectives set out in the strategic plan and the actual results achieved in operations. The objectives of monitoring at this level are to identify the reasons for deviations and to adopt measures to eliminate those deviations or to prevent their reoccurrence. The monitoring of changes to the strategic plan, if required, is carried out following the same procedure used to adopt the basic plan.

Vision

To become a significant regional operator and provider of comprehensive logistics services in Central and South-Eastern Europe, and an essential provider of comprehensive, user-friendly services in integrated public transport in Slovenia and the wider region. To manage the public rail infrastructure within the framework of the national programme for its development, to maintain a modern and safe rail infrastructure, to provide transport on this infrastructure in accordance with legislation and EU guidelines, and to 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, and also performs tasks under public service obligations (maintenance of the infrastructure, management of traffic on the infrastructure, inland and cross-border regional passenger transport by rail), and tasks as the manager of the public rail infrastructure. It thus ensures the efficient supply of the economy, 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 and combined transport), logistics (freight forwarding, freight terminals and distribution).

Passenger transport: rail passenger transport and bus transport.

Traction and Technical Services: traction, inspection and maintenance of rail vehicles.

Management of the PRI (public rail infrastructure)/IPPT (integrated public passenger transport): maintenance of infrastructure, rail transport management and IPPT management.

Construction: engineering, renovation and new construction of the rail infrastructure.

Support for strategic activities: business support services, real estate management, maintenance of facilities, cleaning, security, print media, and 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, Baltic–Adriatic RFC 5, Alps–Western Balkans (corridor 10);
- become the largest operator in integrated public transport in Slovenia and the wider region;
- ensure public mobility through efficient and reliable management in integrated public transport;
- ensure the effective and reliable maintenance and management of the rail infrastructure, and the management of rail traffic on it;
- become a reliable and efficient provider of rail vehicle maintenance services, and provider of traction for trains; and
- develop effective support activities in the Group and other sustainable development activities.

Objectives by individual activity

Freight transport: growth in revenues and profitability through the internationalisation and diversification of operations: upgrading 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 logistics 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 the diversification of operations: upgrading of rolling stock, development of international, regional and local lines through the optimal combination of rail and bus transport, renovation and upgrading of stations, additional services for passengers such as the single ticket, comprehensive IPPT, wireless network on trains, stations and stops, a new ticketing system, and a strong focus on sales (marketing of advertising space and sales of other services).

Traction and Technical Services: growth in revenues and profitability through the internationalisation of operations, increased efficiency and performance through the technological modernisation of production processes and computerisation of operations.

Management of the infrastructure: ensuring the availability of the PRI, conditions for interoperability and the increased throughput capacity of lines, the timely and efficient provision of high-quality integrated maintenance services through the introduction of advanced technologies and processes, the modernisation of machinery and technology, and the management of traffic on the PRI.

Construction: growth in revenues and profitability through the internationalisation and diversification of operations: the construction and upgrading of the rail infrastructure, facilities and buildings

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

IMPLEMENTATION OF SYSTEMIC MEASURES

Based on strategic policies and objectives, the Company's Management Board drafted a list (on 26 January 2016) of systemic and internal measures that represent fundamental mechanisms for the achievement of objectives. Systemic measures are primarily linked to coordinated measures with the Republic of Slovenia as the sole shareholder of Slovenske železnice, d. o. o., as well as the owner of the public rail infrastructure and the consignee of the public service obligations of maintenance of the rail infrastructure and the management of traffic on it and passenger transport, and to the measures of Slovenski državni holding, d. d., in the role of the Company's founder and manager of the associated capital investment. Internal measures also derive from the strategic policies and objectives set out in the Strategic Plan of the Slovenske železnice Group for the period 2016–2020.

The Company's Management Board verifies the aforementioned list of systemic and internal measures, and assesses the implementation thereof based on interim monthly and quarterly reports on the operations of the Slovenske železnice Group, and supplements that list with new measures during the drafting of annual business plans.

Type of measure	Indicative implementation deadline	Implementation by the end of April 2018
The conclusion of a long-term agreement with the government to secure stable funding for the public service obligation of passenger transport, including the funding of development investments in the upgrading of rolling stock.	2016–2017	The Slovenian government adopted a resolution at its 123rd regular session of 23 February 2017 on the conclusion of the Agreement on the discharge of the public service obligation in the inland and cross-border regional transport of passengers by rail for the period 2017–2031. The agreement was signed on 13 March 2017. On 23 March 2018, the Slovenian government and SŽ-Potniški promet, d. o. o. signed amendments to the Agreement on the discharge of the public service obligation in the inland and cross-border regional transport of passengers by rail for the period 2017–2031. Those amendments to the Agreement on the discharge of the public service obligation in the inland and cross-border regional transport of passengers by rail for the period 2017–2031. Those amendments to the aforementioned agreement govern the payment of insufficient compensation for the discharge of the PSO under long-term agreement no. 3/2010-2019 for 2015 and 2016 in accordance with Regulation (EC) No. 1370/2017. They also set the amounts of compensation that the contractor receives for the upgrading and modernisation of rolling stock and the associated payment deadlines, as well as the relevant amount of profit to which the contractor is entitled.
Development of a harmonised model and all bases for the establishment of a strategic part- nership in freight transport and the diversification of operations through corporate M&As.	2017–2018	In accordance with the strategic plan, activities were initiated in 2016 to attract a strategic partner in the freight transport segment. Those activities continued at an accelerated pace in 2017. The assessment of the appropriateness of bids began following the acceptance of two binding bids in January 2018. A decision regarding the aforementioned strategic partnership in freight transport will be made in 2018.
The Slovenian Government must ensure the proper maintenance and upgrading of the infrastruc- ture, which is a prerequisite for ensuring its throughput capacity.	2016–2018	Investments in the public rail infrastructure that are already in progress and planned projects point to accelerated investments in the maintenance and upgrading of the public rail infrastructure, and to the achievement of objectives for ensuring the increased throughput capacity thereof.

IMPLEMENTATION OF KEY INTERNAL MEASURES

Type of strategic project	Indicative deadline	Implementation by the end of April 2018
Business process re-engineering programme of Slovenske železnice Group companies	2016–2019	Processes were audited in 2017, while the re-engineering and optimisa- tion of business processes was started. Those activities will continue in 2018.
Group of project programmes aimed at the computerisation and digitalisation of the Slovenske železnice Group	2017–2022	Information support for specific areas will be ensured through the expan- sion of the business initiative to computerise and digitalise the operations of the entire Slovenske železnice Group. The digitalisation strategy of the Slovenske železnice Group (2017–2022) was adopted. The programme of projects to upgrade the business information system (BIS) of the Slovenske železnice Group has been combined, <i>inter alia</i> , with project programmes for the digitalisation of the transport-logistics activity, the passenger trans- port activity, the management of rail traffic and operational efficiency, project systems, electronic operations, cooperation platforms, information technology and information security, and document and archive systems.
Investments in the upgrade of freight transport rolling stock	2016–2020	The drafting of investment documentation for the upgrading of freight transport rolling stock is complete, while the partial upgrading of the wag- on fleet was completed. The project to purchase tractive rolling stock for the freight transport activity is in the tender phase, while the fitting of new engines to existing tractive rolling stock is proceeding according to plans.
Investments in the upgrade of passenger transport rolling stock	2016–2031	A public tender for the purchase of new railway passenger rolling stock was published on the e-procurement portal (publication no. JN005633/2017-B01) and in the Official Journal of the European Union (publication no. TED 2017/S 106-211911) on 2 June 2017. The contracting authority had received one bid (from Stadler Polska Sp., z. o. o.) by the final deadline for the submission of bids, i.e. 25 September 2017. Based on an analysis and assessment of that bid, in terms of compliance with technical requirements, and the verification of affordability, the Supervi- sory Board of Slovenske železnice, d. o. o. approved the selection of the contractor in March 2018 based on the public procurement procedure and the content of the associated agreement. Following the receipt of consent from SDH, d. d., SŽ-Potniški promet, d. o. o. signed an agreement for the purchase of new trains with Stadler on 17 April 2018.

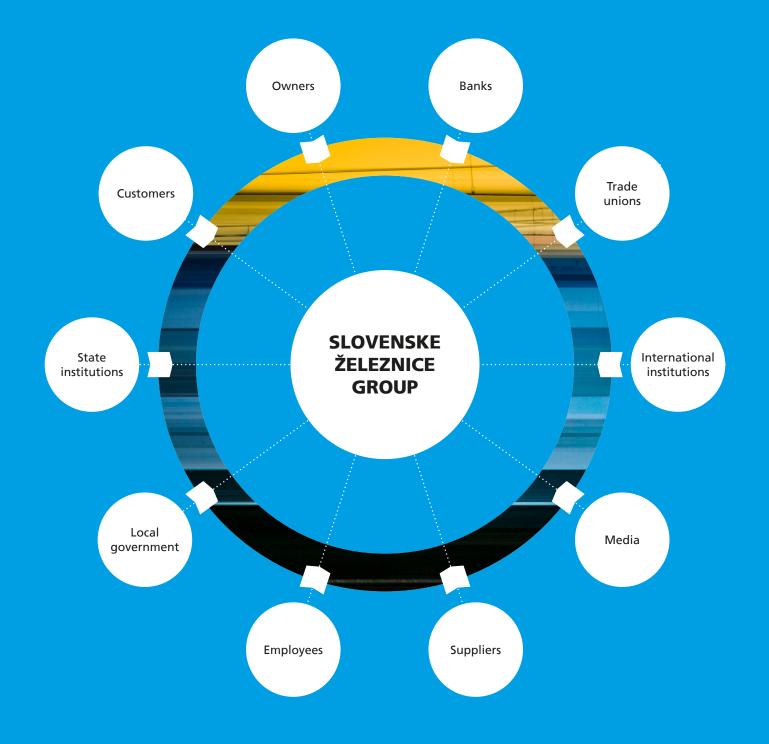
Type of strategic project	Indicative deadline	Implementation by the end of April 2018
Programme of integrated public passenger transport projects	2015–2018	Activities to expand IPPT to all users of the system.
Emonika project	2016–2022	The project covers the public rail and bus passenger centre, and a private retail-office element. The private investor involved temporarily halted its activities, while the remainder of the project continues in parallel. Conceptual designs have been drawn up for tracks and the track infrastructure. The preparation of tender documentation will follow in 2018 for the drafting of the construction permit project and implementation project, a proposal of potential additional changes to the detailed municipal spatial plan (DMSP) and the completion of the selection of a project designer for the bus station area.
Relocation of activities – Moste Terminal	2016–2019	Buildings were rehabilitated in 2017 in connection with the relocation of freight transport activities, while a tender will be prepared in 2018 for the arrangement of tracks and track devices. A change is being made to the DMSP in parallel for the area in question in connection with the construction of the Ljubljana-Moste logistics terminal.
Central commercial building	2016–2022	Search for potential locations and the drafting of proposed tender docu- mentation. The publication of the tender and the start of negotiations for the selection of a project designer will follow.
Programme of ERTMS projects	2013–2025	 Infrastructure: GSM-R: project completed in December 2017. The relevant certificate was received from the notified body, as well as the operating permit from the Public Agency for Railway Transport (PART). ETCS: The infrastructure on corridor D (Koper–Sežana–Hodoš) is already equipped. Preparations are also being made for the Pragersko–Šentilj and Zidani Most–Dobova corridors. Equipping of vehicles: GSM-R cab radio: the first tender was published in 2016, but was annulled by the National Review Commission in 2017. Redrafting of tender documentation in 2017 and publication in 2018. Bids are in the process of being evaluated, while the completion of the tender process is planned during the first half of 2018. ETCS vehicle equipment: Transport and passenger rolling stock that will still be in use after 2023 must be equipped with ETCS safety devices. The project is being drawn up. The initial investment project identification document (IPID) has been confirmed, while the drafting of the pre-investment plan (PIP) is in the final phase.
Energy, the environment and quality	2017–2018	The project to establish a comprehensive energy management system with the aim of implementing the relevant standard within the Sloven- ske železnice Group is proceeding in accordance with ISO 50001 (energy management). ISO 14001:2015 (environmental management) will be implemented in September 2018. The renewal of ISO 9001:2015 (quality management) has been completed.
Study of possibilities and the adoption of decisions regarding the diversification of operations in logistics, passenger transport and construction.	2016–2019	We acquired VV-LOG, d. o. o. in 2017, while activities are in progress to identify and potentially acquire another smaller logistics company.



KEY STAKEHOLDERS[®]

G4-24 G4-25 G4-26 broad range of stakeholders. Logistics activities are crucial to the functioning of the economy and for citizens. Passenger transport affects practically every citizen. The management of the infrastructure is of fundamental importance for the state and numerous local communities.

Through questions about safety, the environment, mobility and Slovenia's development potential, the entire activity affects the functioning of numerous stakeholder groups, both institutional and civil. Slovenske železnice maintains and develops constructive relations with all groups.



Stakeholder	Content of engagement, key topics	Method of engagement	Frequency of engagement
Owner, founder	Business strategy, implementation of annual capital investment management plan and reporting on operations.	Meetings at the headquarters of SDH and proactive communication via the Supervisory Board.	Justification of the owner's trust through monthly and quarterly reports on operating results.
Employees	Notification of employees regarding the objectives of and current events at the Company, notification regarding changes at the Company, wage system and remuneration for performance, relations between employees, work- life balance, education and additional training, and occupational health and safety.	Personal contact, email, partici- pation in management (workers' directors, Works Council, trade un- ions, employee representatives on the Supervisory Board), measure- ment of the organisational climate, the Nova proga internal newsletter, internal events, announcements on the intranet and bulletin boards.	Active daily engagement of employees. The objective is to build a culture of mutual trust, respect, continuous learning, and responsible and efficient work.
Trade unions	Notification of trade unions regarding the objectives of and current events at the Company, notification regarding changes at the Company, notification regarding proposed bylaws governing matters relating to employment relations and wages, notification regarding disciplinary procedures and participation in committees.	Personal contact, email, participation in social dialogue, the Nova proga internal newsletter, announcements on the intranet and bulletin boards.	Active daily engagement of trade unions. The objective is to build a culture of mutual trust, respect and cooperation and to ensure social dialogue.
Customers	Provision of services in accordance with contractual provisions, tariffs and regulations – reliability and accuracy. Customer satisfaction, resolution of reclamations and claims for damages, notification regarding anticipated and unanticipated impediments to traffic and the associated measures, and the expansion of contractual cooperation.	Direct relations, via telephone, email, the websites of Slovenske železnice Group companies and sales conferences.	Permanent contact that is based on respect, trust and fairness.
Suppliers	The fulfilment of contractual obligations, quality of supplied materials and services rendered, resolution of complaints and informative offers.	Meetings, telephone conversations and email.	Contact for the duration of the contractual relationship.
State institutions	Allocation of funds, importance of providing and developing services for customers and other stakeholders.	We consistently comply with and fulfil our obligations to the state. We comply with all regulations, including certain guidelines.	We justify allocated funds through interim and annual reporting regarding operating results.
Banks	Provision of payment transaction services, securing of financing for investments and current operations, and the securing of bank guarantees for various transactions.	In person, via telephone and written business correspondence.	Daily communication.
International institutions	Information regarding current international developments in the area of European transport policy and events in the area of railway transport, development and importance of railway transport in the international environment and the promotion of all forms of international cooperation.	Communication via email and telephone. Personal contact at meetings at home and abroad, and at international conferences and railway-related events.	Regular daily engagement. Permanent contact to ensure a fast response to initiatives from the international environment, and the provision of information regarding current events in the international railway environment.
Media	Transparent information regarding operations, significant business events and changes within the Slovenske železnice Group.	Via telephone and electronic media, interviews, the organisation of press conferences and personal meetings with representatives of the media.	Regular and proactive cooperation with the aim of providing timely and high-quality information in the form of press releases and announcements for the media, meetings with representatives of the media, responses and explanations.
Local government	The Group's activity in the local community, strategy on the development of the local community, affordability, traffic safety, accessibility to services for persons with varying degrees of disability, investments in the infrastructure, and the co-financing of sporting and cultural projects.	Direct contact with local decision- makers, the allocation of funds for sponsorships and donations in accordance with internal rules on the treatment and approval of sponsorships and donations, and meetings with mayors and municipal administrations.	Regular and proactive cooperation with the aim of contributing to improved living standards and equa opportunities.

Relations with key stakeholders are disclosed in detail in the business report in the sections Analysis by activity and Disclosures by key activities.

CORPORATE GOVERNANCE STATEMENT

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



1. 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 adopted in May 2017 applied to the Company from 1 January to 31 December 2017.

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.

2. Statement of compliance with the **Corporate Governance Code for Companies** G4-56 with Capital Assets of the State and deviations from that Code, and deviations from the Recommendations and Expectations of Slovenski državni holding®

2.1 Slovenske železnice, d. o. o. complies with the Corporate Governance Code for Companies with Capital Assets of the State, except for the specific deviations explained below.

Corporate governance framework for companies with GRI capital assets of the state® G4-LA12 G4-I A13

Point 3.2:

The Company has no governance policy in place, and operates in accordance with the applicable regulations, the Company's Articles of Association and the State Assets Management Strategy. The governance policy is drawn up and is expected to be adopted in 2018 at the Slovenske železnice Group level.

Point 3.6:

Point 6.1:

The Company has not adopted a diversity policy in terms of the powers of the founder in the appointment of members to and the composition of its Supervisory Board.

The Supervisory Board has not formally developed a succession plan for members of the Management Board,

although it has begun discussions in that regard. Any

succession plan must take into account, in particular, the

Company's status and duties set out in applicable regula-

Supervisory Board®

G4-34 G4-38 Point 6.1.1:

The composition of the Management Board was not balanced in terms of representation by gender during the 2017 financial year. Nina Avbelj Lekić was appointed Workers' Director of Slovenske železnice, d. o. o. on 21 March 2018. The aforementioned recommendation was thus taken into account.

Point 6.1.5:

The Articles of Association or resolution of the Supervisory Board does not specify the mandatory consent of the Supervisory Board for the establishment or closure of branches. Consent for the acquisition, disposal or closure of material parts of the Company or operations is provided for 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. Through their diversity, they ensure that the aforementioned body as a whole possesses the required knowledge, skills and experience to control and monitor the Company's operations. However, the Supervisory Board does not have a balanced structure in terms of gender representation or international elements. 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 6.4.1, 6.7[®] and 6.8:



The Supervisory Board has not drawn up a competence profile for its members, and does not have a nomination committee. The Company is 100% directly owned by the Slovenian Government, meaning that the appointment of the Supervisory Board is the responsibility of the Company's founder, which appoints Supervisory Board members in accordance with applicable regulations and the Company's bylaws.

Point 6.12.1:

The Company's Supervisory Board has not drawn up a detailed action plan aimed at improving its work, but has carried out a self-assessment and drawn-up a series of measures to further improve its work.

Point 6.13.2:

The audit committee held nine ordinary and two correspondence sessions in 2017 for the purpose of adopting the necessary decisions. Based on the annual assessment of its work, the audit committee, proposed several measures to the Supervisory Board to improve the audit committee's work.

ABOUT SLOVENSKE ŽELEZNICE

tions and the Articles of Association.

Management Board

Point 7.3.2:

The Company has no formally specified obligation for a member of its Management Board who assumes the position of member of the supervisory board of a company outside the Slovenske železnice Group to obtain the prior 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 board of other companies, except on the supervisory boards of companies in which Slovenske železnice, d. o. o. holds a minimum participating interest of 25%. The Supervisory Board is informed of the assumption of such functions in practice in order to ensure that the interests of the Slovenske železnice Group are taken into account by all parties.

Point 7.4:

The Company currently has no individual development plans for each employee, but introduced SAP-HCM information support in 2017. Using that new information support as a basis, we will gradually implement a new HR process: the management of employee development plans in which the career path of a specific employee and their critical abilities will be defined.

GRI GRI GA18

Point 8.2:

G4-19

G4-20 G4-21

The Company does not disclose some of the information stated in Appendix 5 in its annual report in order to protect personal data.

Point 8.3:

The Company does not disclose the employment earnings of employee representatives of the Supervisory Board in its annual report.

Point 8.4:

The Company does not disclose the costs of the functioning of the Supervisory Board in its annual report.

Point 8.5:

GRI

Slovenske železnice, d. o. o. is a single-partner enterprise, whose sole owner is the Republic of Slovenia. General meetings of partners/the founder are the responsibility of SDH, d. d., and the Company is unable to anticipate when they will be convened.

2.2 Slovenske železnice, d. o. o. (with the specific deviations that are set out below) adheres to the Recommendations and Expectations of Slovenski državni holding, which were adopted in May 2017 and 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 identify data regarding the total value from individual publications.

Point 4.3.2:

A performance-based incentive under an agreement concluded with social partners was paid in 2017. The following were taken into account during the conclusion of that agreement: growth in operating revenues, an improvement in earnings before taxes and interest (EBIT) and an increase in value-added per employee during the period January–September 2017.

Point 5:

The EFQM excellence model, a highly complex project, has not been introduced within the Slovenske železnice Group. Due to the implementation of numerous other projects, no decision has been made on the introduction of the aforementioned model.

G4-14

3. 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 is in place in the Slovenske železnice Group. That system also ensures the appropriate management of the books of account. A system has been created that ensures the functioning of internal controls at all levels of the Slovenske železnice Group's operations. The system of internal controls provides sufficient assurance for the identification and assessment of significant risks, the definition of risk management measures and reporting on risks.

The Management Board of Slovenske železnice, d. o. o. and the senior management of Slovenske železnice Group companies ensure that internal controls are systemically integrated in business processes, and are responsible for the effective functioning of the internal control system.

The purpose of internal accounting controls is thus to ensure a fair and true presentation of the operations of the Slovenske železnice Group, while pursuing the following objectives:

- the accuracy, reliability, completeness and timeliness of financial reports;
- compliance with the law, standards, agreements and the Company's bylaws;
- the achievement of effective and efficient operations, which is reflected in an increase in the value of Slovenske železnice Group's assets; and
- the achievement of the Slovenske železnice Group's strategic objectives.

In order to achieve these objectives, the Slovenske železnice Group:

- ensures the transparent organisational structure of the Slovenske železnice Group;
- is introducing a standardised accounting and business information system at the controlling company and at subsidiaries;
- ensures the standardised management of the books of account through a largely centralised accounting function;
- reports on operations in accordance with the International Financial Reporting standards (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; and
- 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 in more detail in the Risk management section of the business report. We believe that the system of internal controls, which are the subject of continuous improvements within the Slovenske železnice Group, is first and foremost an effective and successful tool for the achievement of both short-term and strategic business objectives.

4. 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. Its 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 party. As the sole partner, there are no restrictions on the Republic of Slovenia's voting rights.

The Company is managed by its Management Board which, in accordance with the Articles of Association, comprises the Director General, two members (directors) and the Workers' Director. Members of the Management Board are appointed and recalled by the Company's Supervisory Board, while the Workers' Director is appointed and recalled based on a proposal from the Works Council. The Director General has the right to propose to the Supervisory Board the appointment of two members to the Management Board (directors). However, the Supervisory Board is not legally bound to that proposal. The Supervisory Board may recall members of the Management Board without explanation.

The Company has a Supervisory Board comprising six members. Four members are appointed and recalled by the founder (Slovenski državni holding, d. d.), while two members are appointed and recalled in accordance with the Workers' 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, d. d.

Management staff and the Management Board manage Slovenske železnice, d. o. o.'s operations and represent the Company at their own risk. Individual members of the Management Board are assigned their respective work area through 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. One member of Management Board (director) and the Workers' Director represent the Company together with the Director General.

Due to the legal prohibition on the division or transfer of the participating interest to another party, the Management Board cannot be granted any powers to issue or purchase treasury shares.

5. Functioning of the general meeting and its key powers, description of the rights of shareholders and the manner in which those rights are exercised[®]

GRI

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

In accordance with the Companies Act (ZGD-1), all major business decisions in single-partner limited liability companies that are set out in the Companies Act and the Articles of Associations are made by the founder. The function of the Company's founder is performed by Slovenski državni holding, d. d.

The founder thus 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 defer the decision on their adoption to the founder), the use of distributable profit and the coverage of losses, the conferral of official approval on the Supervisory Board and Management Board or on individual members of those two bodies, the reimbursement of subsequent payments, the remuneration policy for members of the Management Board based on the proposal of the Supervisory Board and with the prior approval of the government as the general meeting of the founder, corporate status changes and the winding up of the Company, changes to share capital, the appointment and recall of Supervisory Board members, except those that were appointed by the Works Council, payments to members of the Supervisory Board, the appointment of the Company's auditor based

on the proposal of the Supervisory Board, representation of the Company in court proceedings against management staff 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.

6. 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, the Rules of Procedure of the Supervisory Board and the 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.

Composition of the Supervisory Board and its committees during the 2017 financial year

Name and surname	Function	First appointment to function	Completion of function/term of office			ence in accordance with Article 23 of the	of interest	Membership in supervi- sory bodies of other companies		Chair/ member	Participation in commit- tee sessions with respect to total number
Bojan Brank	Chairman	11 Sep. 2015	11 Sep. 2019	S	11/12	YES	NO	1	HR committee	Member	5/6
Aleksander Nagode	Deputy Chairman	11 Sep. 2015	11 Sep. 2019	S	12/12	YES	YES	1	Audit committee	Member	10/11
Jože Oberstar	Member	22 Mar. 2016	11 Sep. 2019	S	11/12	YES	NO	1	HR committee	Chairman	6/6
Mitja Križaj	Member	11 Sep. 2015	11 Sep. 2019	S	12/12	YES	NO	SIJ, d. d., DUTB, d. d	Audit committee	Chairman	11/11
Silvo Berdajs	Member	11 Sep. 2015	11 Sep. 2019 (resigned on 11 Apr. 2018)	E	11/12	YES	NO	SŽ–ŽGP Ljubljana, d. d., SŽ–In- frastruktura, d. o. o.	Audit committee	Member	11/11
Jože Pavšek	Member	11 Sep. 2015	11 Sep. 2019	E	12/12	YES	NO	1	HR committee	Member	6/6

Legend:

* S – shareholder representative; E – employee representative.

** If a conflict of interest arose in a particular case, the member of the Supervisory Board in question was recused from discussions and decisions by the aforementioned body.

Work of the Supervisory Board

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

The Supervisory Board exercises its powers and performs its duties at sessions and via 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 and other items, the supervision of the activities of the Slovenske železnice Group and the implementation of the adopted annual and strategic plan based on Management Board reports, verification and approval of the annual report and review of the proposed use of distributable profit, the appointment and recall of the Management Board of Slovenske železnice, d. o. o., the appointment and recall of the Workers' Director on the Company's Management Board based on the proposal of the Works Council, the appointment of the audit committee and other Supervisory Board committees, the conclusion of employment contracts with Management Board members, the submission of proposals to the founder for the adoption of resolutions in the scope of its powers, the adoption of the Rules of Procedure of the Supervisory Board, the monitoring of the appropriateness of procedures and the effectiveness of internal controls

and internal auditing, and the approval of the following: the business plan and the strategic business plan of the Slovenske železnice Group, the purchase or sale of capital assets and real estate above the amount set out in Slovenske železnice, d. o. o.'s Articles of Association, the raising of loans and the issuing of guarantees and sureties above the amount set out in Slovenske železnice, d. o. o.'s Articles of Association, investments and divestments that are not included in the Company's annual plan or the strategic business plan of the Slovenske železnice Group above the amount set out in the Articles of Association, decisions regarding changes in status and capital at the general meetings of subsidiaries, the rules and elements for the conclusion of individual employment contracts for management staff and other Slovenske železnice and Slovenske železnice Group employees, the appointment and recall of management staff at subsidiaries, the appointment and recall of the head of the Internal Audit Department and the annual work programme thereof, and the Rules of Procedure of the Management Board.

The Supervisory Board also makes decisions and gives its consent in the matters set out in Article 15 of the valid Articles of Association of Slovenske železnice, d. o. o.

Supervisory board committees

An audit committee and HR committee functioned in the scope of the Supervisory Board in 2017.

The audit committee has the powers 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 and Silvo Berdajs (members), and Barbara Nose (external member). The Supervisory Board's audit committee met at nine regular and two correspondence sessions in 2017, where it discussed matters in the scope of its powers.

The HR committee functioned in the following composition: Jože Oberstar (chair), and Bojan Brank and Jože Pavšek (members).

The HR committee met at six sessions in 2017. The most important matter that it discussed related to the Supervisory Board's powers to approve the appointment of directors at subsidiaries and the adoption of changes to the rules and elements for the conclusion of individual contracts, and to the performance criteria for setting the variable element of remuneration for 2017.

Management Board

In accordance with the valid Articles of Association of Slovenske železnice, d. o. o., the Company's operations are managed by its Management Board comprising the Director General, who represents the Company independently and without limitations, two members of the Management Board (managing directors), who only represent the Company in concert with the Director General, and the Workers' Director, who is appointed in accordance with the Workers' Participation in Management Act and who is vested with the power to represent the interests of employees regarding human resource and social issues.

Composition of the Management Board during the 2017 financial year

Name and surname	Function (President, member)	Work area as member of the Management Board	First appointment to function		Membership in supervisory bodies of unaffiliated companies
Dušan Mes	Director General	Director	22 March 2012	23 March 2020	/
Tomaž Kraškovic	Member of the Management Board – Director	Finance, accounting and controlling, IT, compliance and risk management	1 April 2016	1 April 2020	/
Milan Jelenc	Member of the Management Board – Director	Logistics, quality and international relations	14 February 2013	14 February 2017	President of the Supervisory Board of Adria kombi, d. o. o., member of the Supervisory Board of Centar za kombinirani transport Zagreb, d. d.
Albert Pavlič	Workers' Director	HR and social issues	1 September 2002	5 March 2018	/

The management staff and Management Board manage the transactions of Slovenske železnice, d. o. o. and represent the Company at their own risk. All decisions made in the management of transactions that are not the responsibility of the Supervisory Board and the founder are made in accordance with valid regulations and the Articles of Association. Individual members of the Management Board are assigned their respective work area through 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 Management Board functions as a collegiate body when adopting the most important decisions for Slovenske železnice and for the Slovenske železnice Group.

The Director General represents the Company independently and without restrictions. Two members of the Management Board (directors) and the Workers' Director represent the Company together with the Director General.

Governance of subsidiaries[®]

The Management Board and Supervisory Board also play key roles in the governance of 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 Ljubljana, d. o. o., SŽ-Železniško gradbeno podjetje, d. d., SŽ-Železniška tiskarna Ljubljana, 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.

The companies listed above are engaged in the maintenance and management of the public rail infrastructure, rail traffic management, rail passenger and freight services on the public rail infrastructure, train traction and technical wagon inspection services as core activities, and other services, and supplementary and complementary activities required for the continuous and/or high-quality performance of core activities.

GRI G4-17

G4-7

Based on the corrective measure imposed by the Slovenian Court of Audit, Slovenske železnice, d. o. o. reversed the disclosure of a non-current financial investment in SŽ-Železniški zdravstveni dom (investment in shares or participating interests) on 31 December 2011 and temporarily disclosed a financial receivable in that respect. For this reason, 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 directly by the founder (Slovenske železnice, d. o. o.) and through an individual company's senior management, except at SŽ-Infrastruktura, d. o. o., where a three-member Supervisory Board was established in accordance with the Railway Transport Act. SŽ–Železniško gradbeno podjetje, d. d. and SŽ–Železniška tiskarna, d. d. are by governed those respective companies' senior management and Supervisory Board.

At the aforementioned subsidiaries that have no Supervisory Board, the founder plays the role and has all of the powers of the general meeting, and makes decisions primarily regarding the following:

- amendments to the Articles of Association;
- the use of the distributable profit and the coverage of losses;
- the conferral of official approval on the Management Board or individual members thereof;

- changes in share capital;
- the appointment and recall of members of the Management Board;
- the appointment of an auditor.

Control agreements

Control agreements set out the conditions and method for the management of transactions within the contractual concern, and the other mutual rights and obligations of Slovenske železnice, d. o. o. (as the controlling company) and its subsidiaries. Such an agreement allows a subsidiary to subject the management and governance of that company to Slovenske železnice, d. o. o. as the controlling company. Control agreements have been concluded with 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 Ljubljana, d. o. o. and Fersped, d. o. o.

As the controlling company within the contractual concern, these control agreements provide Slovenske železnice, d. o. o. the right to give instructions to subsidiaries for the management of transactions and the right of direct supervision over subsidiaries. The controlling company is also obliged to cover the losses of subsidiaries.

The purpose of concluding these agreements is to ensure effective business decisions with the aim of achieving the best possible operating results at all companies within the Slovenske železnice Group and at each separate company, and on this basis bring together companies linked through capital under a contractual concern.

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

Mutual relations between the controlling company and subsidiaries, and those between individual subsidiaries themselves, are governed by arrangements set out in the Articles of Association and by separate service level agreements (SLA).

7. Description of the diversity policy®



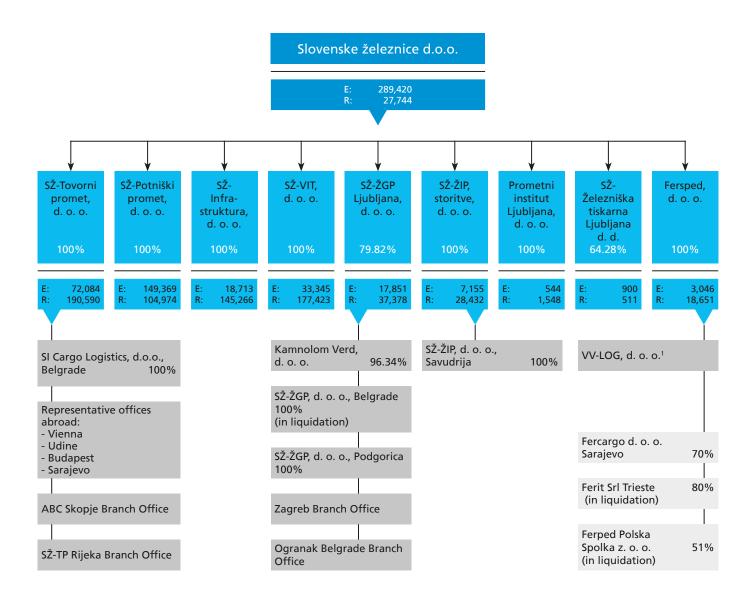
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No policy has been adopted with regard to the power to appoint members to the Supervisory Board by the founder Slovenski državni holding, d. d. All members appointed to functions on management and supervisory bodies meet all requirements prescribed by the law or internal regulations.

8. Description of the corporate integrity system

In addition to compliance and risk management, corporate integrity also includes ensuring the Company's operations are in line with best business practices and ethical principles.

Corporate integrity is based on the adopted Rules of Procedure of the Central Corporate Office for Compliance and Risk Management. The aforementioned corporate



Key:

E: total equity as at 31 December 2017 (EUR thousand) R: operating revenues in 2017 (EUR thousand) controlling company

subsidiaries in the Group 100% or majority owned by the controlling company

subsidiaries in the Group owned by subsidiaries

companies excluded from consolidation

Note:

1) VV-Log, d. o. o. is 2/3 owned by Fersped, d. o. o. (1/3 owned by the company itself)

2) Slovenske železnice, d. o. o. also 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%).

office reports directly to the Management Board of Slovenske železnice, d. o. o., proposes and coordinates measures aimed at the further strengthening of corporate integrity, such as the prevention of conflicts of interest, the prevention and investigation of fraud, the upgrading of the risk management system, the upgrading of the personal data protection system in accordance with the guidelines set out in Regulation (EU) No. 2016/679, training and consultancy, the systemic positioning of the treatment of reports of suspected breaches of corporate integrity and the protection of anonymous informants.

The system for reporting suspected breaches and protecting anonymous informants was upgraded in part in 2017 with the updating of the Rules on the Reporting and Treatment of Suspected Breaches of Corporate Integrity within the Slovenske železnice Group (adopted on 30 June 2017). We recorded a 24% drop in the number of suspected breaches in 2017 (16 in total). In the majority of cases, no irregularities were identified. Three reports were forwarded to prosecuting authorities, while we identified irregularities in three cases and adopted measures for the elimination thereof.

At the beginning of 2018, due to media events that unfolded, the Management Board of Slovenske železnice, d. o. o. called on all employees to talk openly about and report suspected irregularities to the email address **prijave.nepravilnosti@slo-zeleznice.si**, which has functioned since 2015, and assured them in accordance with the above-mentioned rules that anonymous informants will be appropriately protected against harassment by other employees and potential disciplinary procedures.

Compliance and reputation risks mean the potential risk that the Company incurs (material or moral) damage due to improper conduct by people or due to the malfunctioning of processes or systems. Regulations that introduce risk management standards and practices thus ascribe great importance to ensuring the proper internal organisational culture, as an important element of the internal control environment, and to mechanisms for promoting lawful and ethical conduct. As such, the compliance function covers key functions in the governance system and is a part of the internal controls of all Slovenske železnice Group companies.

When drafting the work plan for 2018 in the area of corporate integrity within the Slovenske železnice Group, we took into account key codes, rules and reports relating to corporate integrity.

The order of priority is determined based on risk assessments. To that end, the adopted strategy of the Slovenske železnice Group, and the instructions of the Management Board and Supervisory Board of Slovenske železnice, d. o. o. and the management boards of subsidiaries are taken into account.

The work of the corporate office is carried out independently and impartially, with efforts to improve the efficiency of the work of all stakeholders in the area of ensuring corporate integrity within the Slovenske železnice Group.

The system of corporate integrity within the Slovenske železnice Group is based on:

- ensuring the highest standard of operations in the area of corporate integrity (e.g. the prevention of corruption, the timely identification of conflicts of interest, the prevention of money laundering, ethical conduct and the anonymous reporting of suspected breaches);
- the compliance of operations with laws, regulations, internal rules and rules of procedure, and the identification of missing or unimplemented internal control mechanisms in business processes (e.g. ensuring the segregation of responsibilities and powers in all business processes);
- the prevention and identification of fraud;
- training, awareness and the promotion of corporate integrity; and
- risk assessments and the implementation of a risk management policy.

In addition to supervising the risk management and assessment process, the most important tasks in 2018 will be the rectification of discrepancies in the implementation of SLAs, the implementation of compliance with the Personal Data Protection Act (ZVOP-2), and the verification of the effectiveness of the money laundering and terrorist financing prevention system and its compliance with updated Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1).

With the aim of strengthening corporate integrity, we intend to update the code of ethics, draft a code of conducts, review potential transactions with tax haves and conduct research regarding knowledge of corporate integrity amongst members of the broader management teams of all Slovenske železnice Group companies.

Internal Audit Department (IAD)®

The Internal Audit Department (IAD) 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 the IAD reports directly to the Management Board in administrative terms and to the Company's Supervisory Board in functional terms.

On the basis of risk assessments, the IAD provides objective assurances for areas subject to auditing, and advises on all the technical and business areas of Slovenske železnice Group companies. In its work, the IAD pursues the objectives set out in the Slovenske železnice Group's comprehensive risk management framework, including:

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



The IAD performed auditing activities in 2017 in accordance with its adopted work plan for 2017, and on the basis of resolutions of the Management Board with the consent of the Supervisory Board. Through a combination of internal and external resources, a total of eight audits were conducted in 2017, while five internal audits continued into 2018. The IAD communicates its findings and proposals for improvements that derive 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, and reports semi-annually and annually on the implementation of IAD's work plan.

An external assessment of the IAD's work was carried out by an independent external assessor in 2017. That assessment confirmed that the IAD generally functions in accordance with the International Standards for the Professional Practice of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the definition of internal auditing, the Code of Ethics adopted by the Institute of Internal Auditors, and the Code of Internal Auditing Principles and the Code of Conduct for Internal Auditors adopted by the Slovenian Institute of Auditors.

With the aim of effectively and efficiently 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 controls, quality assurance and environmental protection.

Dušan Mes, Director General

mag. Tomaž Kraškovic, Member of the Management Board

Nina Avbelj Lekić, Workers' Director

Wina Arbelj Letic

STATEMENT REGARDING NON-FINANCIAL OPERATIONS

In accordance with the Corporate Governance Code for Companies with Capital Assets of the State and the new ZGD-1J (Directive 2014/95/EU), the annual report of the Slovenske železnice Group for 2017 includes disclosures of non-financial and diversity information. That information is included in the business report, in which sections regarding business, personnel, social and environmental matters include data that is essential for understanding the development and operations of the Slovenske železnice Group.

The Slovenske železnice Group is aware of the importance of non-financial information and a comprehensive approach to reporting with the aim of creating value for its stakeholders. This report thus sets out the foundations for the continued development of the Group's corporate reporting, in the scope of which we will strive in the future to enhance communications regarding the creation of value and the links between financial and non-financial information regarding operations.

The following sections of the annual report for 2017 include a core of information regarding the non-financial operations of the Slovenske železnice Group:

- Performance analysis,
- Analysis by activity, and
- Social responsibility, which includes personnel, social and environmental content, and highlights regarding the quality of operations.

In order to understand the situation and the development of the Group's operations, we reference the key policies regarding individual aspects of non-financial operations, as necessary.

The international GRI G4 Sustainability Reporting Guidelines, which will be replaced by the GRI Global Standards (GRI GS) in 2018, were applied in reporting on the results of non-financial operations in this annual report. We will upgrade reporting in the future with the guidelines of the International Integrated Reporting Framework (International <IR> Framework issued by the IIRC).

The compliance of the content of the annual report with the international GRI G4 framework is evident in the table that references clearly marked content areas from the annual report.

Dušan Mes, Director General

mag. Tomaž Kraškovic, Member of the Management Board Nina Avbelj Lekić, Workers' Director

Wind Arbely Letic

INFRASTRUCTURE UPGRADES AND DIGITALISATION

The 2017 financial year can be best described by two key areas of focus: the modernisation of the physical infrastructure and the accelerated introduction of digital solutions. Passengers and the users of freight services were aware of the former, as spatial improvements are not possible without temporary bottlenecks. Both digital and infrastructure upgrades will begin to bring financial and other positive results in the coming years.

BUSINESS REPORT



OPERATING ENVIRONMENT®

Economic growth (real growth in gross domestic product or GDP) strengthened further in Slovenia in 2017, and was significantly higher than in previous years. Annual economic growth reached 5% (compared with 2.5% in 2016), which was 2.6 percentage points higher than the EU average and 2.7 percentage points higher than the euro area, where Slovenia's most important trading partners recorded growth ranging from 1.5% (Italy) to 2.9% (Austria).

Growth in exports, which strengthened further during the second half of 2017, reached its highest level of the last ten years. This was the result of accelerated eco-

nomic growth in the international environment, the improving competitiveness of Slovenian companies and the favourable structure of exports. Growth in private consumption continued in the context of further favourable developments on the labour market and improving consumer sentiment. The scope of investments in machinery and equipment was up. Investments in housing were up in line with growth in the

GR

real estate market, while renewed growth in

investments in civil engineering works was recorded. Government consumption was also up.

Growth in value-added continued in the majority of sectors in 2017. Contributing to significantly higher growth relative to the previous year (5.3% in 2017, compared with 3.2% in 2016) was the strengthening of activity in the majority of sectors, most notably in the manufacturing sector, which produces around three-quarters of its products for foreign markets. Construction activity also strengthened following a sharp fall in 2016 linked to the changeover to the new European financial framework. Contributing to that strengthening were both public construction investments, and private investments in commercial buildings and investments in housing, which were driven by the rapid growth in prices on the real estate market. In the context of increased activity in industry and continued growth in private consumption, value-added also continued to rise in the majority of tradeable services, while foreign demand further stimulated growth in certain services (in particular, transport, catering and certain business services).

The IMAD's Spring Forecast of Economic Trends for 2018 envisages the continuation of favourable economic developments for Slovenia. Economic growth in Slovenia

> is expected to reach 5.1% in 2018, and 3.8% and 3.2% in the next two years, which is above the euro area average, where economic growth in the period 2019–2020 is expected to fluctuate between 1.6% and 2% according to the forecasts of international institutions. Economic growth is expected to continue on the majority of our export markets in the Western Balkans (including Croatia), while the economic recovery in Rus-

sia is also expected to continue in the context of projected higher oil prices. The main factors in the somewhat lower economic growth in Slovenia in the coming years are a gradual slowing of growth in foreign demand and demographic factors that will be reflected primarily in lower growth in employment and household consumption. Economic growth will also slow gradually in certain euro area countries under the influence of limitations on the supply of labour and the maturing of the economic cycle.

Inflation, which stood at 1.4% in 2017, will remain relatively low in 2018 (1.5%), and will rise moderately over the next two years (to just over 2%).

Growth in exports reached its highest level in the last ten years. This was the result of accelerated economic growth in the international environment, the improving competitiveness of Slovenian companies and the favourable structure of exports.



PERFORMANCE ANALYSIS®

The key performance indicators of the Slovenske železnice Group have been improving since 2012. EBIT generated in 2017 in the amount of EUR 30,941 thousand was up by EUR 18,879 thousand relative to 2012,

The key performance indicators of the Slovenske železnice Group have been improving since 2012.

The ROE achieved in 2017 (9.6%), as a key indicator of the successful management of capital assets of the state, exceeded the target value from the annual capital investment management plan for 2017 (8.0%), and was up by 7.1 percentage points relative

while EBITDA and value-added per employ-

ee were up by EUR 13,621 thousand and EUR 8,617 respectively. The number of employees was down by 763 by the end of 2017.

to 2012. In that respect, financial liabilities were down by 67.4%, from EUR 380,299 thousand to EUR 124,037 thousand, while the net financial debt to EBITDA ratio fell from 7.3 to 1.4 during the same period.

	Unit	2012	2013	2014	2015	2016	2017
Financial indicator							
EBIT – Operating profit or loss	EUR thousand	12,062	20,022	24,165	41,075	24,642	30,941
EBITDA	EUR thousand	52,133	57,129	59,110	75,353	58,886	65,754
Net profit or loss	EUR thousand	3,479	18,714	14,550	25,831	25,056	30,644
Operating efficiency	ratio	1,027	1,041	1,045	1,076	1,052	1,064
EBIT margin	%	2.7	4.0	4.3	7.0	4.9	6.0
Proportion of operating revenues accounted for by revenues under contracts with the Slovenian Government	%	36.4	30.7	26.3	26.4	31.9	34.7
Return on equity (ROE)	%	2.5	12.7	9.1	12.0	8.5	9.6
Return on assets (ROA)	%	0.5	2.9	2.3	4.5	4.5	5.4
Financial liabilities/equity	ratio	2,673	2,404	1,781	0.509	0.453	0.375
Value-added per employee	EUR	33,517	34,262	38,270	43,733	40,931	42,134
Net financial debt/EBITDA	ratio	7.3	6.4	4.4	1.1	1.6	1.4
Leverage (assets/equity)	ratio	4.5	4.2	3.7	2.0	1.8	1.7
Labour costs as a proportion of operating revenues	%	50.1	43.0	43.8	42.7	48.7	46.7
Non-financial indicators							
No. of employees as at 31 December		8,279	8,099	8,069	7,741	7,559	7,416
Average no. of employees		8,543	8,221	8,088	7,907	7,547	7,403
No. of extraordinary events		46	35	39	28	39	21
Renovation and upgrading of lines	in km	18.65	17.40	15.39	24.12	3.48	22.93
Freight transport delays	min./100 km	49.1	62.6	122.3	103.2	84.0	110.8
Passenger transport delays	min./100 km	2.0	2.9	4.8	4.4	2.3	4.0
Volume sold							
Goods transported	(in thousand tonnes)	16,181	17,648	18,783	18,595	19,239	20,960
Net tonne kilometres	(in million NTKM)	3,538	3,896	4,278	4,363	4,552	5,079
Passengers carried	in thousand	15,512	16,421	14,837	14,559	14,008	13,422
Passenger kilometres	(in million PKM)	742	760	697	709	680	650
Specific energy consumption for traction	(kWh/thousand GTKM)	21.99	20.64	20.94	20.83	20.94	21.29
Specific gas oil consumption	(kg/thousand GTKM)	8.37	7.72	5.46	6.20	6.48	7.16

Note:

The shaded indicators are from the Criteria for monitoring the performance of companies with capital assets of the state (SDH). Net financial debt = financial liabilities – cash and cash equivalents

List of ratios:

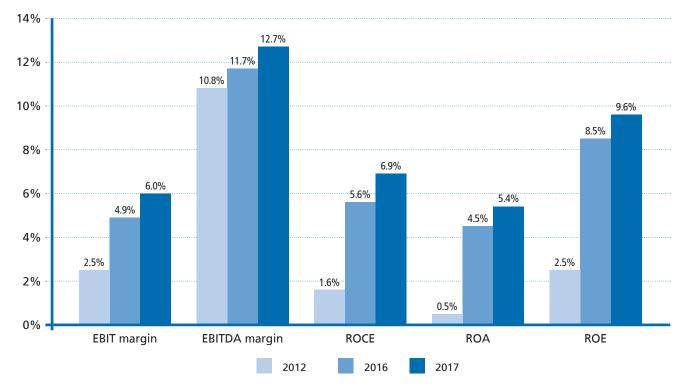
Pre-tax profit or loss = EBIT + net finance income/costs

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

Value-added per employee = difference between operating revenues and the sum of the costs of goods, materials and 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

Net financial debt = financial liabilities – cash and cash equivalents



Performance indicators – Slovenske železnice Group

A detailed commentary regarding performance in 2017 is provided in the sections Performance analysis and Operating results by activity.

HIGHLIGHTS:

A total of 21 million tonnes of freight was transported and 5,079.2 net tonne-kilometres completed in 2017. We transported 8.9% more freight (1.7 million tonnes) than the previous year and completed 11.6% more NTKM (8.8% or 1.7 million more tonnes and 10% more NTKM than planned). The length of the average transport route increased from 236.8 kilometres to 242.6 kilometres. Those results were achieved with limited capacities, both in terms of the reduced availability of the public rail infrastructure and reduced availability of locomotives, wagons (high rate of wear) and other means in various phases of transport, and in the context of increasing competition.

The estimated share of rail transport expressed in passenger kilometres on the public transport operator market in Slovenia (where SŽ–Potniški promet, d. o. o. operates) was up relative to the previous year, from 25.4% to 27.3%, primarily due to significantly fewer passenger kilometres in air transport. A total of 13.4 million passengers were carried and 650.1 million passenger kilometres completed in rail transport in 2017. Of those amounts, 12.8 million passengers were carried (representing 95.7% of the total) and 639.5 PKM completed under the public service obligation in the inland and cross-border transport of passengers.

The decrease in the number of passengers carried (by 4.2% relative to the previous year) was primarily the result of changes in the commuting habits of workers, a reduced population of secondary school and university students, the decentralisation of secondary schools and faculties, and changing travel habits in general. Also affecting the volume of work performed and services sold were impediments in rail traffic as the result of an increased scope of investment and maintenance works on the public rail infrastructure, which primarily led to a deterioration in the quality of transport services due to delays and transfers to alternative forms of transport.

Annex 3 (for 2017) and annex 4 (for 2018) to the multi-year agreement on the provision of services by the manager of the PRI for the period 2016–2020 were signed in 2017. Operating revenues were generated in the amount of EUR 145.3 million, which was 1.9% or EUR 2.8 million higher than planned, but 6.3% or EUR 9.7 million lower than 2016. We performed all planned tasks under the agreement with the Republic of Slovenia in the total amount of EUR 113.9 million, broken down as follows: EUR 79.9 million for the maintenance of the PRI and EUR 34.0 million for traffic management.

amount, 75.3% (or EUR 28,818 thousand) was earmarked for rolling stock that is required for the uninterrupted provision of passenger and freight transport services. Investments in rolling stock are made continuously and primarily include regular modifications to and the maintenance of vehicles after the expiry of their lifecycle.

The Slovenske železnice Group's total investments in fixed assets amounted to EUR 38.291 thousand in 2017. Of that

Main items of the profit and loss statement and statement of financial position:

Items from the statement of profit or loss	Slovens	ke železnice O	Group	Slovenske železnice, d. o. o.		
EUR thousand	2017	2016	Index	2017	2016	Index
Operating revenues	517,380	501,923	103.1	27,744	33,814	82.0
Transport revenues	192,191	187,971	102.2			
Revenues under contracts with the Slovenian Government	179,666	160,141	112.2			
Other operating revenues	145,523	153,811	94.6	27,744	33,814	82.0
Operating expenses	486,439	477,281	101.9	26,868	27,078	99.2
EBITDA	65,754	58,886	111.7	1,999	7,695	26.0
Earnings before interest and taxes (EBIT)	30,941	24,642	125.6	876	6,736	13.0
Pre-tax profit or loss (EBT)	29,798	24,755	120.4	5,519	14,517	38.0
Net profit or loss (E)	30,644	25,056	122.3	5,913	14,892	39.7

Statement of financial position items		iske železnice Gi	roup	Slovenske železnice, d. o. o.			
EUR thousand	31 Dec. 2017	31 Dec. 2016	Index	31 Dec. 2017	31 Dec. 2016	Index	
Assets	574,927	554,748	103.6	516,020	530,044	97.4	
Equity	330,333	305,586	108.1	289,420	286,650	101.0	
Financial liabilities	124,037	138,986	89.2	208,712	224,175	93.1	
non-current financial liabilities	111,393	125,178	89.0	109,672	122,918	89.2	
current financial liabilities	12,644	13,808	91.6	99,040	101,257	97.8	
Net financial debt	89,527	92,344	96.9	51,566	43,184	119.4	
Current operating receivables	127,636	109,272	116.8	8,109	5,849	138.6	
Current operating liabilities	87,069	80,461	108.2	9,557	10,111	94.5	
Investments	38,291	33,270	115.1	3,950	3,038	130.0	

Key:

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

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

Net financial debt = financial liabilities - cash and cash equivalents

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

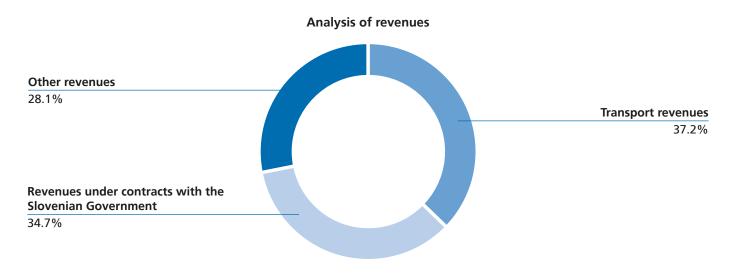
The performance analysis includes data for the Slovenske železnice Group and Slovenske železnice, d. o. o., while the comments mostly relate to the operations (performance) of the Group.

The Slovenske železnice Group generated EUR 517,380 thousand in operating revenues in 2017 and EUR 486,439

thousand in operating expenses. Net profit for the accounting period amounted to EUR 30,644 thousand. This figure comprised an operating profit of EUR 30,941 thousand, a negative net financial result of EUR 1,143 thousand, current tax of EUR 301 thousand and deferred taxes in the amount of EUR 1,147 thousand.

Profit or loss

	Slovens	ske železnice G	iroup	Slovenske železnice, d. o.		
EUR thousand	2017	2016	Index	2017	2016	Index
Operating revenues	517,380	501,923	103.1	27,744	33,814	82.0
Operating expenses	486,439	477,281	101.9	26,868	27,078	99.2
Operating profit or loss	30,941	24,642	125.6	876	6,736	13.0
Finance income	3,769	4,809	78.4	12,450	14,281	87.2
Finance costs	4,912	4,696	104.6	7,807	6,500	120.1
Net finance income/costs	-1,143	113		4,643	7,781	59.7
Pre-tax profit or loss	29,798	24,755	120.4	5,519	14,517	38.0
Current tax	301	576	52.2	0	453	
Deferred taxes	-1,147	-877	130.8	-394	-828	47.6
Net profit or loss for the accounting period	30,644	25,056	122.3	5,913	14,892	39.7



The operating revenues of the Slovenske železnice Group were up by 3.1% relative to the previous year and amounted to EUR 517,380 thousand (in 2016: EUR 501,923 thousand). The highest growth was recorded in the logistics and mobility sector, primarily due to an increase in freight transport revenues and higher compensation for the discharge of the public service obligation in passenger transport based on amendments to the Agreement on the discharge of the public service obligation in the inland and cross-border regional transport of passengers by rail for the period 2017–2031.

Other revenues in the logistics and mobility sector, and in the management of the PRI were lower.

	Operating revenues by strategic activity EUR thousand	2017	2016	Index
Γ	SŽ-Tovorni Promet Group	190,733	197,373	96.6
	Fersped, d. o. o.	18,651	20,080	92.9
Logistics and mobility	Potniški promet, d. o. o.	104,974	90,908	115.5
	Vleka in tehnika, d. o. o.	117,423	113,754	103.2
PRI management	SŽ–Infrastruktura, d. o. o.	145,266	155,005	93.7
Construction [SŽ-Železniško gradbeno podjetje Group	39,527	34,364	115.0
Support activities	Support activities	58,348	62,382	93.5
	Consolidation	-157,542	-171,943	91.8
	Slovenske železnice Group	517,380	501,923	103.1

The highest proportion of the Slovenske železnice Group's revenues was generated in the logistics and mobility sector (64.0% of unconsolidated revenues), with SŽ-VIT, d. o. o. providing the majority of services for Group companies. The management of the PRI generated 21.5% of total unconsolidated revenues, while the construction activity generated 5.9% of those revenues. Support activities primarily provide their services for Slovenske železnice Group companies.

Logistics and mobility

SŽ-Tovorni Promet Group

EUR thousand	2017	2016	Index
Goods transported (in thousand tonnes)	20,960	19,239	108.9
Operating revenues	190,733	197,373	96.6
transport revenues	163,817	159,943	102.4
on the domestic market	7,097	6,586	107.8
on the foreign market	156,720	153,357	102.2
other operating revenues	26,916	37,430	71.9

Fersped, d. o. o.

EUR thousand	2017	2016	Index
Operating revenues	18,651	20,080	92.9
on the domestic market	7,623	10,086	75.6
on the foreign market	10,815	9,861	109.7
other operating revenues	213	133	160.2

The volume of freight transported was up by 8.9% relative to the previous year, while operating revenues were down by 3.4%. Transport revenues were up on both the foreign and domestic markets, while other operating revenues were down by 28.1%. Growth in transport revenues on the domestic market was the result of an increase in the transport of sand and scrap iron, while growth on the foreign market was driven by an increase in the transport of agricultural products, an increase in the transport of scrap iron to Italy, in the transport of large containers from the Port of Koper to the Czech Republic, and in the transport of iron and steel to Austria.

Fersped generates the majority of its revenues through rail, road and maritime transport, and also through storage services. These activities combined account for more than 90% of total revenues. Revenues on the foreign market were up by 9.7%, but down on the domestic market as the result of a change in the structure of transport in favour of more profitable transport means.

SŽ-Potniški promet, d. o. o.

EUR thousand	2017	2016	Index
Passengers carried (in thousand)	13,422	14,008	95.8
Operating revenues	104,974	90,908	115.5
contracts with the Slovenian Government	65,521	43,836	149.5
transport revenues	34,371	35,824	95.9
other operating revenues	5,082	11,248	45.2

SŽ–VIT, d. o. o.

EUR thousand	2017	2016	Index
Operating revenues	117,423	113,754	103.2
revenues on the domestic market	105,999	101,259	104.7
revenues on the foreign market	9,738	10,696	91.0
other operating revenues	1,686	1,799	93.7

The operating revenues generated by SŽ–Potniški promet, d. o. o. were up by 15.5% relative to the previous year. Revenues under the agreement with the Slovenian government (PSO in passenger transport, in part as the result of an adjustment for insufficient compensation paid under the PSO in 2015 and 2016) were up. Transport revenues were down on both the domestic and foreign markets. The primary factors in the reduced number of passengers carried were a deterioration in the quality of services due to line closures required for maintenance and investment works on the PRI.

SŽ-VIT, d. o. o. provides the majority 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 technical wagon inspection services. The company generated 8.3% of its operating revenues on the foreign market in 2017. The main products for customers outside the Slovenske železnice Group were wheelset repair and the periodic maintenance of freight wagons and cisterns.

PRI management

SŽ–Infrastruktura, d. o. o.

EUR thousand	2017	2016	Index
Operating revenues	145,266	155,005	93.7
contracts with the Slovenian Government	113,951	116,305	98.0
other operating revenues	31,315	38,700	80.9

Management of the PRI includes the maintenance of the public rail infrastructure and management of railway traffic. Revenues were down by 6.3% in 2017 primarily due to lower revenues from PRI maintenance.

Construction

SŽ–ŽGP Ljubljana Group

EUR thousand	2017	2016	Index
Operating revenues	39,527	34,364	115.0
revenues on the domestic market	37,315	29,817	125.1
revenues on the foreign market	1,411	3,040	46.4
other operating revenues	801	1,507	53.2

The SŽ-ŽGP Group recorded a 14.9% increase in operating revenues in 2017 relative to the previous year. Despite the increase in revenues, planned targets were not achieved due to delays in the implementation of projects and a reduced number of projects secured.

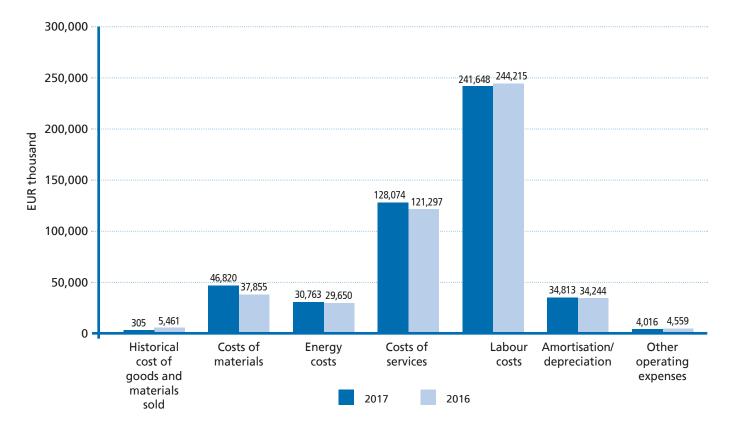
ANALYSIS OF EXPENSES

Operating expenses were up by 1.9% relative to 2016, which is 1.2 percentage points less than the growth recorded in revenues. Labour costs as a proportion of operating revenues totalled 46.7%, a decrease of 2 percentage points relative to the previous year.

The costs of services were up on the previous year, primarily due to the increased scope of work in the construction activity. The costs of services and energy were up in the freight transport segment due to the increased scope of transport services.

The costs of material were up primarily due to a change in the structure of maintenance and construction works, and an increase in the scope of maintenance of freight and passenger transport rolling stock.

Net finance income/costs were negative in the amount of EUR 1,143 thousand. Finance income primarily comprised revenues from positive exchange rate differences associated with loans, revenues from participating interests in associated companies and revenues from default interest in connection with current receivables, while finance costs mainly comprised interest on loans received and negative exchange rate differences.



Comparison of the operating expenses of the Slovenske železnice Group

GRI

GA-7

ANALYSIS BY ACTIVITY®

FREIGHT TRANSPORT

Breakdown of the operating results of the SŽ-Tovorni Promet Group

EUR thousand	2017	2016	Index
Operating revenues	190,733	197,373	96.6
Operating expenses	180,992	186,462	97.1
EBIT	9,741	10,911	89.3
EBIT margin (in %)	5.1	5.5	92.7
EBITDA	25,488	26,054	97.8
EBT	11,608	9,766	118.9
ROE (in %)	18.2	16.0	113.8
ROA (in %)	5.4	3.9	138.5

Despite a 2.4% increase in transport revenues, total operating revenues were down by 3.4% relative to the previous year due to a decrease in other operating revenues. The latter were higher in 2016 due to the sale of land and buildings in Moste. Pre-tax operating profit was 18.9% higher than the previous year on account of net finance income.

Competitive position of freight transport®

The EU introduced new Rail Freight Corridors (RFCs) that only apply to rail freight transport and pass through the territories of EU member states. Two RFCs pass 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 in progress for the introduction of a new RFC (Alps–Western Balkans) across the countries that are situated along the former corridor X.

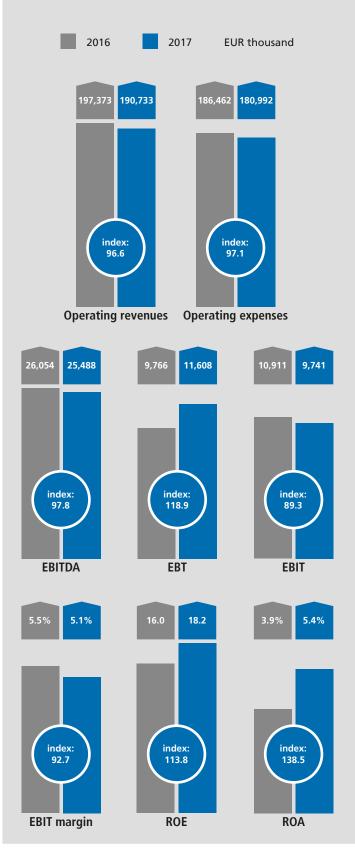
South-Eastern Europe is linked with North Europe by RFC 7, but the link via the Balkans is one of the most crucial, as it links Central Europe with the external members of the EU along a significantly shorter route.

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

The total volume of freight transported in Slovenia amount to 110 thousand tonnes in 2017, an increase of 13.6% relative to the previous year, with road and railway transport up by 14.8% and 9.4% respectively. The proportion of the Slovenian transport market accounted for by railway transport was 21.5% in 2017, while road transport accounted for 78.5%. The proportion accounted for by



Operating results of the SŽ-Tovorni Promet Group



railway transport was down by 0.9 percentage points relative to 2016. Despite an increase in scope of freight transported (by 8.9%) SŽ–Tovorni promet's share of the railway transport segment was down slightly to stand at 88.6% (2016: 89.0%).

Competition is tightening on the transport market due to the increasingly more aggressive approach of other railway operators, and on account of competition from road transport operators, competition from ports and routes that bypass Slovenia.

The response to tightening competition between railway operators lies in the intensification of the marketing activities of Slovenske železnice and in a planned strategic partnership, while the response to tightening competition in other forms of transport lies in the modernisation of the rail infrastructure, and in the introduction of a second track to the Port of Koper as soon as possible and the elimination of bottlenecks in railway network.

Development of activities and results in 2017

The SŽ-Tovorni Promet Group transported 20.9 million tonnes of freight and completed for 5,079 million net tonne-kilometres in 2017. The results achieved in 2016 were exceeded by 8.9% (1.7 million tonnes) in terms of freight carried and by 11.6% in terms of work performed and volumes sold. The growth in physical indicators of the last five years thus continued.

The length of the average transport route, which amounted to 242.5 kilometres in 2017 (236.8 kilometres in 2016), also increased relative to the previous year, by 2.4%. This illustrates that we have taken an additional step in the process of managing longer transport routes.

We achieved encouraging results in difficult conditions in the context of increasingly strong competition and with extremely limited capacities. The reduced availability of the public rail infrastructure due to numerous maintenance works, the reduced availability of locomotives and wagons due to their poor condition and a lack of other sources in various phases of transport had a negative effect on our operations.

Our services are continuously adapted to the expectations of customers, for whom we provide higher-quality logistics services or long-haul transport services. We provided customers reliable services by adjusting the length of trains to specific track sections. This allowed them to plan transport via longer trains, regardless of limited infrastructure capacities and restrictions on numerous track sections. By adapting production activities, we also provided customers transport via heavier trains and thus helped them optimise their production and purchasing activities.

Favourable economic conditions in Slovenia and on other European markets, for which we transport more than 90% of freight, were characteristic of 2017, while economic growth was slightly lower and thus contributed only marginally to improved results.

SŽ-Tovorni Promet Group	2017	2016	Index
Goods transported (in thousand tonnes)	20,960.4	19,239.2	108.9
Wagon consignments	20,933.8	19,212.5	109.0
inland transport	1,206.4	1,063.8	113.4
international transport	19,727.4	18,148.7	108.7
Small consignments	26.6	26.7	99.6

Includes non-consolidated quantities.

In the wagon consignment segment, the inland transport of sand and scrap iron was up relative to the previous year, while the international transport of agricultural products, containers, coal, sand, petroleum and derivatives and scrap iron was up.

SŽ–Tovorni promet is increasingly focused on international markets. The proportion of transport for the needs of the Slovenian economy (inland transport, imports and exports) was down by 4.7 percentage points relative to the previous year and amounted to 38.7 % (2016: 43.4%)

Wagon consignments

Transport mode (thousand tonnes)	2017	2016	Index
Conventional transport	15,851.9	14,564.5	108.8
Multimodal transport	5,010.1	4,592.5	109.1
SI CARGO (transport through Slovenia)	71.8	55.5	129.4
Total wagon consignments	20,933.8	19,212.5	109.0

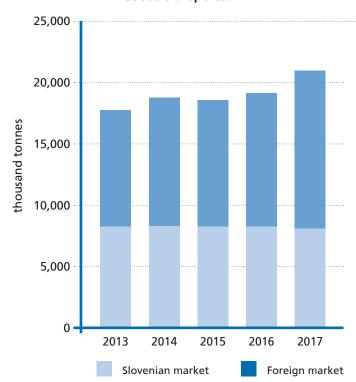
Includes non-consolidated quantities.

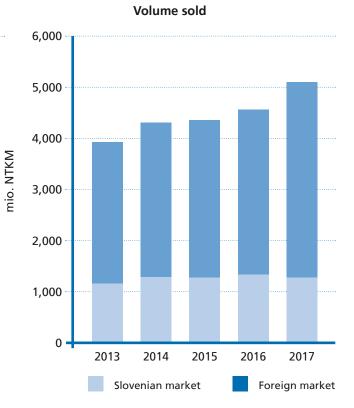
Volume sold (million NTKM)	2017	2016	Index
Volume sold on SŽ lines	4,992.0	4,505.9	110.8
Volume sold abroad	87.2	46.4	188.0
Total	5,079.2	4,552.3	111.6

SŽ–Tovorni promet continues to transport the majority of freight in Slovenia. The volume of transport services it provides on foreign markets is rising from year to year. In addition to securing business for SŽ–Tovorni promet, d. o. o., the subsidiary SI-Cargo Logistics, Belgrade also markets the transport of wagon consignments that do not pass through Slovenia, which year in and year out contributes increasingly to the competitiveness of the SŽ-Tovorni Promet Group. Through our own haulage in Austria and Croatia, we not only increased the length of our transport routes, but also our competitiveness through long-haul freight management. We thus secured several new transactions and strengthened our role as a regional transport operator.

Conventional transport of wagon consignments

The conventional transport of wagon consignments accounted for 76% of wagon consignments transported on Goods transported





Slovenske železnice lines in 2017. That proportion has not changed significantly in recent years. More than 90% of goods comprise raw materials or primary products and semi-products such as ore, coal, petroleum and derivatives, agricultural products, processed and unprocessed wood, sand and stone aggregates, iron and steel, and scrap iron.

Combined transport

A total of 97% 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, while the remaining 3% of goods transported are in individual wagons primarily to the Balkan countries (Serbia, Croatia and Bosnia and Herzegovina). We concluded new agreements in 2017 with new shuttle train operators and for the transport of individual shipments. The majority of transport was carried out to and from the Port of Koper, where we recorded an 8% increase in intermodal transport units (ITU) relative to 2016. The volume of goods carried via open transport was down. The reason for this lies in the increased number of permits granted to Turkish operators.

SI-CARGO LOGISTICS

The increase in transport to and from Serbia, and for countries in transit through Slovenia continued in 2017, while transport bypassing Slovenia organised by SI-Cargo Logistics also recorded growth. The volume of freight transported from and to Serbia (including through Serbia) for and through Slovenia was up by 9% relative to 2016, while the volume of freight transported on routes bypassing Slovenia was up by 29.4%. Contributing most to those encouraging results were the transport of agricultural products from Serbia to Italy, and the transport of iron and steel products from Serbia. The increasing competition from private operators in the region resulted in a drop in prices per NTKM, while a poor harvest in Serbia, particularly of corn, also had a negative impact on results.

Significant limitations and opportunities®

2017: a year of infrastructure limitations

We faced numerous infrastructure limitations in 2017. The majority of construction works were carried out on the Zidani Most–Celje–Pragersko line, which required the continuous close of one track on the two-track line, while a more significant impediment in freight train traffic was maintenance on the Divača–Koper line, with full closures that lasted several days. In addition to the planned closure of lines, unexpected closures of tracks and lines also affected traffic. Also worthy of note are major infrastructure works in neighbouring countries (Croatia, Austria and Hungary), which meant additional difficulties in the provision of transport services.

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 during 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 will continue to present major impediments to rail transport in the future due to the closure of lines or tracks. Therefore through numerous operational measures and close cooperation with all entities involved in the provision of logistics services, we will ensure the highest possible transport throughput in the future as well, and keep our customers continuously updated on transport statuses.

GRI



Analysis for satisfaction®

Services are assessed with a score ranging from 1 to 5. The objective is for the users of services to assess 65% of all services as at least good (i.e. a score of 3).

% of scores of at least good	2013	2014	2015	2016	2017
Freight transport	62	73	-	59	-

No formal research on customer satisfaction was carried out in 2017. We nevertheless continuously measured the satisfaction of all customers. We believe that there has been no significant change in satisfaction compared with the results of the last survey.

In the majority of cases, negative responses relate to numerous infrastructure impediments in the Slovenian rail network and in the networks of neighbouring countries (longer closures due to maintenance and construction works, and numerous unplanned, but shorter closures due to malfunctions in the public rail infrastructure). Other problems include a lack of the appropriate number and types of locomotives and wagons.

The aforementioned limitations, which are addressed on a daily basis through operational measures implemented by SŽ–Tovorni promet, have a significant negative effect on the quality of our services. This was also seen in the

responses of certain users in the most recent customer satisfaction survey. In agreement with customers, employees at SŽ–Tovorni promet adopt the necessary operational measures to improve the quality of services.

In the context of specific periodic measurements, we are planning a short online survey amongst key accounts in 2018 and will invite them to meetings with key account man-

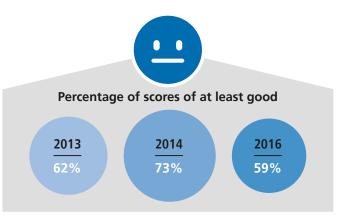
agers, where it will be possible to analyse

the reasons for dissatisfaction in more detail and thus the effectiveness of our measures. We expect that enhancing two-way communication on a personal level will result in more relevant information than the sending of surveys by email.

In February 2018, the profit centre SŽ-Express surveyed the users of services in 2017 with the aim of verifying customer satisfaction. Measures to improve the quality and range of services were adopted on the basis of assessments.

Competitive challenges

The competitive environment in Slovenia and other countries in the region is increasingly more demanding, as new private railway operators are entering the market with modern means of transport. Those operators adapt more quickly to the needs of the market, while it is of increasing interest to existing operators to acquire existing transactions. Also presenting notable competition are bypass routes equipped with a modern rail and road infrastructure.



In the future, we are expecting new competitors on the Slovenian railway market who will focus on taking over existing transactions. For SŽ–Tovorni promet, flexibility and fast response times to the needs of customers are crucial, and are achieved by offering transport and additional value-added logistical services, in close cooperation with other Slovenske železnice Group companies.

Development opportunities

The SŽ-Tovorni Promet Group will increase its presence on foreign markets in the future through the owners of goods and wagons. This will facilitate the comprehensive management of transactions on long-haul routes. We will expand the range of services with the development of

> high-quality, targeted products and services for strategic freight, customers and routes, through which we will link the beginning and end of the supply chain with a network of direct trains. We will search for opportunities on the Slovenian and foreign markets by entering into business and strategic partnerships that will ensure the volume and value of sales.

Due to the limited area of work and the increased activities of competitive oper-

ators in Slovenia, we will further enhance own haulage in Austria and Croatia. We are planning to enhance our presence on other key markets in the regions. The expansion of activities on foreign markets will be supported by ensuring the necessary number and types of locomotives and wagons, personnel and other resources.

Development plans on the revenue side will be supplemented by measures on the cost side. In cooperation with other Slovenske železnice Group companies, we will rationalise production processes, reduce costs and provide ordered services in the context of increased productivity. Work efficiency will be further improved through the introduction of new information technologies. The following are in progress to that end: the establishment of an integrated business information system to support the transport-logistics activity at SŽ–Tovorni promet (including the upgrading of the customer relationship management system), the introduction of an electronic waybill and drafting of the bases for the introduction of technical specifications for the interoperability of freight transport applications.

We accelerated investments in the infrastructure in 2017. The increased number of line closures had a negative impact on the volume of freight transported and number of passengers carried, and on the satisfaction of the users of our services.

FERSPED

Breakdown of the operating results of Fersped, d. o. o.

EUR thousand	2017	2016	Index
Operating revenues	18,651	20,080	92.9
Operating expenses	18,303	19,914	91.9
EBIT	348	166	209.6
EBIT margin (in %)	1.9	0.8	237.5
EBITDA	485	291	166.7
EBT	429	264	162.5
ROE (in %)	15.9	20.4	77.9
ROA (in %)	4.8	5.9	81.4

The EBIT margin was up in the context of a decrease in revenues on account of an increase in the proportion of services with higher value-added and the simultaneous optimisation of operations as the result of a reduction in fixed costs.

The decrease in ROA was the result of the acquisition of an investment in the subsidiary VV-LOG, d. o. o., while the decrease in ROE was the result of an increase in equity at the end of 2017. The increase in equity was the result of net profit for the financial year.

Operating profit was up by 109.6%, despite a 7.1% decrease in revenues. The aforementioned result is a reflection of the optimisation of operations, particularly on the cost side, and an increase in sale of services with higher value-added.

The main reasons for the drop in revenues were reduced volumes in the rail transport of logs and household appliances, and the unrealised transport of wood chips, peat, ethanol and scrap iron.



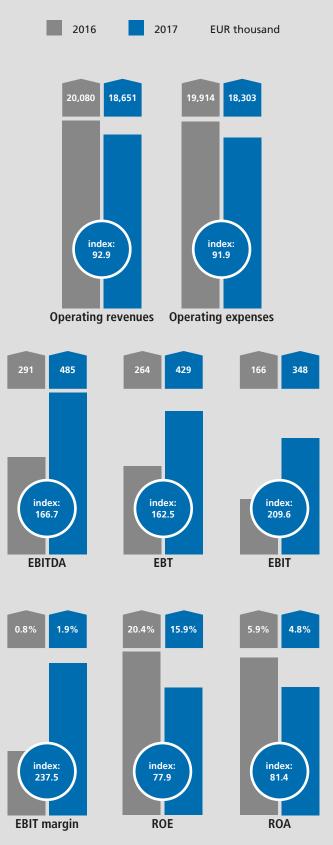
Competitive position[®]

Fersped provides and organises comprehensive and global logistics services in road, rail and air transport, and transhipment warehousing and customs clearance services.

Fersped plays an important role in transhipment and the organisation of transport through the Port of Koper (bulk goods such as coal, waste, general cargo, container transport and cars). The company strengthened its position in the direct vicinity of the Port of Koper in 2017 through the additional leasing of warehouse capacities. In addition to transhipment and storage, it also provides fumigation services, and performs quality and quantity inspections of goods, phytosanitary inspections of goods and veterinary inspections. It is likewise one of the few companies that measures the radioactivity of freight. It organises groupage services for customers transporting smaller quantities of goods.



Operating results of Fersped, d. o. o.



Based on an analysis of the structure of revenues and an analysis of the profitability of specific sales segments in 2016, the company adopted a strategy under which its sales programme focuses on more profitable activities, which was partly reflected in its operating results in 2017.

Development of activities and results in 2017

Revenues by activity

Activity EUR thousand	2017	2016	Index
Rail transport	6,357	8,579	74.1
Road transport	6,830	5,147	132.7
Maritime transport	2,385	2,057	115.8
Air transport	206	101	204.0
Customs services	945	949	99.6
Storage services	1,599	1,797	89.0
Merchandise sales and other	122	1,317	9.3
Total	18,438	19,947	92.4

Land transport logistics

Activity EUR thousand	2017	2016	Revenues as a proportion of total revenues in 2017 (%)
Rail transport	6,357	8,579	34.6
Road transport	6,830	5,147	37.2

The land transport product combines two segments: rail transport and road transport. The revenues generated by the aforementioned product in 2017 were down by 4% relative to 2016, primarily due to a reduction in the scope of rail transport. The land transport product accounts for 72% of total revenues.

Rail logistics

The revenues generated by rail logistics in 2017 were down by 26% relative to the previous year. The aforementioned segment accounts for 34.6% of total revenues. The reasons for that drop were reduced volumes in the rail transport of logs and household appliances, and the unrealised transport of wood chips, peat, ethanol and scrap iron. The majority of rail transport is accounted for by forwarding services in the transport of coal (more than 316 thousand tonnes in 2017) and in tin packaging.

Road logistics

The highest growth in revenues in 2017 was recorded by the road logistics segment, where revenues were 32.7% higher than the previous year. The road logistics segment accounts for 37% of total revenues. The majority of goods are transported in full

The focus of our activities in 2017 was on increasing sales of services with higher value-added. We increased cross-docking activities at the Port of Koper, and in road transport logistics and customs services.

loads, while container transport and groupage services are on the rise. We provide an average of 550 road transport services a month, which translates to 6,600 a year. The highest growth in transport was recorded from our warehouse in Koper. We provide transport services throughout Europe, including Turkey and Russia, and to even more distant destinations (e.g. the Middle East).

The procurement function is this segment is organised by geographical regions (countries). For transport services that are not provided by contract, purchasing is carried out through two exchange portals, where both offers and inquiries about international transport are collected.

Maritime logistics

Activity EUR thousand	2017	2016	Revenues as a proportion of total revenues in 2017 (%)
Maritime transport	2,385	2,057	13.0

Revenues generated by maritime transport were up by 15.8% relative to the previous year. This segment accounts for 13% of total revenues. The majority of goods are transported by container, where we provide the additional logistics services of transport, transhipment, customs clearance and delivery. More than 7,500 containers were handled in 2017, the majority in Koper.

We are also improving cooperation with our foreign partners (providers of logistics services in the Far East and other regions) and with shipping companies, and are developing operations in an agency network with foreign partners, where we have significantly increased our presence.

Air logistics and terminal services

Activity EUR thousand	2017	2016	Revenues as a proportion of total revenues in 2017 (%)
Air logistics	206	101	1.1
Customs services	945	949	5.1
Terminal services	1,599	1,797	8.7

Air logistics

The revenues generated by the air logistics segment were up by 104% in 2017, but it should be noted that we did not begin operating in Brnik until the second half

> of 2016. The revenues generated by the air logistics segment account for 1% of total revenues. The majority of goods were imported from India or exported to the US, Brazil and China.

Customs services

Revenues from customs services were at the previous year's level and account for 5% of total revenues. Tax representation services were provided at approximately the same level as in 2016, mainly for business partners that operate via Koper.

Terminal services

Revenues from terminal services in 2017 were down 11% on the previous year and account for 9% of total revenues. There is a notable trend of growth in transhipment warehousing services, while revenues from the warehousing of logs at the Port of Koper were down in 2017.

Fersped has identified terminal services as a strategic development project. We increased warehouse capacities in Koper in 2017, and further equipped and modernised those capacities for container transhipment services during the second half of the year. More than 7,500 containers and more than 2,500 cars were handled in 2017. The upgrading of warehouse information technology and an investment to cover the open section of the warehouse in Nova Gorica are planned in 2018.

Terminal services do not comprise traditional warehousing but involve so-called cross-docking logistics. The majority of those services involve loading and unloading at our transhipment warehouses in Koper and Nova Gorica. We thus have the opportunity to offer additional support services for goods (customs clearance, repackaging, rail and road transport, etc.).

Significant limitations and opportunities®

The focus of our activities in 2017 was on increasing sales of services with higher value-added. We increased cross-docking activities at the Port of Koper, and in road transport logistics and customs services.

Because we are aware of the limitations in rail logistics, our aim is to halt the decline in revenues in that segment. We are planning a separate product category in land transport logistics in 2018.

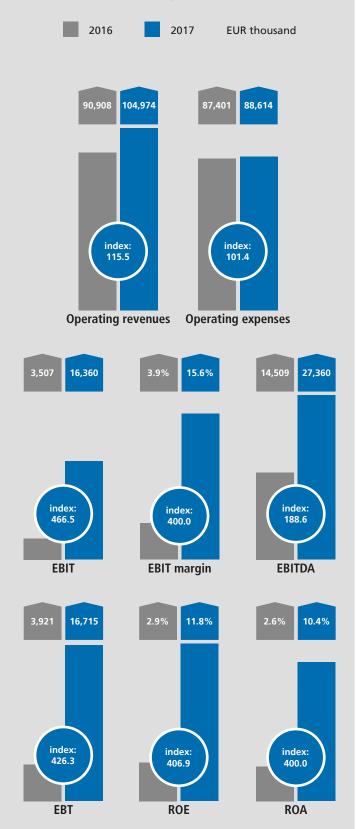
We are planning to lease additional warehousing capacities at the Port of Koper and upgrade information support for warehousing operations in 2018.



Breakdown of revenues by product – Fersped, d. o. o.



Operating results of SŽ–Potniški promet, d. o. o.



PASSENGER TRANSPORT

Breakdown of the operating results of SŽ–Potniški promet, d. o. o.

EUR thousand	2017	2016	Index
Operating revenues	104,974	90,908	115.5
Operating expenses	88,614	87,401	101.4
EBIT	16,360	3,507	466.5
EBIT margin (in %)	15.6	3.9	400.0
EBITDA	27,360	14,509	188.6
EBT	16,715	3,921	
ROE (in %)	11.8	2.9	
ROA (in %)	10.4	2.6	

Primarily higher revenues under the contract signed with the Slovenian government (compensation for the discharge of the PSO) contributed to the improvement in key performance indicators relative to 2016. Expenses were up by 1.4%, primarily on account of the costs of rolling stock maintenance. The positive financial result contributed to a lesser degree to the improvement in net results.

Pursuant to the Railway Transport Act and the Maintenance of Separate Accounts for Different Activities Act, separate accounting records are kept for PSO activities and other activities, where all revenues and expenses are consistently allocated to individual activities in accordance with the Criteria for separate records of revenues and expenses for public service obligation activities and other activities adopted by SŽ–Potniški promet, d. o. o. Those criteria are based on accounting principles. The results achieved in PSO and other activities are presented in the section Profit and loss by individual company/activity in the business report.

The public service obligation in the inland and cross-border regional transport of passengers by rail for the 2016/2017 timetable period, from 11 December 2016 to 9 December 2017, covered 596 train routes, including 514 routes in inland rail transport and 82 routes in the territory of Slovenia in cross-border regional rail transport with Austria, Hungary, Croatia and Italy.

GRI

Competitive position®

Railway passenger transport is operated by SŽ–Potniški promet, d. o. o. on the public passenger transport market in Slovenia. The biggest competitors of inland railway transport are private and public road transport, and low-cost airlines and low-cost bus service operators in international transport. The proportion of the public operator market accounted for by railway transport stood at 27.3% (measured in PKM)¹⁾ in 2017. That proportion was

¹⁾ Source: SORS; there is no data for air and road transport for December 2017. The data are therefore estimated.

	2017	2016	Index
Number of passengers carried (thousand)	13,421.6	14,007.8	95.8
PSO	12,844.8	13,389.4	95.9
other activities	576.8	618.4	93.3
- inland transport	12,591.7	13,231.1	95.2
- international transport	829.9	776.7	106.8
Passenger kilometres (million)	650.1	680.1	95.6
PSO	639.5	662.5	96.5
other activities	10.6	17.6	60.2
- inland transport	524.9	564.6	93.0
- international transport	125.2	115.5	108.4
Train kilometres (thousand)	10,283.5	10,290.5	99.9
PSO	10,241.4	10,245.2	100.0
other activities	42.1	45.3	92.9
- inland transport	8,190.9	8,191.9	100.0
- international transport	2,092.6	2,098.6	99.7
Average distance travelled (km)	48.4	48.6	99.8
- inland transport	41.7	42.7	97.7
- international transport	150.9	148.7	101.4

up relative to 2016 due to significantly fewer passenger kilometres in air transport.

making increasing use of low-cost airlines, which represent the main competition in international transport.

Despite accelerated investment in recent years, the rail infrastructure that we use still lags significantly behind the comparable infrastructure of more developed areas of Europe, which is one of the main reasons for the weaker competitive position of rail passenger transport. In addition, the introduction of subsidised IPPT tickets for secondary-school and college students shortened transport routes, resulting in fewer passenger kilometres (PKM).

Transport by car is the main competition to inland rail transport. Cars remain the preferred means of transport in Slovenia. The most recent figures indicate that the number of registered vehicles per 1,000 inhabitants increased further in Slovenia in 2016. There were 531 vehicles registered¹⁾ per 1,000 inhabitants in 2016, which is one-quarter higher than fifteen years ago.

We are attempting to promote the use of trains through targeted promotional campaigns, which is particularly difficult due to the increasing use of personal transport and the use of relatively affordable transport means via applications that support carpooling services. International transport accounts for 19.3% of the number of passenger kilometres. By linking up with other foreign operators and tourist agencies, we develop commercially attractive offers, through which we try to convince passengers to travel more by train. In travel abroad, passengers are

¹⁾ Source: SORS; data for 2017 not yet available

Development of activities and results in 2017

A total of 4.2% fewer passengers were carried and 4.4% fewer passenger kilometres were completed relative to 2016. There were fewer passengers primarily as the result of changes in the commuting habits of workers, a reduced population of secondary school and university students, the decentralisation of secondary schools and faculties, and changing habits in travel by rail and impediments in railway traffic that arose as the result of an increase in the scope of investment works on the public rail infrastructure, which in the short term makes it difficult to ensure the quality of transport services due to delays and transfers to alternative forms of transport.

Passengers carried in inland passenger transport accounted for 93.8% of total passengers carried, with the majority relating to the public service obligation governed by the relevant agreement with the Ministry of the Infrastructure. Almost one half of all passengers carried are daily train users, mostly secondary-school and college students with subsidised tickets.

A total of 12.8 million passengers were carried in the scope of the public service obligation in the inland and cross-border regional transport of passengers by rail. Those persons travelled an average of 49.8 kilometres,

Passengers carried



Proportion of passengers carried by operator



for a total of 10,241.4 train kilometres. The planned volume sold was not achieved in the discharge of the public service obligation in the inland and cross-border regional transport of passengers by rail in 2017 due to alternative transport at the request of the PRI manager, the closure of lines due to investment and maintenance works, and extraordinary events.

A total of 93.7% of all passengers were carried in the scope of the PSO in the inland transport of passengers pursuant to the agreement on the discharge of the public service obligation. The most prominent countries in

the scope of the public service obligation in cross-border regional transport (6.3% of passengers carried) were Slovenia (dispatch of passengers from Slovenia) and Austria (ÖBB), followed by Croatia (HŽ), Germany (DB), Hungary (MAV) and Switzerland (SBB).

The most significant proportion of passengers in inland transport are youths and adults, who account for 86.6% of all passengers. Data regarding the volume of seasonal passes sold to secondary school and university students are estimated and will be supplemented at a later date following the confirmation of clearing by the Ministry of Infrastructure, as the contracting authority. The highest proportion of passengers carried comprises youths with seasonal rail passes (47.8% of all passengers).

International transport is segmented by market and country. The most prominent countries in passenger transport are Slovenia (dispatch of passengers from Slovenia) and the second largest market of Austria (ÖBB), followed by Croatia (HŽ), Germany (DB), Hungary (MAV) and Switzerland (SBB). Because Eurail assumed the responsibility for the billing of all Interrail passes for 30 European countries and Eurail passes for other non-European countries on 1 January 2016, the aforementioned association stands out in the structure of passengers carried. International travel in 2017 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 passenger segments. Offers featuring limited quotas 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.

New offer – organisation of special events on trains

We enhanced the range of passenger transport services with the possibility of organising special events on trains at the request and in accordance with the wishes of ordering parties. We presented the possibility of organising such events to the me-

dia and public through the organisation a

of Train Wedding event. A series of fashion shows were also organised in the scope of those events on ICS trains by the owner of rights to the Miss Universe Slovenija pageant and in cooperation with Bernarda Marovt.



Presentation of services at trade fairs

We presented our current range of services and benefits to passengers at the most prominent trade fairs where we set up stalls for that purpose. The most important amongst them were the International Trade Fair in Celje, the international Natour Alpe Adria trade fair, the Third Age Festival, Student Arena and the Children's Bazaar.



Enhanced range of services during the extended summer tourist season

A round trip train connection was organised between Ljubljana and Pula during May Day holiday and the summer season. In June we made it easier to transport bicycles on all trains on the Koroška line. We introduced additional Saturday trains for leisure-time travel and tourism purposes. The summer timetable included additional trains

to Koper on the coast, while a night train also travelled between Ljubljana and Maribor.

In international traffic, a special night train ran between Budapest and Koper from 24 June to 26 August, while a night train with a sleeper carriage ran between Ljubljana and Belgrade from 27 June to 10 September.

In cooperation with event organisers and local communities, visitors to various concerts, trade fairs, cultural and other events are encouraged to travel to those events by train.

To numerous events by train



In cooperation with event organisers and local communities, visitors to various concerts, trade fairs, cultural and other events are encouraged to travel to those events by train. For organisers, this manner of transport means a reduced burden in organisational terms, and a contribution to environmental protection and the sustainable development of the local community on the one hand, while on the other hand, the extensive railway network in Slovenia allows visitors to travel to the direct vicinity of events in many places. These are the reasons that the visitors to and organisers of events are showing increasing interest in this means of transport to events. Another reason are the numerous train stations located in city centres.

Trains with a rich animation programme

High-profile events that were organised in 2017 in the scope of various animation programmes and contributed to the development of Slovenian tourism. They included:

Eno žlahtno doživetje: rides on the heritage train with actors from the most popular TV series, Ena žlahtna štorija;



Rides with Pippi Longstocking to the Pippi Longstocking festival in Velenje;



Rides to the Chocolate Festival with Linhart and Micka the Mayor's daughter;



Rides with Muca Copatarica (Slipper Keeper Kitty) and her sprite to a winter fairy-tale land in Bled;



Rides with fairy-tale fairies to Fairy-Tale Land in Celje;



Rides on Slovenian rails with Santa Clause and the heritage train; and



Heritage train rides with an Austro-Hungarian animation programme to Brda.



 Part of the Slovenian team travelled by train to the European Athletics Indoor Championships in Belgrade;



Travel by train to major festivals



In cooperation with major festivals in Slovenia, we organised and promoted train rides to festival events again in 2017. The now-traditional media train ride was organised in the scope of the Ljubljana Festival, which is highly publicised in the media due to its rich programme of concert, theatre, opera and ballet performances, and hosts world-famous artists and throngs of visitors every year. Presentations were made in the scope of individual events about train trips to Štanjel and packages for travelling by train to Ljubljana Festival events.

Fairy-tale train rides in December

As is now traditional, we organised numerous train rides in December 2017 to holiday and Advent locations in Slovenia and Europe. For details about the December programme, see the section Engagement with the wider environment.

Travel by train to numerous sporting events

We continued train rides in 2017 with famous Slovenian athletes to games in inland and international transport, which promotes the train as a more frequent means of travel amongst fans and sports enthusiasts. High-profile events in 2017 in the scope of the transport of athletes and fans to sporting events included: transport of fans and representatives of the media to handball matches during the group stage of the EHF Cup;



- transport of the Slovenian national hockey team by train to a match in Budapest;
- transport of the Slovenian national basketball team, with selector Igor Kokoškov and the team's star players Goran Dragić and Luka Dončić at the head. The team was joined on the ride from Ljubljana to Celje by members of the press, who took the opportunity to record the first statements and interviews prior to the start of preparations for the European championship;



on 18 September, more than 5,000 passengers were carried to Ljubljana (and back home) from all over Slovenia to attend the reception of the Slovenian basketball team, which won the gold medal at the European championship; and



the Slovenian Olympic torch, which travelled all across Slovenia to cities and towns with a rich Olympic tradition prior to the Winter Olympic Games in South Korea, ended its journey on 29 January. Tomaž Razingar, a former Olympian and captain of the Slovenian national hockey team, travelled by train with the torch to Ljubljana.



Promoting group travel by train

We continued in 2017 with a wide range of train rides under the slogan *Grem z vlakom* (I'm Taking the Train). Our range of comprehensive tourism programmes for groups is complemented by daily offers intended for all passengers. Links to destinations in Slovenia and Europe are available to users: trains travel non-stop every day directly from Slovenia to Zagreb, Belgrade, Graz, Vienna, Zurich, Munich, Salzburg, Villach, Innsbruck, Rijeka and Opatija, and also to Pula during the summer season.

Significant limitations and opportunities®



The prices for inland passenger transport, which are state-controlled, did not rise in 2017. Prices for international travel also remained unchanged. Passengers were able to take advantage of various discounts and special offers in inland and international transport.

Rolling stock

The upgrading of rolling stock will begin in 2019, when the delivery of 25 new multiple units is planned. That upgrade, together with the planned refurbishment of existing rolling stock, will ensure the improved quality of passenger transport services and gradually lead to the replacement of life-expired rolling stock. New rolling stock will contribute further to the elimination of train congestion at peak travel times. We see opportunities to increase the number of public rail transport users in the modernisation of rolling stock and in the development of an additional range of services on modern trains, as those two activities will increase the attractiveness and comfort of travel by train.

Ticketing

The passenger departure system will be updated in conjunction with the upgrade of the ticketing information system, which was started in 2017 and will be completed in 2018 and includes a comprehensive software solution for the implementation and maintenance of the ticketing system, which will contribute significantly to higher-quality and more passenger-friendly services.

Contributing further to the expansion of the range of services and increasing the attractiveness of rail travel to the widest possible audience are the activities of the contracting authority of the public service obligation, which is modernising the public rail infrastructure at an accelerated pace. The planned construction and inclusion of new train stations and stops will impact the quality of transport services, and contribute to the start of improvements to the state of the frequently obsolete infrastructure at train stations and stops.

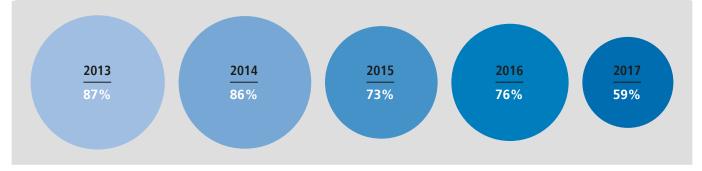
With the aim of promoting the use of public transport, additional services will be developed in the future, such as WiFi on trains and at stations, the introduction of vehicle sharing and other tourism products that will be developed in cooperation with foreign railway operators and other outsourced contractors from Slovenia and abroad. We will thus further expand and improve the range of services for our customers.

The IPPT system, which allows users to use various types of transport and includes the use of both intracity and intercity public passenger transport, began operating in 2016 with the introduction of subsidised tickets for students. In the future, the IPPT system will be expanded to other products that can be used by passengers not included in the subsidised ticket system. The single ticket will

GRI G4-2



Percentage of scores of 'good' or higher



thus be made available to all users of public passenger transport services. We see an opportunity to promote the use of public rail transport in the expansion of the IPPT system to a new circle of users.

The objective of the IN2STEMPO project, in which Slovenske železnice is a participant, is to improve access to trains through the use of new ticketing technologies, with the aim of ensuring the faster boarding of trains and the optimisation of stops in terms of ticketing. In these activities, we see an opportunity to eliminate obsolete information technologies, which will contribute to improved user satisfaction.

Limitations and opportunities regarding the quality of services[®]

GRI

User satisfaction is one indicator of the quality of transport services, and is used to determine the situation on the market and how the introduction of new services affects the user and thus the use of trains. Similar to the previous two years, we conducted an online survey of users' satisfaction again in 2017. The survey was published on Slovenske železnice's website from 13 October to 19 November 2017. We analysed 753 correctly completed surveys submitted by train users.

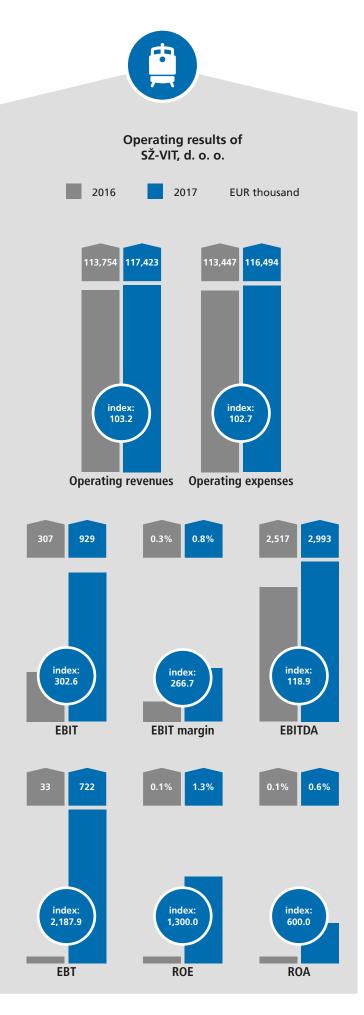
According to the results, the majority of those surveyed use the train every day or every work day (40.5%), while one quarter of passengers use the train several times a week. Nearly half of respondents travel to or from school or university by train, while more than a quarter stated that they take the train to and from work. The proportion of persons who travel by train on excursions, to visit others or another leisure-time activity was higher in 2015 and 2016. The majority of respondents in the 2017 online survey travel by train using a subsidised IPPT ticket (43.7%), while slightly more than 30% uses a one-way or round-trip ticket. The respondents' age structure indicates that the majority are aged 21 to 30, while slightly more than half are men and the Central Slovenia region is the most represented.

The following scores were achieved in surveys of the users of our services (percentage of 'good', 'very good' and 'excellent' ratings) in 2017:

	2013	2014	2015	2016	2017
Passenger transport	87	86	73	76	59

User satisfaction deteriorated considerably relative to 2016, as indicated by the lower average score, which was 2.84 in 2017. All elements of the quality of transport services were given lower scores, while the train speed and punctuality standout in terms of lowest average scores, which is primarily the result of train delays and slow travel due to maintenance works on the infrastructure. As in previous years, the presentation and helpfulness of staff received the highest scores. Those respondents who have never travelled by train or do so very rarely stated that they would be encouraged to take the train if they were more frequent and faster. The most important elements of train travel to respondents are the timetable, punctuality and train speed.

In addition to the factors described above, the drop in the satisfaction score can also be attributed to the changing structure of users, as occasional users who are less critical of deficiencies are becoming regular users who are more sensitive, particularly with regard to delays, and to other important factors in user satisfaction.



TRACTION AND TECHNICAL SERVICES

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

EUR thousand	2017	2016	Index
Operating revenues	117,423	113,754	103.2
Operating expenses	116,494	113,447	102.7
EBIT	929	307	302.6
EBIT margin (in %)	0.8	0.3	266.7
EBITDA	2,993	2,517	118.9
EBT	722	33	
ROE (in %)	1.3	0.1	
ROA (in %)	0.6	0.1	

Operating revenues were up relative to the previous year due to the increased scope of rolling stock maintenance services and traction services for the freight and passenger transport activities. The primary objective of Traction and Technical Services, which generates 89% of its revenues within the Slovenske železnice Group, is the regular provision of reliable, high-quality and cost-effective services while achieving the appropriate positive results in accordance with the Slovenske železnice Group's business policy.

Development of activities and results in 2017

Maintenance activities

SŽ-Vleka in tehnika, d. o. o. carried out the maintenance of railway vehicles and repairs, and the manufacture of components and spare parts, primarily for Slovenske železnice Group companies (81.5%). The largest clients for maintenance services for rolling stock in the Slovenske železnice Group were SŽ–Tovorni promet, d. o. o. (50.0%) and SŽ–Potniški promet, d. o. o. (46.1%).

Similar to the previous years, we again strove to increase our competitiveness and raise our profile on the European market and attract new customers in 2017. The proportion of sales accounted for by customers outside the Slovenske železnice Group, who are the owners or lessees of rolling stock, was 18.7%. Of the aforementioned customers, more than 85.8% of sales were realised abroad, the majority on Western European markets. Revenues were down by 9.9% relative to the previous year. Similar to recent years, the main product for customers outside the Slovenske železnice Group in 2017 was wheelset repair, followed by the periodic maintenance of freight wagons and cisterns.

Traction

The main activity of traction is providing traction and moving rolling stock according to planned schedules of the availability of tractive vehicles and personnel. All traction services are provided for the needs of operators in the Slovenske železnice Group (SŽ– Tovorni promet, d. o. o. accounting for 59.2 % and SŽ–Potniški promet, d. o. o. accounting for 40.8%). A certain number of tractive vehicle personnel still perform work for the domestic operator 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 the proportion of work performed using diesel traction decreased from 12.0% to 8.0%. The ratio between the work performed by electric and diesel locomotives also changed due to the electrification of the Pragersko–Hodoš line.

Wagon technical services (WTS)

Wagon technical services is one of the rail activities through which we participate directly in the provision of rail transport. Its primary tasks are monitoring the technical status and equipment of tractive vehicles, and monitoring their functioning in trains. Its main purpose is to ensure the safe, reliable, high-quality and environmen-

The Traction and Technical Services sector is continuously searching for new opportunities on foreign markets. The core mission remains the provision of continuous transport services within the frameworks of the Slovenske železnice Group. tally-friendly operation of unpowered rolling stock. 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 between operators.

Nearly all WTS are also provided

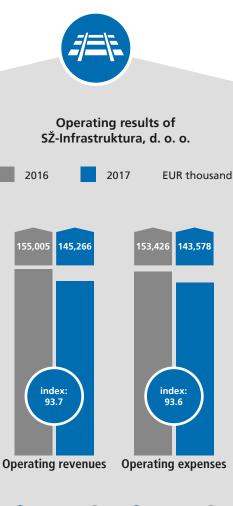
GRI

for the needs of operators in the Slovenske železnice Group (SŽ–Tovorni promet, d. o. o. accounting for 80.7 % and SŽ–Potniški promet, d. o. o. accounting for 19.3%).

Significant limitations and opportunities®

SŽ-Vleka in tehnika, d. o. o. faces limitations in the performance of its activities due to outdated technologies, non-standardised work processes, insufficient control of throughput times and the age structure of employees.

The company's opportunities lie in growth in freight and passenger transport, the introduction of new technologies, the standardisation of technical, work and business processes, the manufacture of integral parts and components for rolling stock for other parties, and proactive marketing on existing and new markets.





PRI MANAGEMENT®

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

EUR thousand	2017	2016	Index
Operating revenues	145,266	155,005	93.7
Operating expenses	143,578	153,426	93.6
EBIT	1,688	1,579	106.9
EBIT margin (in %)	1.2	1.0	120.0
EBITDA	3,794	3,881	97.8
EBT	1,552	1,472	105.4
ROE (in %)	9.5	10.9	87.2
ROA (in %)	2.8	2.7	103.7

EBIT was up by 6.9% relative to 2016, with both operating revenues and operating expenses down due to the reduced scope of maintenance works on the public rail infrastructure.

Pursuant to the Railway Safety Act (ZZeIP), SŽ-Infrastruktura, d. o. o. serves as the manager of the public rail infrastructure, maintains and manages the public rail infrastructure, and manages railway transport on that infrastructure. A safety management system is in place for all activities associated with rail transport safety, and a safety certificate has been obtained and is valid until 31 May 2019.

Pursuant to the Railway Transport Act and the Maintenance of Separate Accounts for Different Activities Act, separate accounting records are kept for PSO activities and other activities, where all revenues and expenses are consistently allocated to individual activities in accordance with the Criteria for separate records of revenues and expenses for public service obligation activities and other activities adopted by SŽ-Infrastruktura, d. o. o. Those criteria are based on accounting principles. The results achieved in PSO and other activities are presented in the section Profit and loss by individual company/activity in the business report.

Competitive position®

^{G4-2} The development of a sustainable transport system is a precondition 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 White Paper on transport until 2050, contains a roadmap to a single European transport area – towards a competitive and resource-efficient transport system.

The vision of the development of the rail infrastructure in Slovenia is to establish a high-capacity, interopera-



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ble, 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.

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 the Slovenian 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 railway in the European transport system. Given that the proportion of international railway transport on Slovenian rail lines already exceeds 80% and that there is a strong interdependence between rail transport and the rail infrastructure, adjusting to the circumstances dictated by the international environment is vital. This fact thus serves as the basic guideline in the formulation of the strategy on the development of the Slovenian rail infrastructure.

Slovenia's strategic advantage due to its favourable transport position does not in itself guarantee that traffic flows actually pass through Slovenia. 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 its small size, Slovenia is relatively easy to bypass. The timely implementation of a national programme and operational plan is thus that much more critical and necessary. The first verification of the situation will be carried out in 2023. A negative assessment of the situation on Slovenia's network could lead to the loss of corridors through Slovenia and thus the potential loss of European grants, and to the deterioration of the operations of the Port of Koper, the Slovenske železnice Group as a whole and the Slovenian logistics industry in general.

The current infrastructure does not meet modern standards of connectivity and thus does not facilitate high-quality public passenger transport services, as clockface timetabling and thus the increased density of passenger transport is not possible on certain heavily trafficked sections. There is still a risk of a shift in transit flows of goods to parallel networks through Italy, Austria, Hungary or Croatia. However, the pace of the upgrading of the railway network gives us an encouraging signal that this will not happen. There is also an 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 (RFC) 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 Sentilj. However, current investments on this section promise an improvement in the situation by 2020. The level of electrification of the PRI is relatively low, as only 613 km or 51% of all lines are electrified.

Particular attention will therefore be given to the threat of competition in relation to railway transport and the economics thereof, which can be anticipated in planned railway bypass routes through Italy and Austria towards

Budapest, and also in certain connections in the Republic of Croatia towards Hungary. In its strategy, the Republic of Slovenia emphasises the urgency of the upgrading and renovation of lines in priority rail freight corridors RFC 5, RFC 6, RFC 10 and RFC 11, which will ensure Slovenia's long-term competitiveness.

Investments in the PRI are already in progress, while current and planned investments in the coming years and the implementation thereof will allow the Republic of Slovenia to provide a high-capacity, interoperable, safe, competitive, intermodal and environmentally-friendly railway network.

Development of activities and results in 2017

PRI maintenance work

In 2017, we carried out scheduled maintenance works, maintained the required normal operating capacity of the track superstructure and substructure elements and safety signalling, telecommunications and power supply and structures, and ensured transport safety together with traffic management.

Maintenance work on 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.

Seven decisions by various inspectorates were submitted for implementation in 2017. Of that total, five were implemented and two were deferred to 2018. A total of nine decisions were implemented in 2017, while there are currently 64 unimplemented decisions.

Regular maintenance of safety signalisation in 2017 included station signalling (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 the installation of technical equipment. All irregularities were rectified in order to ensure the correct functioning of signalisation. Worn equipment was replaced in the scope of maintenance.

Regular maintenance of telecommunications devices included railway telephone equipment and switchboards,

Analysis by activity

Transport in Slovenia contributes to the functioning of the economy as a whole, is an important employer and guarantees citizens the fundamental right to mobility. lines and cables, video surveillance and alarm equipment, radio equipment, transmission systems, data transfer devices, power supply equipment, timekeeping devices and devices for station passenger operations. In addition, we eliminated defects, errors and anomalies in telecommunications devices and systems. Worn equipment was replaced in the scope 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, while the 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, the conducting of prescribed measurements and smaller-scale emergency repairs.

Replacements in the scope of PRI maintenance

In the scope of PRI replacements in 2017, 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 Ministry of Infrastructure, as the contracting authority, and in line with current standards, norms and regulations. Work that could not be carried out using our own available capacities was outsourced to external contractors, in accordance with regulations governing public procurement. We monitored the implementation of works, took delivery of completed works and performed other activities technically linked to those works.

We replaced several larger components of the rail infrastructure:

installation of rock-fall protection systems for the protection of slopes against falling materials and rocks on the national border–Dobova–Ljubljana line (Zagorje– Sava section) and on the Jesenice–Sežana line (Grahovo–Most na Soči section);

- anti-fire protection of lines (gabions, shotcrete, rolled concrete, palisades, controlled burns, etc.) in the total length of 3,552 metres on the Prešnica–Črnotiče–Hrastovlje section of the Prešnica–Koper line junction;
- renovation of 11.8 kilometres of the overhead lines on the Pivka–Ilirska Bistrica section and at the Ilirska Bistrica station;



- replacement of terminal equipment at transport offices for the telegraph system (hardware and software); and
- rehabilitation of eight level crossings on the Maribor– Prevalje (station track), Celje–Velenje, Ljubljana–Kamnik and Ljubljana–Jesenice lines.

Maintenance of stations and stops

Funds earmarked for the maintenance of stations and stops were used for: cleaning stations and stops, the security at stations, landscaping at passenger stations and stops, regular and emergency maintenance at passenger stations and stops, and management of passenger stations and stops (operating costs).

In the scope of replacements at passenger stations and stops, a system was installed for remote locking and unlocking, and surveillance of waiting areas at the Kranj, Radovljica, Žirovnica, Jesenice and Domžale train stations.



Volume of work

		2017		2016	
	Hours	Structure (%)	Hours	Structure (%)	
Number of maintenance hours			_		
- PRI maintenance work	1,546,060	93.3	1,575,069	92.3	
- replacements in the scope of PRI maintenance work	12,942	0.8	7,226	0.4	
- other activities	98,180	5.9	124,945	7.3	
Total	1,657,182	100.0	1,707,240	100.0	
Number of hours worked by department					
- track maintenance	888,533	53.6	921,990	54.0	
- maintenance of SS and TC devices	514,045	31.0	522,578	30.6	
- Electrical system maintenance	254,604	15.4	262,672	15.4	
Total	1,657,182	100.0	1,707,240	100.0	

Breakdown of costs by maintenance activity

EUR thousand	2017	2016	Index
Public service obligation	81,153	89,862	90.3
Track maintenance	48,917	58,592	83.5
Maintenance of SS and TC devices	20,929	19,308	108.4
Maintenance of overhead lines and electrical system structures	11,307	11,962	94.5
Maintenance of stations and stops	440	453	97.1
PRI management	1,142	881	129.6
Total	82,735	91,196	90.7

PRI management

PRI management included PRI marketing services, which include: the marketing of commercial premises in PRI buildings and stations, the sale of land, the sale of advertising space in the PRI, the sale of apartments in PRI buildings and stations, the marketing of the telecommunications system and easements, and the sale of unused materials. PRI management also includes real estate management and the keeping of records regarding all real estate owned by the Slovenian PRI, the keeping of land records and the granting

Slovenske železnice's infrastructure lags behind the average railway infrastructure in the European Union. Despite the fact the aforementioned gap can be closed in part through a sound organisational structure and personal commitment, it remains a serious obstacle to the achievement of the national objective to use more sustainable forms of transport, with railway transport ranking at the top.

scope of its competencies. The engineering sector provides services in areas where SŽ-Infrastruktura, d. o. o. is hired for the implementation of works by the Ministry of Infrastructure as contracting authority.

The engineering sector was active in 2017 primarily in the following facilities:

the completion of construction works on track substructure elements as part of the construction of a 1.2 km track on the Divača–Ko-

per line to serve the function of main track

approvals for work in the protected area of the track bed. Forecasts are also drawn up of the volume of traffic on the PRI, and serve as the basis for identifying bottlenecks and the drafting of technical solutions for the elimination thereof, and for preparing a draft maintenance plan for the existing PRI and a plan of renovations on the existing PRI.

Engineering

As manager, SŽ-Infrastruktura, d. o. o. is responsible for the safe planning of the rail infrastructure within the

at the Koper freight station in the scope of the project to eliminate bottlenecks on the Divača–Koper line and the Hrastovlje TPS, and the start of construction works as part of the supply and installation of a transport power station (TPS) at the Hrastovlje station with a power supply cable to the Rižana substation in the scope of the project to eliminate bottlenecks on the Divača–Koper line and the Hrastovlje TPS; start of upgrades to the railway line on the Zidani Most–Celje section; upgrades to the Celje station (freight and passenger elements) and the Laško station with non-level access to the platform;



- signing of an agreement with the Slovenian Infrastructure Agency for the manager's participation in the implementation of remote traffic control for the national border–Dobova–Zidani Most–Ljubljana and Zidani Most–Šentilj–national border sections; and
- as leading partner in the joint venture with DIS Consulting, d. o. o. and Projekt Nova Gorica, d. d., we were included in the transaction as engineer for the agreement on the provision of engineering services in the upgrading of a section of the Poljčane–Slovenska Bistrica line.



Management of rail traffic

We performed activities in the scope of the public service obligation to manage rail traffic that include the optimal use of infrastructure capacities, the management of train traffic, the professional training of operations staff, implementation of the network timetable, the performance of technological work processes at service points, the supervision of the work of operators that requires the performance of work in accordance with regulations governing railway traffic and railway safety, notification of the safety authority regarding the suspicion that an infringement has been committed by an operator acting in contravention of its licence, safety certificate or the train path allocated to it, notification of the regulatory authority regarding the suspicion that an infringement has been committed by an operator acting in contravention of the train path allocated to it, and notification of the inspectorate responsible for railway traffic in the Republic of Slovenia of infringements of the provisions of regulations governing railway safety.

We completed all tasks directly linked to the discharge of the PSO to manage rail traffic, including the drafting and publication of the network programme, the allocation of train paths, the drafting, adoption, implementation and publication of the network timetable, the charging and collection of fees, ensuring the efficiency of international train paths and the competitiveness of international freight transport, and implementation of the performance regime.

In scope of the duties deriving from the PSO of rail traffic management and the duties directly associated with it, we ensured the safety and regulation of railway traffic in accordance with the network timetable, performed the operational management of train traffic, coordinated technological work processes with operators and participated in the investigation of extraordinary events. Work also included the drafting of regulations governing the organisation of work processes at service points, the organisation of transport and the definition of conditions for special consignments and the coordination thereof, the drafting and harmonisation of track maintenance plans, participation in the drafting and review of project documentation during renovations, upgrades and the construction of the rail infrastructure, participation in technical inspection committees and technical inspection committees for individual phases for rail infrastructure structures and equipment, and the drafting of analyses and reports on the implementation of the network timetable.

Scope of services

On the basis of the adopted and approved 2016/2017 network timetable we coordinated, managed and regulated train traffic at service points, and ensured the security of train paths and level crossings.

Number of hours of PSO of rail transport management

PSO – rail transport –	Number of training hours			
management	2017	2016	Index	
Management and coordination of traffic from TMC	2,886	2,188	131.9	
Local traffic management at stations	21,870	18,312	119.4	
Securing of train paths	2,608	1,584	164.6	
Securing of level crossings	288	144	200.0	
Total	27,652	22,228	124.4	

PSO – rail transport	Occupancy of service points – number of hours			
management	2017	2016	Index	
Management and coordination of traffic from TMC	121,671	119,946	101.4	
Local traffic management at stations	881,935	905,139	97.4	
Securing of train paths	184,003	190,150	96.8	
Securing of level crossings	25,301	21,317	118.7	
Total	1,212,910	1,236,552	98.1	

In 2017 we recorded 37 extraordinary events on the public rail infrastructure for which the manager was liable, while there were 28 such events in 2016 or 25% fewer events. The increase in the number of extraordinary events for which the manager was liable in 2017 was the result of the deformation of the track due to extremely high summer temperatures during the year.

We carried out our work without interruption to the extent set out in the operational timetable and technological work processes, taking into account the public interest and the principles of non-discrimination of operators, the rational consumption of resources and the market-based management of free infrastructure capacities.

Significant limitations and opportunities®

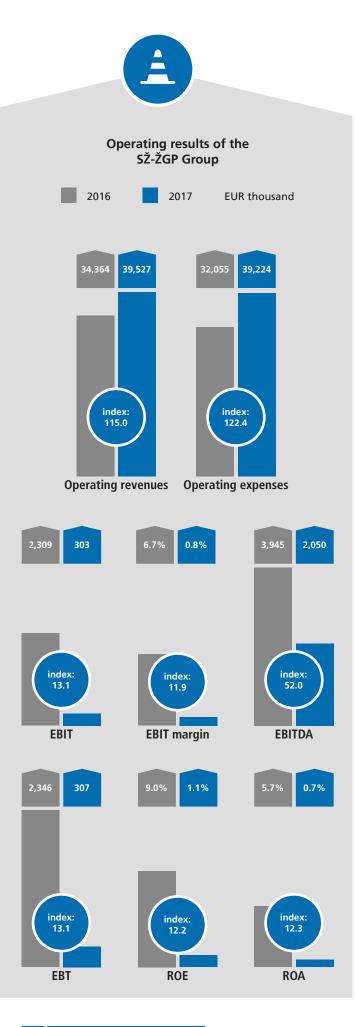
Significant limitations in the management of the PRI primarily include the low level of mechanisation in maintenance work, the low level of computerisation of operations and an inappropriate staff structure.

The obsolete and technologically diverse infrastructure on individual sections of main and regional lines hinders the systematic planning and implementation of maintenance works and the appropriate scaling of the required quantities of materials and services with the aim of reducing costs.

Accelerated investments in the renovation and development of the PRI are planned in the future, which will bring opportunities to participate in the implementation of projects Modernisation and the inclusion of technologically advanced devices will continue. We face new challenges that we will meet by adapting our knowledge, skills and the organisational structure, and through the efficient allocation of the human resources required for the maintenance of the future configuration of the rail infrastructure. We pursue the basic strategy of improving the quality of our services in the context of increased cost-effectiveness, primarily by introducing new technologies, which is linked to investments in maintenance equipment and investments in information technology. Those investments are already being made.

Funds will be required in the future for the discharge of the public service obligation in an amount that will facilitate the implementation of all works in the scope of investments according to the LCC method with the aim of exploiting the company's ability to ensure the standardisation of processes, the appropriate professional qualifications in connection with the necessary specific knowledge, and the greater cost-effectiveness of core processes.

Activities to mitigate risks associated with the PRI will also focus on the drafting of a proposal to amend the methodology for charging fees, and on the formulation of initiatives for the more efficient use of the PRI and the optimisation of passenger station management. With regard to the upgrading of the information system, we will complete the project to modernise that system and introduce contemporary software solutions for the management of assets, work, services, contracts and material operations.



CONSTRUCTION

Breakdown of the operating results of the SŽ-ŽGP Group

EUR thousand	2017	2016	Index
Operating revenues	39,527	34,364	115.0
Operating expenses	39,224	32,055	122.4
EBIT	303	2,309	13.1
EBIT margin (in %)	0.8	6.7	11.9
EBITDA	2,050	3,945	52.0
EBT	307	2,346	13.1
ROE (in %)	1.1	9.0	12.2
ROA (in %)	0.7	5.7	12.3

The construction activity recorded 15% growth in revenues, which is less than planned due to delays in the implementation of projects and a reduced number of projects secured. Operating expenses were up by 22.4%, which resulted in a 5.9 percentage point drop in the EBIT margin. Despite the positive financial result, pre-tax profit was down EUR 2,039 thousand on 2016.

GRI

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Competitive position®

The investment cycle continues in the Republic of Slovenia, primarily in the area of the rail infrastructure, which is supported by the second financial perspective for the period 2014–2020. An increase is expected on the domestic market in the number of tenders for investment works on the rail infrastructure, which in the context of the competitive advantages of the SŽ-ŽGP Group opens opportunities for growth in operations. A study of the development of traffic commissioned by the European Commission for South-Eastern Europe also had a significant impact on the strengthening of investments on foreign markets. The countries of the Western Balkans, which include Croatia, Serbia and Montenegro, adopted national rail infrastructure development plans with planned investments for the future based on the aforementioned study. We are also expanding our activities to the markets of the Western Balkans, and expanding our portfolio of activities to overhead lines, and signalling, safety and telecommunications equipment, exclusively in the area of the rail infrastructure.

Development of activities and results in 2017

Following the completion of major investments from the first European financial perspective for the period 2007–2013 (2015) and a very poor year in 2016, the Slovenian construction sector began to record gradual growth again in 2017. Government investments, which accounted for just 12% of total investments in 2016, are on the brink of a period of significant growth, primarily due to announced new major projects, such as development axis 3 and projects on the rail infrastructure, including the largest project involving the construction of the second Koper–Divača track. Private investments in fixed assets

are expected to increase by between 6% and 7% over the next three years, while growth in government investments will be slightly lower. However, the dynamic here will be considerably more uneven, as it depends on the dynamic of railway-related construction works.

The implementation of certain major projects, covered by funds from the second European financial perspective for the period 2014–2020 (2022), began in 2017, while certain major tenders were issued, with implementation to begin in 2018.

We are thus planning significant revenues from the aforementioned projects in future years. We are also expecting the publication of certain major tenders, primarily in 2018 and 2019, covering the modernisation of the rail infrastructure in the Republic of Slovenia.

We are also expecting the start of works on major projects in the Re-

public of Croatia in 2018, as well as the publication of major public tenders in the Republic of Serbia.

The primary objective of the SŽ-ŽGP Group is the high-quality provision of services for customers who expect comprehensive and high-quality services. We will expand primarily to the areas of overhead lines and signalling and telecommunication equipment, and will participate in the search for new models for the construction of the rail infrastructure and also seek out opportunities in the area of regular maintenance.

A new development strategy is currently being drafted for the company. That strategy will define how to successfully activate customer relationships, high-quality and

In the future, we will expand primarily to the areas of overhead lines and signalling and telecommunication equipment, and will participate in the search for new models for the construction of the rail infrastructure and also seek out opportunities in the area of regular maintenance.

responsive operational processes, effective information technology and data collections, and the skills, knowledge and motivation of employees.

Significant limitations and opportunities®

Here we should highlight certain uncertainties and risks that accompany forecasts and assessments of future operations, in particular the uncertainty associated with securing new transactions on the domestic and foreign

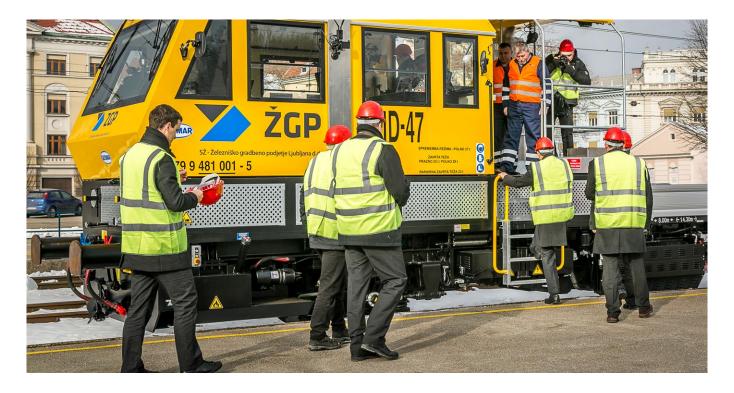
> markets due to the competition, delays in tender procedures for certain planned major projects, and HR-related risks.

GRI

Significant limitations include constant fluctuations in the scope of investments in the rail infrastructure and delays in significant tender procedures for the awarding of works by the government as the owner of the infrastructure both in Slovenia and abroad, qualifications for work

on less-known foreign markets, the age structure of employees and the fluctuation of qualified staff, the appropriateness of input materials on projects, changes in prices, and the timely supply of crucial materials and the provision of IT support. Other limitations include the general situation in the construction sector, intense competition, and falling prices and profitability.

Opportunities lie in expansion to foreign markets and the complementary activity of sidings, expansion to the areas of overhead lines and signalling and telecommunications equipment, and technically equipped and qualified staff, particularly in the area of track machinery, which will be easier to achieve in concert with Group companies and the controlling company.



SUPPORT ACTIVITIES

	SŽ,	d. o. o.	SŽ–ŽI	P Group	Prometni instit	ut, d. o. o.	Železniška tiska	arna, d. d.
EUR thousand	2017	2016	2017	2016	2017	2016	2017	2016
Operating revenues	27,744	33,814	28,545	26,559	1,548	1,481	511	528
Operating expenses	26,868	27,078	28,379	27,567	1,222	1,304	607	505
EBIT	876	6,736	166	-1,008	326	177	-96	23
EBIT margin (in %)	3.2	19.9	0.6	-3.8	21.1	12.0	-18.8	4.4
EBITDA	1,999	7,695	960	-249	389	244	-65	63
EBT	5,519	14,517	121	-1,047	325	182	-93	30
ROE (in %)	2.1	5.2	1.9	-17.2	52.9	20.2	-9.9	3.4
ROA (in %)	1.1	2.8	0.8	-6.6	26.9	11.5	-8.4	3.0

Breakdown of the operating results of support activities

All support activities organised at the controlling company Slovenske železnice, d. o. o., the SŽ-ŽIP Group, Prometni institut Ljubljana, d. o. o. and SŽ-Železniška tiskarna Ljubljana, d. d. are carried out exclusively or primarily The SŽ-ŽIP Group comprises the parent company SŽ-ŽIP, storitve, d. o. o. and the subsidiary SŽ-ŽIP, d. o. o., Savudrija. The company's mission is to develop ancillary services suitable for the employment of workers who

on the domestic market, i.e. for the needs of Slovenske železnice Group companies. The primary objective in this segment of operations is to ensure high-quality and cost-efficient services for the needs of Slovenske železnice Group companies as customers.

Support activities contribute significantly to operating results and ensure the long-term sustainability of operations.

Development of activities and results in 2017

The tasks associated with the support activities performed by the controlling company Slovenske železnice, d. o. o. are the reliable, high-quality and cost-effective performance of centralised business support functions, efficient real estate management and the disposal of assets not required for business purposes. The majority of Slovenske železnice, d. o. o.'s revenues derive from support services for the Management Board that are charged to Slovenske železnice Group companies on the basis of SLAs, revenues from the management and marketing of real estate (rent from storage premises, land and advertising space, rent from non-profit flats, and rent from holiday homes, workers' hostels and other buildings) and revenues from the sale of real estate.

Slovenske železnice, d. o. o.'s operating revenues were down by EUR 6,070 thousand relative to 2016. Excluding the effect of revaluation revenues in both comparable years (2016: EUR 11,283 thousand from the write-off of liabilities to SŽ–Tovorni promet, d. o. o. in SŽ–Potniški promet, d. o. o.; 2017: EUR 2,622 thousand based on the harmonisation agreement with the Ministry of Infrastructure regarding the land register status of certain buildings and land in Ljubljana), operating revenues would have been EUR 2,591 thousand higher. 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. With regard to the transport infrastructure, it provides information support for projects and develops transport system software, studies economic and legal problems in transport and drafts investment documentation.

The core activity of SŽ-Železniška tiskarna Ljubljana, d. d. is all printing and bookbinding work, and the distribution of final products. The company generates its largest market share through the printing of timetable charts when new timetables are released, paper tickets, publications and brochures, forms and other graphic products.

GRI Significant limitations and opportunities®

G4-7

Significant limitations in support activities currently lie in the inappropriate age and education structure of employees, and in an inadequate and non-standardised information system. Activities aimed at the development of staff, the optimisation of centralised business function processes, the upgrading and standardisation of the business information system and the implementation of the digitalisation programme are being implemented to eliminate these limitations. All of the aforementioned activities are described in sections of the business report that cover this content.

Given the specific nature of individual support activities, emphasis is also placed on training for work with disabled persons and on providing jobs for those persons, on the development of an in-house research and development activity in rail transport, the securing of European and state funding, and on the efficient management of real estate.





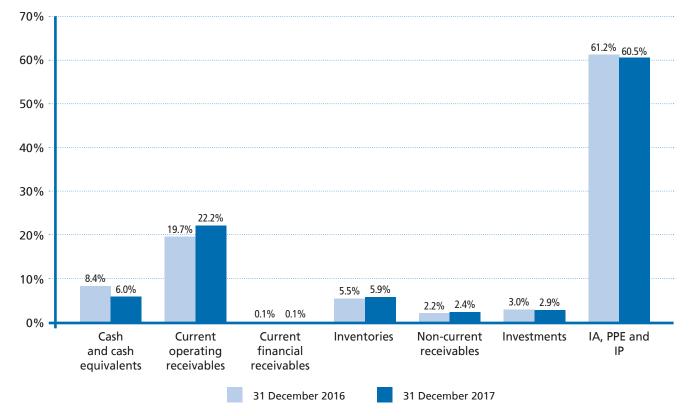


ANALYSIS OF FINANCIAL POSITION®

Assets, equity and liabilities

The assets of the Slovenske železnice Group amounted to EUR 574,927 thousand at the end of December 2017, an increase of 3.6% relative to the previous year.

Assets (EUR thousand)	2017	2016	Difference	Index
ASSETS	574,927	554,748	20,179	103.6
Non-current assets	378,011	367,849	10,162	102.8
IA, PPE and IP	347,634	339,360	8,274	102.4
Investments	16,640	16,469	171	101.0
Non-current receivables	13,737	12,020	1,717	114.3
Current assets	196,916	186,899	10,017	105.4
Assets held for sale	52	20	32	260.0
Inventories	33,894	30,270	3,624	112.0
Current financial receivables	824	695	129	118.6
Current operating receivables	127,636	109,272	18,364	116.8
Cash and cash equivalents	34,510	46,642	-12,132	74.0



Composition of assets

Note:

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

Investments = investments in associates and other financial assets.

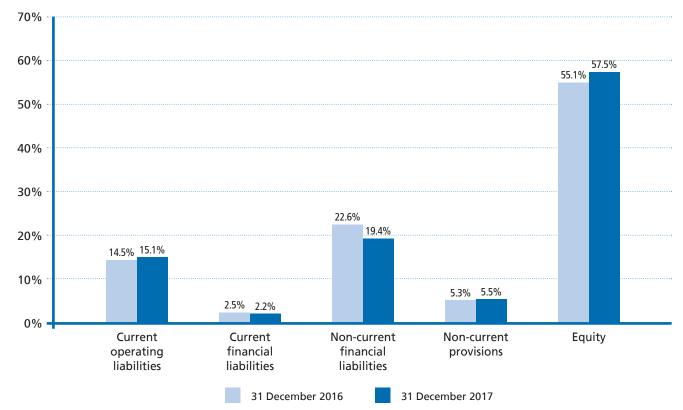
Non-current receivables = financial receivables, non-current operating receivables, deferred tax assets and other non-current assets.

Property, plant and equipment in the amount of EUR 295,956 thousand accounts for the largest proportion of non-current assets (78.3%). Rolling stock accounts for EUR 194,868 of the aforementioned amount. Property, plant and equipment was up by 0.9% or EUR 2,588 thousand relative to the previous year.

A total of 64.8% of current assets were accounted for by current operating receivables, which were up by EUR 18,364 thousand, primarily due to an increase in current accrued income by EUR 32,820 thousand, while domestic and foreign trade receivables and receivables for corporate income tax were down by EUR 12,165 thousand and EUR 1,682 thousand respectively.

Cash and cash equivalents, which account for 17.5% of current assets, were down by EUR 12,132 thousand. Replacement parts and materials held in inventories (17.2% of current assets) were up due to delays in the performance of maintenance work.

Equity and liabilities (EUR thousand)	2017	2016	Difference	Index
EQUITY AND LIABILITIES	574,927	554,748	20,179	103.6
Equity	330,333	305,586	24,747	108.1
Non-current liabilities	144,881	154,892	-10,011	93.5
Non-current provisions	31,805	29,338	2,467	108.4
Non-current financial liabilities	111,393	125,178	-13,785	89.0
Non-current operating liabilities	1,683	376	1,307	447.6
Current liabilities	99,713	94,270	5,443	105.8
Current financial liabilities	12,644	13,808	-1,164	91.6
Current operating liabilities	87,069	80,462	6,607	108.2



Composition of equity and liabilities

Note:

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

The level of equity was affected primarily by the operating results achieved during the financial year (EUR 30,644 thousand), the payment of a share in profits for 2016 (EUR 3,607 thousand) and an actuarial loss from the calculation of provisions for termination benefits at retirement (EUR 2,387 thousand).

Non-current and current financial liabilities were down relative to the previous year by EUR 14,949 thousand due to the repayment of loans and exchange rate differences.

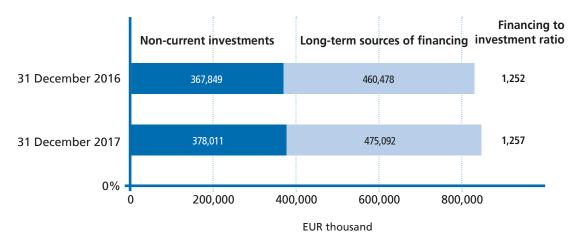
Current operating liabilities were up by 8.2% or EUR 6,607 thousand. According to the situation at the end of

December 2017, one third of current operating liabilities was accounted for by trade payables (EUR 29,368 thousand), one quarter by liabilities to employees (EUR 21,530 thousand) and one sixth by accrued costs and deferred income (EUR 14,446 thousand), the majority of which were accrued costs.

Financing of non-current investments

EUR thousand	2017	2016	Difference	Index
Current assets	196,916	186,899	10,017	105.4
Current liabilities	99,713	94,270	5,443	105.8
Working capital	97,203	92,629	4,574	104.9

The debt ratio expressed as the ratio of net debt to material assets stood at 13.4% at the end of 2017, and was down on the figure at the end of 2016 (17.3%).



Non-current investments to financing ratio

Working capital amounted to EUR 97,203 thousand at the end of 2017 and was up by EUR 4,574 thousand relative to the end of 2016 due to an increase in the value of fixed assets and equity by the respective amounts of EUR 8,274 thousand and EUR 24,747, and a decrease in net current liabilities by EUR 11,899. The results of financing are also expressed by the ratio of current assets to current liabilities, which amounted to 1.975 at the end of 2017, compared to 1.983 at the end of 2016.

Cash flows

The Slovenske železnice Group generated a positive cash flow from operating activities in the amount of EUR 42,166 thousand in 2017, which was positively affected by net profit (EUR 30,644 thousand) and an adjustment (EUR 27,648 thousand), primarily due to amortisation/ depreciation, and negatively by changes in net working capital in the amount of EUR 13,233 thousand (of which EUR 3,624 thousand was accounted for by an increase in inventories, EUR 18,844 by an increase in operating receivables and EUR 7,916 thousand by an increase in operating liabilities). Cash flow from investing activities was negative in the amount of EUR 38,228 thousand due to outflows from investing activities in the amount of EUR 45,449 thousand (most of which was accounted for by the acquisition of property, plant and equipment) and inflows from investing activities in the amount of EUR 7,221 thousand (most of which was accounted for by the disposal of financial assets – guarantees at SŽ-Železniško gradbeno podjetje, d. d. and deposits pledged as collateral for derivatives at Slovenske železnice, d. o. o.).

Cash flow from financing activities was also negative in the amount of EUR 16,073 thousand due to outflows from financing activities in the amount of EUR 44,073 thousand (the repayment of financial liabilities accounting for EUR 40,464 thousand and the payment of dividends and shares in profits for EUR 3,608 thousand of that amount) and inflows from financing activities in the amount of EUR 28,000 thousand.

The balance of cash and cash equivalents decreased from EUR 46,642 thousand to EUR 34,510 thousand.



PROFIT AND LOSS BY INDIVIDUAL COMPANY/ACTIVITY[®]

	SI	ovenske železnice
t thousand	2017	2016
erating revenues	517,380	501,923
sales revenue	397,100	390,809
Revenues on the domestic market	209,196	206,124
: Transport revenues on the domestic market	33,822	34,744
: Other revenues on the domestic market	61,423	55,075
: Contracts with the Slovenian Government	113,951	116,305
- Revenues on the foreign market	187,904	184,685
: Transport revenues on the foreign market	158,369	153,227
: Other revenues on the foreign market	29,535	31,458
anges in values of inventories of finished goods and work in ogress	30	1,319
pitalised own products and services	32,448	32,359
her operating revenue	87,802	77,436
of which: contracts with the Slovenian Government	65,715	43,836
erating expenses	486,439	477,281
torical cost of goods and materials sold	305	5,461
ts of materials	46,820	37,855
gy costs	30,763	29,650
ts of services	128,074	121,297
our costs	241,648	244,215
ortisation/depreciation	34,813	34,244
ner operating expenses	4,016	4,559
erating profit or loss (EBIT)	30,941	24,642
nance income	3,769	4,809
ance costs	4,912	4,696
t finance income/costs	-1,143	113
-tax profit or loss	29,798	24,755
rent tax	301	576
ferred taxes	-1,147	-877
rporate income tax	-846	-301
t profit or loss	30,644	25,056

SŽ-Tovorni Promet Group					
2017	2016	Index			
190,733	197,373	96.6			
182,132	178,121	102.3			
18,973	18,702	101.4			
7,097	6,586	107.8			
11,876	12,116	98.0			
163,159	159,419	102.3			
156,720	153,357	102.2			
6,439	6,062	106.2			
0	0				
0	0				
8,601	19,252	44.7			
180,992	186,462	97.1			
28	938				
3,306	2,710	122.0			
15,994	15,456	103.5			
106,402	102,566	103.7			
38,696	38,631	100.2			
15,747	15,143	104.0			
819	11,018	7.4			
9,741	10,911	89.3			
3,104	2,015	154.0			
1,237	3,160	39.1			
1,867	-1,145				
11,608	9,766	118.9			
9	9	100.0			
-472	762				
-463	771				
12,071	8,995	134.2			

	Fersped, d. o. o.					
2017	2016	Index				
18,651	20,080	92.9				
18,438	19,947	92.4				
7,623	10,086	75.6				
7,623	10,086	75.6				
10,815	9,861	109.7				
10,815	9,861	109.7				
0	0					
0	0					
213	133	160.2				
18,303	19,914	91.9				
0	966	0.0				
47	26	180.8				
46	44	104.5				
15,794	16,127	97.9				
2,115	2,349	90.0				
137	125	109.6				
164	277	59.2				
348	166	209.6				
98	116	84.5				
17	18	94.4				
81	98	82.7				
429	264	162.5				
23	0					
-45	-220	20.5				
-22	-220	10.0				

		sž
JR thousand		2017
rating revenues	104,	974
sales revenue	37,405	
- Revenues on the domestic market	30,562	
: Transport revenues on the domestic market	28,456	
: Other revenues on the domestic market	2,106	
: Contracts with the Slovenian Government		
- Revenues on the foreign market	6,843	
: Transport revenues on the foreign market	5,915	
: Other revenues on the foreign market	928	
Changes in values of inventories of finished goods and work in progress	0	
Capitalised own products and services	0	
Other operating revenue	67,569	
of which: contracts with the Slovenian Government	65,521	
Operating expenses	88,614	
listorical cost of goods and materials sold	6	
osts of materials	1,965	
nergy costs	6,932	
Costs of services	50,084	
abour costs	18,349	
mortisation/depreciation	11,000	
Other operating expenses	278	
perating profit or loss (EBIT)	16,360	
inance income	390	
nance costs	35	
et finance income/costs	355	
re-tax profit or loss	16,715	
Current tax	87	
Deferred taxes	-249	
Corporate income tax	-162	
let profit or loss	16,877	

SŽ–Potniški promet, d. o. o. PSO				
2017	2016	Index		
103,492	87,089	118.8		
35,968	41,779	86.1		
29,371	35,087	83.7		
28,080	28,346	99.1		
1,291	6,741	19.2		
6,597	6,692	98.6		
5,669	5,777	98.1		
928	915	101.4		
0	0			
0	0			
67,524	45,310	149.0		
65,521	43,836	149.5		
87,198	84,319	103.4		
6	2,096	0.3		
1,962	2,214	88.6		
6,858	6,682	102.6		
48,785	44,090	110.6		
18,351	16,650	110.2		
10,965	10,956	100.1		
271	1,631	16.6		
16,294	2,770	588.2		
389	467	83.3		
36	55	65.5		
353	412	85.7		
16,647	3,182	523.2		
87	0			
-248	0			
-161	0			
16,808	3,182	528.2		

SŽ–Potniški promet, d. o. o. Other activities		
2017	2016	Index
1,977	3,819	51.8
1,932	2,055	94.0
1,686	1,837	91.8
376	1,483	25.4
1,310	354	370.1
246	218	112.8
246	218	112.8
0	0	
0	0	
0	0	
45	1,764	2.6
1,911	3,082	62.0
0	0	
11	329	3.3
95	98	96.9
1,574	2,427	64.9
136	175	77.7
87	46	189.1
8	7	114.3
66	737	9.0
2	2	100.0
0	0	
2	2	100.0
68	739	9.2
0	0	
-1	0	
-1	0	
69	739	9.3

	SŽ	–Vleka in tehnika, d. o
nousand	2017	2016
iting revenues	117,423	113,754
sales revenue	115,737	111,955
Revenues on the domestic market	105,999	101,259
: Transport revenues on the domestic market		
: Other revenues on the domestic market	105,999	101,259
: Contracts with the Slovenian Government		
Revenues on the foreign market	9,738	10,696
: Transport revenues on the foreign market		
: Other revenues on the foreign market	9,738	10,696
nges in values of inventories of finished goods and work in gress	10	1,232
italised own products and services	58	40
er operating revenue	1,618	527
of which: contracts with the Slovenian Government		
rating expenses	116,494	113,447
prical cost of goods and materials sold	83	43
s of materials	19,672	18,391
gy costs	1,446	1,335
of services	20,769	18,082
ır costs	70,977	72,640
tisation/depreciation	2,064	2,210
er operating expenses	1,483	746
rating profit or loss (EBIT)	929	307
nce income	13	37
nce costs	220	311
finance income/costs	-207	-274
ax profit or loss	722	33
ent tax		
erred taxes	288	-2
porate income tax	288	-2
profit or loss	434	35

SŽ–Infrastruktura, d. o. o.			
2017	2016	Index	
145,266	155,005	93.7	
139,418	149,592	93.2	
139,418	149,592	93.2	
25,467	33,287	76.5	
113,951	116,305	98.0	
0	0		
0	0		
0	0		
0	0		
5,848	5,413	108.0	
143,578	153,426	93.6	
0	2	0.0	
11,181	10,248	109.1	
18,696	18,251	102.4	
36,178	45,830	78.9	
69,869	70,827	98.6	
2,106	2,302	91.5	
5,548	5,966	93.0	
1,688	1,579	106.9	
60	165	36.4	
196	272	72.1	
-136	-107	127.1	
1,552	1,472	105.4	
-281	-707	39.7	
-281	-707	39.7	
1,833	2,179	84.1	

PRI maintenance		
2017	2016	Index
109,391	118,481	92.3
103,885	113,448	91.6
103,885	113,448	91.6
23,934	32,143	74.5
79,951	81,305	98.3
0	0	
0	0	
0	0	
0	0	
5,506	5,033	109.4
106,592	115,292	92.5
0	2	0.0
10,876	9,878	110.1
18,337	17,845	102.8
32,397	41,947	77.2
37,607	37,512	100.3
1,972	2,183	90.3
5,403	5,925	91.2
2,799	3,189	87.8
59	153	38.6
121	205	59.0
-62	-52	119.2
2,737	3,137	87.2
-281	-707	39.7
-281	-707	39.7
3,018	3,844	78.5

			Traffic management
UR thousand		2017	2017 2016
Operating revenues		36,405	36,405 37,325
Net sales revenue		36,061	36,061 36,911
- Revenues on the domestic market		36,061	36,061 36,911
: Transport revenues on the domestic market			
: Other revenues on the domestic market	-	2,061	2,061 1,911
: Contracts with the Slovenian Government	34,000)	35,000
- Revenues on the foreign market	0		0
: Transport revenues on the foreign market			
: Other revenues on the foreign market	0		0
Changes in values of inventories of finished goods and work in progress	0		0
Capitalised own products and services	0		0
Other operating revenue	344		414
of which: contracts with the Slovenian Government			
perating expenses	37,516	38,93	35
listorical cost of goods and materials sold	0	()
osts of materials	306	370	
nergy costs	358	406	
Costs of services	4,309	4,651	
abour costs	32,262	33,315	
mortisation/depreciation	134	119	
Other operating expenses	147	74	
Operating profit or loss (EBIT)	-1,111	-1,610	
inance income	0	12	
inance costs	74	67	
Net finance income/costs	-74	-55	
Pre-tax profit or loss	-1,185	-1,665	
Current tax			
Deferred taxes			
Corporate income tax			
let profit or loss	-1,185	-1,665	

	SŽ–Infrastruktura, d. o. o. PSO–PRI maintenance		
2017	2016	Index	
81,167	88,153	92.1	
80,801	83,578	96.7	
80,801	83,578	96.7	
2,656	4,167	63.7	
78,145	79,411	98.4	
0	0		
0	0		
0	0		
0	0		
366	4,575	8.0	
81,153	89,862	90.3	
0	2	0.0	
10,481	9,530	110.0	
2,857	2,681	106.6	
29,546	38,769	76.2	
35,896	34,904	102.8	
1,782	1,989	89.6	
591	1,987	29.7	
14	-1,709		
59	152	38.8	
121	204	59.3	
-62	-52	119.2	
-48	-1,761	2.7	
-48	-1,761	2.7	

SŽ–Infrastruktura, d. o. o. PSO–Traffic management			
2017	2016	Index	
34,000	35,005	97.1	
34,000	35,000	97.1	
34,000	35,000	97.1	
0	0		
34,000	35,000	97.1	
0	0		
0	0		
0	0		
0	0		
0	5		
35,453	37,008	95.8	
0	0		
294	357	82.4	
341	387	88.1	
4,088	4,432	92.2	
30,468	31,644	96.3	
129	115	112.2	
133	73	182.2	
-1,453	-2,003	72.5	
0	12	0.0	
74	67	110.4	
-74	-55	134.5	
-1,527	-2,058	74.2	
-1,527	-2,058	74.2	

		SŽ–Infrastruktura, d. o. o. Housing and buildings	
EUR thousand	2017	2016	In
Operating revenues	404	410	ç
Net sales revenue	404	410	ç
- Revenues on the domestic market	404	410	9
: Transport revenues on the domestic market			
: Other revenues on the domestic market	0	0	
: Contracts with the Slovenian Government	404	410	g
- Revenues on the foreign market	0	0	
: Transport revenues on the foreign market			
: Other revenues on the foreign market	0	0	
Changes in values of inventories of finished goods and work in progress	0	0	
Capitalised own products and services	0	0	
Other operating revenue	0	0	
of which: contracts with the Slovenian Government			
Operating expenses	440	453	9
Historical cost of goods and materials sold	0	0	
Costs of materials	25	19	13
Energy costs	10	7	14
Costs of services	284	354	8
Labour costs	116	71	16
Amortisation/depreciation	3	1	30
Other operating expenses	2	1	20
Operating profit or loss (EBIT)	-36	-43	٤
Finance income	0	0	
Finance costs	0	0	
Net finance income/costs	0	0	
Pre-tax profit or loss	-36	-43	8
Current tax			
Deferred taxes			
Corporate income tax			
Net profit or loss	-36	-43	8

	SŽ–Infrastruktura, d. o. o. PRI management		
2017	2016	Index	
1,402	1,484	94.5	
1,402	1,484	94.5	
1,402	1,484	94.5	
1,402	1,484	94.5	
0	0		
	0		
0	0		
0	0		
0	0		
1,142	881	129.6	
0	0		
0	0		
0	0		
1,142	848	134.7	
0	33	0.0	
0	0		
0	0		
260	603	43.1	
0	0		
0	0		
0	0		
260	603	43.1	
-26	-86	30.2	
-26	-86	30.2	
286	689	41.5	

SŽ–Infrastruktura, d. o. o. Druge dejavnosti–PRI maintenance			
2017	2016	Index	
26,418	28,434	92.9	
21,278	27,976	76.1	
21,278	27,976	76.1	
21,278	27,976	76.1	
0	0		
0	0		
0	0		
0	0		
5,140	458		
23,857	24,096	99.0	
0	0		
370	329	112.5	
15,470	15,157	102.1	
1,425	1,976	72.1	
1,595	2,504	63.7	
187	193	96.9	
4,810	3,937	122.2	
2,561	4,338	59.0	
0	1	0.0	
0	1	0.0	
0	0		
2,561	4,338	59.0	
-255	-621	41.1	
-255	-621	41.1	
2,816	4,959	56.8	

	SŽ–Infrastruktura, d. o. o. Other activities–Traffic managemen		
EUR thousand	2017	2016	In
Operating revenues	2,405	2,320	1
Net sales revenue	2,061	1,911	1(
- Revenues on the domestic market	2,061	1,911	1(
: Transport revenues on the domestic market			
: Other revenues on the domestic market	2,061	1,911	1
: Contracts with the Slovenian Government			
- Revenues on the foreign market	0	0	
: Transport revenues on the foreign market			
: Other revenues on the foreign market	0	0	
Changes in values of inventories of finished goods and work in progress	0	0	
Capitalised own products and services	0	0	
Other operating revenue	344	409	٤
of which: contracts with the Slovenian Government			
Operating expenses	2,063	1,927	10
Historical cost of goods and materials sold	0	0	
Costs of materials	12	13	(
Energy costs	17	19	Ę
Costs of services	221	219	1(
Labour costs	1,794	1,671	10
Amortisation/depreciation	5	4	12
Other operating expenses	14	1	
Operating profit or loss (EBIT)	342	393	٤
Finance income	0	0	
Finance costs	0	0	
Net finance income/costs	0	0	
Pre-tax profit or loss	342	393	ŧ
Current tax			
Deferred taxes			
Corporate income tax			
Net profit or loss	342	393	:

	SŽ–ŽGP Grou	գւ
2017	2016	Index
39,527	34,364	115.0
38,726	32,857	117.9
37,315	29,817	125.1
37,315	29,817	125.1
1,411	3,040	46.4
1,411	3,040	46.4
-24	83	
58	88	65.9
767	1,336	57.4
39,224	32,055	122.4
75	1,295	5.8
9,676	2,966	326.2
894	809	110.5
17,672	15,192	116.3
8,576	9,725	88.2
1,747	1,636	106.8
584	432	135.2
303	2,309	13.1
123	179	68.7
119	142	83.8
4	37	10.8
307	2,346	13.1
72	83	86.7
-4	125	
68	208	32.7
239	2,138	11.2

	SŽ–ŽIP Group	
2017	2016	Index
28,545	26,559	107.5
22,527	21,490	104.8
20,488	19,607	104.5
20,488	19,607	104.5
2,039	1,883	108.3
2,039	1,883	108.3
26	5	
8	41	19.5
5,984	5,023	119.1
28,379	27,567	102.9
113	237	47.7
1,276	1,323	96.4
515	511	100.8
9,836	9,081	108.3
15,597	15,425	101.1
794	759	104.6
248	231	107.4
166	-1,008	
13	18	72.2
58	57	101.8
-45	-39	115.4
121	-1,047	
0	2	0.0
0	2	0.0
121	-1,049	

	Pro	ometni institut,
housand	2017	2016
rating revenues	1,548	1,481
t sales revenue	1,287	1,330
- Revenues on the domestic market	1,193	1,256
: Transport revenues on the domestic market		
: Other revenues on the domestic market	1,193	1,256
: Contracts with the Slovenian Government		
- Revenues on the foreign market	94	74
: Transport revenues on the foreign market		
: Other revenues on the foreign market	94	74
anges in values of inventories of finished goods and work in ogress	0	0
pitalised own products and services	0	0
her operating revenue	261	151
of which: contracts with the Slovenian Government		
perating expenses	1,222	1,304
torical cost of goods and materials sold	0	0
ts of materials	16	4
rgy costs	4	4
ts of services	369	309
pour costs	750	915
nortisation/depreciation	63	67
her operating expenses	20	5
perating profit or loss (EBIT)	326	177
nance income	1	7
ance costs	2	2
t finance income/costs	-1	5
e-tax profit or loss	325	182
rent tax	54	28
ferred taxes	9	0
rporate income tax	63	28
t profit or loss	262	154

	SŽ–Železniška tiskarna, d. d.							
2017	2016	Index						
511	528	96.8						
482	526	91.6						
482	526	91.6						
482	526	91.6						
0	0							
0	0							
18	-2							
0	0							
		275.0						
		275.0						
607	505	120.2						
0	0							
49	57	86.0						
8	8	100.0						
111	99	112.1						
405	296	136.8						
31	40	77.5						
3	5	60.0						
-96	23							
4	8	50.0						
1	1	100.0						
3	7	42.9						
-93	30							
0	1							
2	-5							
2	-4							
-95	34							

Slovenske železnice, d. o. o.								
2017	2016	Index						
27,744	33,814	82.0						
22,869	19,780	115.6						
22,779	19,687	115.7						
22,779	19,687	115.7						
90	93	96.8						
90	93	96.8						
0	0							
321	257	124.9						
4,554	13,777	33.1						
26,868	27,078	99.2						
0	0							
149	136	109.6						
175	181	96.7						
5,980	4,879	122.6						
16,468	16,703	98.6						
1,123	959	117.1						
2,973	4,220	70.5						
876	6,736	13.0						
12,450	14,281	87.2						
7,807	6,500	120.1						
4,643	7,781	59.7						
5,519	14,517	38.0						
0	453	0.0						
-394	-828	47.6						
-394	-375	105.1						
5,913	14,892	39.7						



COLLECTION OF STATEMENTS OF FINANCIAL POSITION OF GROUP COMPANIES AS AT 31 DECEMBER 2017[®]

ITEM (EUR thousand)	 SŽ Group	SŽ–TP Group	Fersped	VV-LOG	
ASSETS	574,927	220,039	11,264	1,834	
A. Non-current assets	374,527	134,123	5,917		
Intangible assets	5,209	73			
Property, plant and equipment	295,956	125,075	1,626	32	
Investment property	46,469	2,740	181		
Investments in subsidiaries	0		3,003	0	
Investments in joint ventures	0	0	0	0	
Investments in associates	12,478	0	374	0	
Other financial assets	4,162	0	43		
Financial receivables	3,133		0	65	
Non-current operating receivables	5,048	5,735	44	0	
Deferred tax assets	4,404	472	447	0	
Other non-current assets	1,152	0	3	0	
B. Current assets	196,916	85,916	5,347	1,736	
Assets held for sale	53	0	0	0	
Inventories	33,894	1,097	0	0	
Financial assets	0	0	0	0	
Financial receivables	824	26,616	651	0	
Trade receivables	66,400	45,826	3,936	844	
Other operating receivables	60,740	12,033	447	19	
Receivables for corporate income tax	496	16	0	0	
Cash and cash equivalents	34,510	328	313	872	
EQUITY AND LIABILITIES	574,927	220,039	11,264	1,834	
A. Equity	330,333	72,230	3,046	1,014	
Called-up capital	205,274	36,861	3,139	11	
Share premium account	45,002	4,720	0	0	
Legal reserves	1,869	3,686	0	1	
Reserves for treasury shares and own participating interests	0	0	0	202	
Treasury shares and own participating interests	0	0	0	-202	
Other profit reserves	28,316	0	0	0	
Fair value reserves	-2,383	-288	-12	0	
Retained earnings	47,648	27,242	-80	1,002	
1. Retained earnings preteklih obdobij	19,975	15,171	-80	447	
2. Retained earnings poslovnega leta	27,673	12,071	0	555	
Translation differences	-2	10	0	0	
Non-controlling interest	4,608	0	0	0	

GRO	UP COMPANIES						
SŽ–PP	SŽ–VIT	SŽ–INF	SŽ-ŽGP Group	SŽ-ŽIP Group	PI Ljubljana	SŽ-ŽT Ljubljana	SŽ, d. o. o.
172,119	69,533	71,000	37,665	15,936	990	1,119	516,020
90,515	30,987	13,502	15,121	10,193	139	494	460,958
175	70	266	13	2	2	1	840
83,802	29,872	11,169	12,687	10,045	31	428	13,424
5,552	764	0	406	0	90	62	47,419
0	0	0	0	0	0	0	272,555
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	3,080
0	2	0	0	0	0	0	4,117
0	0	0	637	0	0	0	113,447
737	47	284	1,161	146	5	0	3,940
249	0	1,783	216	0	11	4	1,222
0	232	0	1	0	1	0	915
81,603	38,545	57,498	22,543	5,744	851	624	55,062
0	19	0	0	0	0	0	33
1,543	18,486	5,116	7,483	307	0	56	0
0	0	0	0	0	0	0	0
42,690	2	16,287	0	288	119	360	25,722
6,135	17,978	10,942	7,483	4,499	482	127	6,309
30,912	2,043	18,827	2,786	373	247	4	1,336
0	0	0	14	0	0	1	464
323	17	6,326	4,778	276	2	76	21,197
172,119	69,533	71,000	37,665	15,936	990	1,119	516,020
149,369	33,345	18,713	20,508	7,149	544	900	289,420
131,684	26,068	15,828	3,152	6,073	162	265	205,274
0	6,608	0	46	0	112	498	45,002
1,749	803	1,583	453	1,095	16	59	1,869
0	0	0	0	0	0	95	0
0	0	0	0	0	0	-48	0
0	0	0	4,062	211	0	0	28,316
-147	-606	-533	-96	-366	-9	0	-345
16,082	471	1,834	12,716	137	262	31	9,304
49	37	2	12,478	20	0	31	6,347
16,033	434	1,833	238	117	262	0	2,956
0	0	0	-11	-1	0	0	0
0	0	0	186	0	0	0	0

ITEM (EUR thousand)	SŽ Group	SŽ–TP Group	Fersped	VV-LOG	
B. Non-current liabilities	144,881	114,094	2,628	26	
Provisions for jubilee benefits and termination benefits	28,463	4,288	221	26	
Other provisions	932	7	0	0	
Non-current deferred income	2,409	9	0	0	
Financial liabilities	111,393	109,672	1,371	0	
Non-current operating liabilities	1,683	118	1,036	0	
Deferred tax liabilities	0	0	0	0	
C. Current liabilities	99,713	33,715	5,590	795	
Financial liabilities	12,644	10,773	475	0	
Trade payables	29,368	14,959	3,904	568	
Other operating liabilities	57,441	7,983	1,188	156	
Liabilities for corporate income tax	260	0	23	71	

						COMPANIES	GROUF
SŽ, d. o. o	SŽ-ŽT Ljubljana	PI Ljubljana	SŽ-ŽIP Group	SŽ-ŽGP Group	SŽ–INF	SŽ–VIT	SŽ–PP
118,002	44	91	4,790	3,463	9,372	8,318	2,295
2,068	44	81	2,480	834	8,446	7,838	2,136
19	0	0	0	325	448	4	129
3	0	0	2,211	126	15	279	1
109,672	0	0	64	1,633	0	24	0
6,24	0	10	34	545	462	173	29
(0	0	0	0	0	0	0
108,597	175	355	3,997	13,694	42,916	27,869	20,455
99,040	0	0	35	4,726	0	9,583	0
6,019	19	69	1,382	4,597	13,774	5,893	16,121
3,539	156	262	2,580	4,371	29,142	12,393	4,246
(0	24	0	0	0	0	88

SOCIAL RESPONSIBILITY IN ALL SEGMENTS

Slovenske železnice demonstrates it social responsibility first and foremost through the generation of value-added in all segments of operations. Value-added facilitates the organisation's responsible relationships with employees, the owner, local communities, the users of our services and all other stakeholders with whom we are linked.

SOCIAL RESPONSIBILITY

Slovenske železnice's activities have a major impact on the lives and work of a large part of the population, and on the development of the Slovenian economy. Besides ensuring that the financial results of Slovenske železnice are sustainable, i.e. that they facilitate sustainable development, Slovenske železnice's interaction with the environment requires an operational business model that understands and integrates numerous factors in the very core of its operations. Slovenske železnice would not have survived if it had not taken such a socially responsible approach in the past. The report for 2017 represents a development step towards the identification of social responsibility and more responsible reporting on the link between society and the operations of Slovenske železnice.

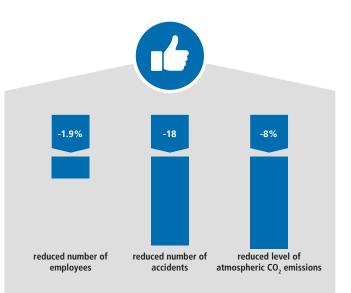
Slovenske železnice has continuously improved its operations in recent years and has focused increasingly on the consistent fulfilment of its socially responsible role in Slovenian society. Slovenske železnice Group companies support coherent, socially responsible strategies that have a significant impact on the development of employees and their families, and on the development of Slovenian society and the natural environment.

We understand the concept of socially responsible conduct and operations as an important added value that is included in the Company's strategic documents and that 7,400 employees strive to achieve every day in their work. The integration of social responsibility at all levels of our work gives us a competitive advantage on the highly competitive logistics and mobility markets on which we operate. The passengers and business partners with whom Slovenske železnice cooperates are highly focused on a range of products and services that facilitate close links with the environment.

Slovenske železnice implements its mutual, highly interactive social responsibility strategy in several forms. Serving

as the basis are the values that we pursue every day in our work. Every day, Slovenske železnice Group companies ensure the free flow of people, goods and capital. To that end, they continuously optimise work processes, so that they are as friendly as possible to the natural environment and place a minimum burden on those who live in the direct vicinity of rail lines. Railways are the most environmentally friendly form of public transport, and successfully develop their role as such, independently and in cooperation with business partners.

A strong emphasis on ensuring constructive cooperation with the environment, responsibility for employees and their families, the protection and creation of an appropriate work environment and the strengthening of social



capital are Slovenske železnice's guiding principles in the pursuit of social responsibility.

SOCIAL RESPONSIBILITY IN 2017

The aim of personnel restructuring at Slovenske železnice is to improve operational efficiency. The Slovenske

Slovenske železnice implements its mutual, highly interactive social responsibility strategy in several forms. That strategy is implemented every day in the field by 7,400 employees. Due to the extensive nature of our network, we work closely with local communities. Above all, we further confirm the fact that railway transport is in itself the most environmentally responsible form of transport through additional measures aimed at reducing negative impacts on the environment.

železnice Group had reduced the number of employees by 1.9% by the end of 2017. The Slovenske železnice Group hired 172 new workers in 2017, the majority at SŽ-Infrastruktura, SŽ-Tovorni promet and SŽ-Železniško gradbeno podjetje. A total of 64% newly hired workers are less than 34 years old. Although in line with the nature of the activities of individual Slovenske železnice Group companies, men account for the majority of employees, while 23.6% of management positions within the Group are held by women. We have seen a decline in the number of workplace injuries within the Slovenske železnice Group since 2012. All 173 injuries in 2017 were minor. The Group ensures that its employees are involved in

continuous training, with 4,798 workers completing occupational safety training in 2017.



We reduce the number of injuries by ensuring the appropriate work environment and continuously improving safety. A total of 21 accidents were reported in 2017, which is 18 fewer than in 2016. The causes of four accidents were railway-related, while the causes of 17 incidents were non-railway-related. The Company was not responsible for any fatalities or injuries in 2017.

In the area of quality, we implemented measures in 2017 to obtain the ISO 9001:2015 certificate.

In terms of engagement with the wider environment, we continued with the implementation of projects in 2017 that strengthen cultural heritage, and that promote sports and a healthy lifestyle. We organised campaigns to promote railway safety, and participated in activities to improve mobility with the aim of enhancing tourism services in cities and towns throughout Slovenia.

The scope of train traction services was up by 18.2% in 2017 relative to 2005, while the quantity of energy consumed in traction was down by 11.5% during the same period. As a result, the level of atmospheric CO_2 emissions was down by nearly 8% or 11,000 tonnes.

EMPLOYEES®

GRI

The social responsibility of Slovenske železnice begins with the creation of a stable and safe work environment for our employees. On those bases, the Slovenske železnice Group provides for development, training and successors for key staff as a factor in risk management, and provides opportunities for the advancement of employees.

Restructuring of personnel in 2017[®]

Slovenske železnice Group companies continued their personnel restructuring activities in connection with the optimisation of work processes in 2017.

The Slovenske železnice Group had reduced the number of employees by 1.9% by the end of 2017. We made up for staffing shortages:

- by optimising our work processes so that we provided the same or a higher level of services with fewer employees;
- by providing our employees possibilities for vertical advancement and the achievement of their career ambitions with the help of internal employee mobility processes;
- by organising numerous training courses to obtain qualifications for work in maintenance and operational positions, as the most significant staffing shortages occurred in securing an appropriate number of employees in those positions;
- by outsourcing work when it was not possible to find suitable candidates from existing Slovenske železnice Group employees to cover the staff shortages. In this way we were able to ensure an appropriately qualified workforce (at different levels of education – from shunters to experts in their individual fields of work); and
- by hiring workers at SŽ-VIT, d. o. o. through employment agencies based on agreements concluded exclusively with companies registered for that purpose in accordance with the ZUTD and ZRD-1, with the aim of ensuring the required availability of the Slovenske železnice Group's rolling stock and executing transactions on the open market outside of the Slovenske železnice Group. A total of 213 workers hired through agencies performed work at the end of 2017, while the associated costs amounted to EUR 3,427 thousand, which accounted for 1.4% of the Slovenske železnice Group's total labour costs.

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

The Slovenske železnice Group hired 172 new workers in 2017, the majority at SŽ-Infrastruktura, SŽ–Tovorni promet and SŽ-ŽGP.





Structure of employees®

by individual Slovenske železnice Group company

Company	2017	2016	Index
Slovenske železnice, d. o. o.	452	459	98.5
SŽ-Tovorni Promet Group	1,230	1,230	100.0
SŽ–Potniški promet, d. o. o.	610	590	103.4
SŽ–Infrastruktura, d. o. o.	2,154	2,206	97.6
SŽ–Vleka in tehnika, d. o. o.	1,923	1,986	96.8
SŽ–ŽGP Group	265	301	88.0
SŽ–ŽIP Group	694	691	100.4
Fersped, d. o. o.	59	60	98.3
Fercargo, d. o. o.	0	2	0.0
Prometni institut Ljubljana, d. o. o.	16	21	76.2
SŽ–Železniška tiskarna Ljubljana, d. d.	13	13	100.0
Total	7,416	7,559	98.1

The total number of employees in the Slovenske železnice Group was 7,416 at the end of 2017, which is 143 employees fewer than at the end of 2016. The reduction in the number of employees was the result of early retirement and the optimisation of work processes.

The average age of employees in the Slovenske železnice Group was 46.8 years as at 31 December 2017.

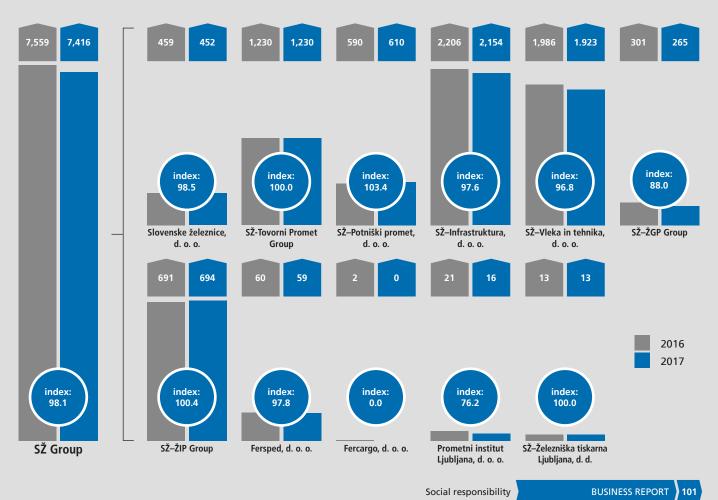
Because we primarily employ workers in production activities that require the appropriate medical fitness and good mental and physical condition, new hires in 2017 primarily comprised younger workers (64% newly hired workers were less than 34 years old).

The structure of management staff by gender is described in the section Structure of employees by age. With regard to the age structure of management staff, we find that the proportion of older management staff is rising, similar to the proportion for all employees. The majority of management staff, both men and women, are between the ages of 50 and 59.

In accordance with the provisions of labour law, the Slovenske železnice Group complies with the principle of the equal treatment of all employees.



Structure of employees by individual Slovenske železnice Group company



by age

Company	Total	up to 24 years	25 to 29 years	30 to 34 years	35 to 39 years	40 to 44 years	45 to 49 years	50 to 54 years	55 to 59 years	over 59 years
Slovenske železnice, d. o. o.	452	3	9	21	41	38	70	137	114	19
SŽ-Tovorni Promet Group	1,230	27	71	91	130	162	234	312	182	21
SŽ–Potniški promet, d. o. o.	610	11	22	73	45	67	132	151	101	8
SŽ–Infrastruktura, d. o. o.	2,154	31	68	121	168	241	501	582	392	50
SŽ–Vleka in tehnika, d. o. o.	1,923	28	49	174	159	221	489	541	241	21
SŽ–ŽGP Group	265	6	21	45	39	32	34	39	43	6
SŽ–ŽIP Group	694	5	16	19	29	63	98	222	207	35
Fersped, d. o. o.	59		1	3	5	11	14	8	14	3
Prometni institut Ljubljana d. o. o.	16			4	4	2	3		3	
SŽ–Železniška tiskarna Ljubljana, d. d.	13				1		3	3	5	1
Total	7,416	111	257	551	621	837	1,578	1,995	1,302	164

by education level

Company	Total	I.	II	Ш	IV	v	VI	VII	VIII	IX
Slovenske železnice, d. o. o.	452	7	_		22	150	63	169	40	1
SŽ-Tovorni Promet Group	1,230	245	1	59	440	320	79	80	6	
SŽ–Potniški promet, d. o. o.	610	29	1	8	199	272	50	45	6	
SŽ–Infrastruktura, d. o. o.	2,154	339	8	65	495	862	187	173	25	
SŽ–Vleka in tehnika, d. o. o.	1,923	65	73	50	773	768	97	87	10	
SŽ–ŽGP Group	265	28	1	2	110	79	18	26	1	
SŽ–ŽIP Group	694	338	7	27	165	110	23	21	3	
Fersped, d. o. o.	59				2	21	9	25	2	
Prometni institut Ljubljana d. o. o.	16						1	8	4	3
SŽ–Železniška tiskarna Ljubljana, d. d.	13	4			6	2	1			
Total	7,416	1,055	91	211	2,212	2,584	528	634	97	4

In line with the nature of the activities of individual Slovenske železnice Group companies, the structure of employees by gender is substantially slanted towards men (the proportion of men is over 82%). The proportion of women is only higher at Slovenske železnice, d. o. o. and SŽ-Železniška tiskarna, d. d. Nevertheless, we find that the proportion of women in management positions in the Slovenske železnice Group is 23.9% (38% at Slovenske železnice, d. o. o.), which is a significant improvement given the proportion of all women employed and the specific nature of the activities of Slovenske železnice Group companies. In accordance with the provisions of labour law and regulations governing equal opportunities for men and women, the Slovenske železnice Group pursues the principle of equal wages for all employees.

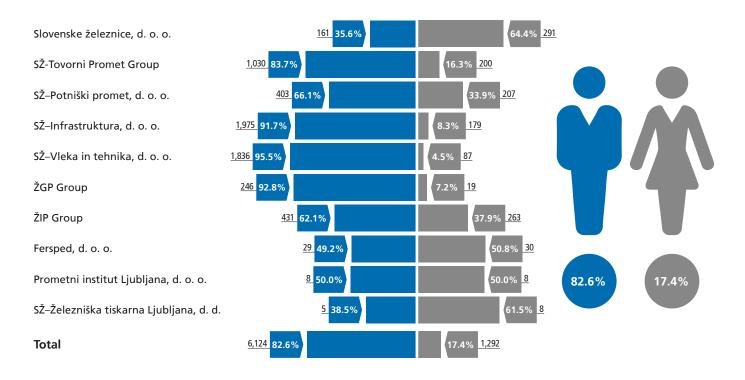
The Slovenske železnice Group hired 172 new workers in 2017, the majority at SŽ-Infrastruktura, SŽ–Tovorni pro-

met and SŽ-ŽGP. A total of 64% of all new workers were hired for positions that require education levels ranging from lower vocational education (Level III) to secondary school education (Level V).

A total of 98.4% of employees were covered by the collective agreement for the railway transport activity in $GRI_{G4:11}^{GRI}$ 2017.[©]

Concern for employees

Because 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 improving the skills, mental and physical capacities and satisfaction of employees:



Structure of employees by gender (as at 31 December)

- through organised forms of obtaining additional professional knowledge through functional education and mentorship (particular attention is given to the re-engineering and computerisation of work);
- by promoting employee health and safety;
- by providing for the quality use of leisure time; and
- by striving to be a family- and employee-friendly company.

GRI G4-LA16 G4-LA16 The Group resolves cases involving lawsuits and requests for the rectification of breaches in accordance with the applicable labour laws. A total of 31 labour-related legal proceedings were in progress in 2017, 11 of which were completed. Seven requests for the protection of rights were filed and resolved.[®]

GRI GRI železnice Group[®]

A total of 11,616 training events were organised within the Slovenske železnice Group in 2017.



The status of Slovenske železnice, d. o. o.'s training centre as a training facility and testing facility for railway operations staff and siding operations staff was extended in 2017. It also received the status of training centre in 2017 for train and rail vehicle drivers, and the status of testing centre for train and rail vehicle drivers. A total of 290 candidates took part in professional training for 14 operations positions in 2017, while 113 railway operations workers took part in training to acquire the next certificate. A total of 4,275 railway operations workers took part in professional training, while 3,646 sat for regular and special assessments of their professional qualifications pursuant to the law and implementing regulations.

Education and training of employees	Professional training	Functional training
Slovenske železnice, d. o. o.	0	369
SŽ–Infrastruktura, d. o. o.	3,279	1,396
SŽ–Potniški promet, d. o. o.	865	612
SŽ–Tovorni promet, d. o. o.	1,578	1,241
Prometni institut Ljubljana, d. o. o.	0	8
SŽ–VIT, d. o. o.	2,391	1,869
SŽ–ŽGP, d. d.	214	528
SŽ–Železniška tiskarna, d. d.	0	18
SŽ–ŽIP, storitve, d. o. o.	0	884
Fersped, d. o. o.	0	13
Total	8,324	6,938

A total 8,324 training courses and verifications of professional qualifications were organised for railway operations workers. Training comprises courses for obtaining professional qualifications, periodic additional training and training to acquire the next certificate. In addition to ensuring the safety of employees in the workplace and railway safety, such training

also facilitates the advancement of employees. A total

of 31,639 hours were earmarked for the theoretical and

practical training of railway operations staff. That figure includes hours earmarked for courses and periodic addi-

tional training, with respect to the number of candidates

A total of 6,938 employees were included in functional training in the areas of occupational safety, the safe

use and maintenance of devices, maintaining and ac-

quiring various qualifications and licences, computer

and language courses, and participation at seminars and

conferences. We earmarked 31,639 hours for functional

training, which was organised in various areas required

for the performance of work and the supplementation of professional knowledge. External and internal trainers

Mentorship as a means of transferring knowledge and

experience between employees in the Slovenske železnice

Group is provided for railway operations staff in the form of practical training. A total of 403 practical training

Through systematic education and training, Slovenske železnice strives to maintain the positive aspects of railway culture, while at the same time introducing contemporary knowledge and findings.

Promotion of employee health and safety

The Slovenske železnice Group pays particular attention to occupational safety, and strives to raise occupational safety and health standards. To that end, we work with employee representatives (from both trade un-

ions and the Works Council), with whom we have established a joint Occupational Safety and Health Committee.

We performed a risk assessment in cooperation with that committee and the Railway Health Centre according to an internal methodology and using our own occupational safety experts.

Slovenske železnice, d. o. o. holds authorisation from the Ministry of Labour, Family, Social Affairs and Equal Opportunities to perform specialist tasks in connection with occupational safety and health, such as the inspection and testing of work equipment, and inspections of the work environment (microclimate and lighting).

In line with the relevant risk assessment, we provided employees with vaccinations for tick-borne meningoencephalitis.

We train our employees in safe work practices at regular courses, where the emphasis is on raising awareness for responsible behaviour by each individual.

Together with the occupational safety committee of the works council of companies linked through capital investments, the Slovenske železnice Group adopted a common health promotion programme, through which we accomplished the following:

Physical activities:

are used for that purpose.

courses were organised in 2017.

Mentorship

included.

two-day preventive health retreat for employees at the Vitalis sports centre;



- seven-day preventive health retreat at a thermal spa;
- trial testing of active breaks during work;
- 1,000 rail workers at 1,000 metres (Kum, Mariborska koča, Vogar and Slavnik);



- participation of the Slovenske železnice team in the Ljubljana Marathon;
- participation in employee sports games in Nova Gorica with a futsal team in the scope of the European Week of Sports; and



organisation of Nordic walking courses for employees in Ljubljana, Celje and Maribor in the scope of the European Week of Sports.

Food:

Survey of the eating habits of the employees of Slovenske železnice Group companies

Research, education and counselling:

- publication of health notices on the intranet;
- notification of employees regarding the testing of physical capacities with a two-mile walking test organised by health centres throughout Slovenia;

 cooperation with the RESje association and lectures about dementia;



- flu vaccinations;
- research of health-related habits in the workplace for train drivers and the driver inspector at SŽ-VIT, d. o. o., Center Divača;
- psychosocial assistance for employees;
- counselling for illness-related addictions;
- education for a healthy life stress-management strategies;
- participation in the 'Safe Work in the Sun' project; and
- cooperation with the Cancer Patients' Association in the dissemination of information in the scope of the 'Take a Step Towards Health' campaign, which is a continuation of the Slovenian project to raise awareness about cancer in men.

In 2017 the Slovenske železnice Group began offering psychological first aid to railway operational staff who have experienced traumatic events in their work. Psychological first aid was provided by 30 appropriately qualified volunteers (Slovenske železnice employees), who offered initial assistance in 2017 in the form of relief talks in 37 cases.

The primary healthcare provider 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.

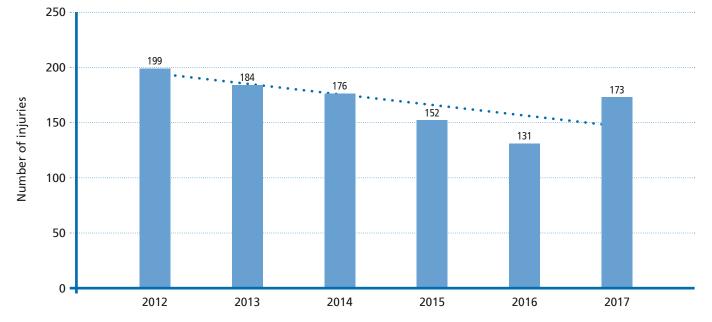
We pay particular attention to disabled workers who are no longer able to perform their former jobs due to demanding working conditions. In cooperation with SŽ-ŽIP, d. o. o. and other Group companies, we provided employment for 738 disabled persons and eight workers with physical impairments.

Workplace injuries^a

The Slovenske železnice Group recorded 173 workplace injuries in 2017, which is 42 more than in 2016 when 131 injuries occurred. A comparison of workplace injuries since 2012 indicates a trend of decline. There were no fatalities or serious injuries in 2017. All injuries in 2017 were minor, and were primarily the result of carelessness and the increased scope of work.

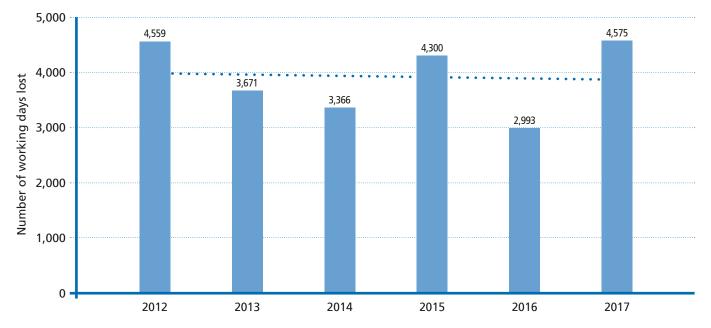


Number of workplace injuries – Slovenske železnice Group



The Slovenske železnice Group recorded 4,575 lost working days in 2017 due to workplace injuries, an increase of 1,582 relative to 2016 when 2,993 working days were lost.

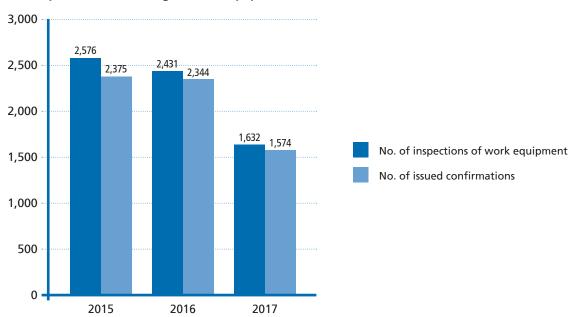
A comparison of working days lost since 2012 indicates a slight trend of decline.



Number of working days lost – Slovenske železnice Group

Inspections and testing of work equipment

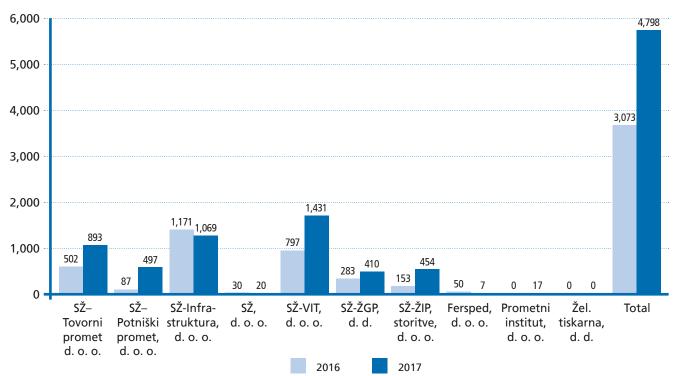
In accordance with the Rules on Work Equipment (Official Gazette of the Republic of Slovenia, No 101/04), 1,632 inspections and tests of work equipment were carried out in 2017. A total of 1,574 certificates were issued, confirming that work equipment was functioning correctly.



Inspections and testing of work equipment

Occupational safety training

We train our employees in safe work practices at regular courses, where the emphasis is on raising awareness for responsible behaviour by each individual. A total of 4,798 employees received training in 2017.



Comparison of number of workers trained in occupational safety 2016/2017

Ensuring the quality use of leisure time

The Slovenske železnice Group facilitates the quality use of leisure time for its employees. SŽ-ŽIP manages a number of holiday facilities 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 (the 1,000 rail workers above 1,000 metres campaign, cultural events, etc.), and are directly involved in the activities of sports, cultural and artistic associations whose operations are supported by Slovenske železnice Group companies.

Family- and employee-friendly company

We strive to make it easier for employees to achieve the right work-life balance in the following ways:

- by facilitating the use of parental leave;
- by providing an additional day of annual leave for parents whose children are entering first grade;
- by providing additional days of annual leave with regard to the number of children; and
- by facilitating the use of annual leave, taking into account family needs.

Staff cooperation with the social environment

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

We provided compulsory practical work for 90 secondary-school and college students in 2017, primarily in the following study programmes and areas: logistics, mechatronics, electrical engineering, computer science and economics.

Given the number of applications for employment we received in 2017, we believe that Slovenske železnice Group companies are a desirable employer on the Slovenian labour market, primarily due to:

- job stability and security (almost 98% of all employees have concluded permanent employment contracts);
- a varied work environment that offers the possibility of career development in various fields; and
- the possibility of maintaining employees' work-life balance.

TRAFFIC SAFETY AND REGULATION

We assess the safety and regulation of rail traffic through the number of extraordinary events, incidents and other events that arise in rail transport and affect traffic safety, and their consequences in comparison with the previous period.

The Slovenske železnice Group recorded 21 accidents in 2017, which is 18 fewer than in 2016. The causes of four accidents were railway-related, while the causes of 17 incidents were non-railway-related.

The total number of extraordinary events excluding incidents in 2017 was down by 48.7% relative to 2016. The number of incidents and other events that affect traffic safety was up by 28.7%. The reason for this was a change in legislation. The data are thus not comparable.

Extraordinary events are classified in accordance with the Railway Safety Act and the Rules on the Management of Serious Accidents, Accidents and Incidents in Rail Traffic.

Total no. of extraordinary events	2013	2014	2015	2016	2017
Serious accidents	0	1	0	0	0
Accidents	9	9	7	13	5
Accidents at level crossings	24	21	16	24	14
Natural disasters	0	8	0	1	0
Other accidents	2	0	5	1	2
Incidents	744	798	689	537 ¹⁾	691 ¹⁾

¹⁾ Since 2016, these have included incidents and other events that affect traffic safety.

One event occurred due to subjective causes, three due to defects in technical equipment, two due to *force majeure* and 15 due to the incorrect actions of third parties.

The Slovenske železnice Group recorded 21 accidents in 2017, which is 18 fewer than in 2016.

Four wagons were completely destroyed and two others damaged in the incident. The event occurred due to track misalignment as the result of ballast pockets. Material damage was incurred in the amount of EUR 1,181

thousand. Traffic was disrupted for 1,595 minutes.

There were five fatalities in serious accidents and other accidents (the same as in 2016), while four peo-

ple were injured (the same as in 2016). All events occurred at level crossings. The Company was not responsible for any fatalities or injuries in 2017.

A total of 14 accidents occurred at level crossings as the result of failure to obey road traffic regulations. All fatalities and injuries occurred in the aforementioned events. The Company was not responsible for these accidents.

The next cause of death on tracks was suicide, with 12 people taking their lives in that manner, while five cases fortunately ended as merely suicide attempts.

There were no events in 2017 in which workers at SŽ-Infrastruktura, d. o. o. were injured or killed.

Damage for which the Company was liable occurred on 17 September, when freight train no. 48414 derailed at the Verd station due to a broken axle on a wagon. In that incident, material damage was incurred on the superstructure, elements of the transport network, and signalling and safety equipment. The wagon and freight it was carrying were completely destroyed. Material damage amounted to EUR 1,577 thousand. A 1,665-minute disruption to traffic on the line also occurred.

Train no. 49485 derailed at the Kranj station on 11 July, severely damaging the superstructure, elements of the transport network, and signalling and safety equipment.

Train no. 43601 derailed at switch point no. 25 at the Zidani most station on 19 June. The cause of the event was a technical defect on the switch point. Material damage was incurred in the amount of EUR 311 thousand. Traffic was disrupted for 627 minutes.

An accident for which the Company was not liable occurred on 17 August at the level crossing between the Maribor Studenci and Ruše stations, when a work train (track vehicle) no. 76311 crashed into a car. One person died in the accident. Material damage was incurred in the amount of EUR 55 thousand.

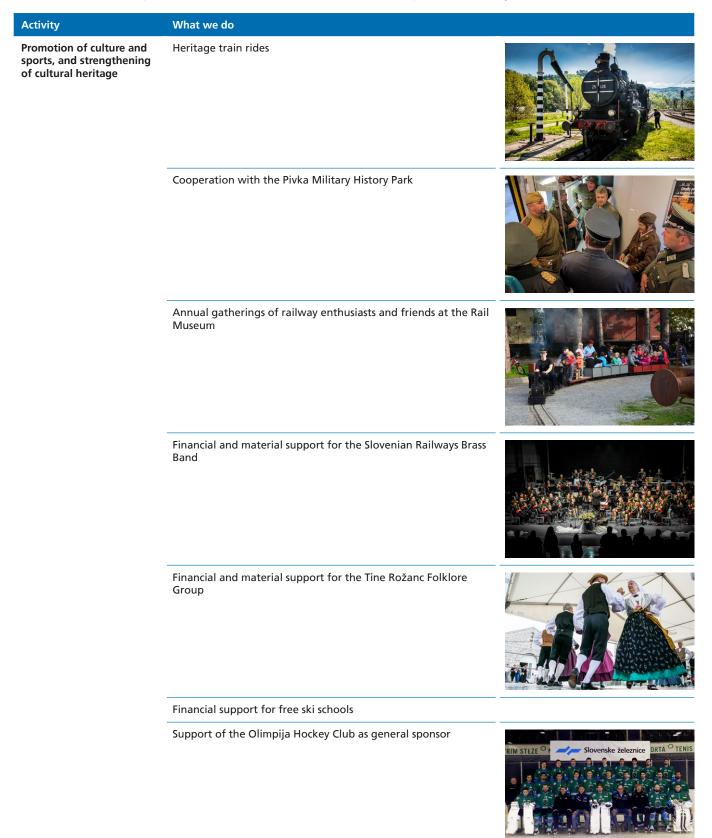
Material damage in the amount of EUR 68 thousand also occurred on the Koroška line on 11 December as the result of *force majeure* in the form of violent storm. Traffic was disrupted for 1,027 minutes.

ENGAGEMENT WITH THE WIDER ENVIRONMENT[®]



The Slovenske železnice Group is aware of its roles in society as the provider of mobility services and as a company that contributes its share to the development of society. We support ideas that bring positive returns and benefits to the Company, Group employees and retired railway workers. Slovenske železnice regularly organises various events, and supports numerous cultural and sporting activities that reflect the Company's social responsibility.

Presented below are specific activities that contribute to the development of society.



Activity	What we do	
Preventive campaigns	Safe Way to School by Train	
	Correct Crossing of Railway Tracks	
	<i>Ustavi se!</i> (Stop!) campaign to raise people's awareness about caring for their health	
Mobility to boost tourism	Additional trains during the summer tourist season	
	Involvement in international associations that promote improv	ved mobility amongst European citizens
	Enhancement of the range of local tourism services with entertainment programmes	
Linking of mobility with	Travel by train to Ljubljana Festival events	
important events	Free transport of fans to the reception of the Slovenian national basketball team	
	Additional trains during information days	
	Travel by train to Carnival events	
	Travel by train to the finale of the Ski Flying World Cup	

Promotion of culture and sports, and strengthening of cultural heritage

We organise special events for railway enthusiasts at the Slovenske železnice Rail Museum several times a year.

During the last year, we dedicated special attention to families and, in addition to a wide range of content for adults, also organised animation programmes and prepared additional content for children. In cooperation with the Slovenian Olympic Committee, we organised a Mini Olympiad

with the Slovenian Olympic Committee, we organised a Mini Olympiad at the museum in Ljubljana with sports and games for the youngest generation. Children learned wh

about different sporting disciplines, while a great deal of emphasis was placed on the Olympic Movement and the fair-play protocol.



Slovenske železnice actively sponsors various cultural and artistic associations, and does its part to ensure the development of culture and the arts, and the preservation of Slovenia's rich cultural heritage. Several cultural associations function under the auspices of Slovenske železnice, the most successful being the Tine Rožanc Railway Cultural Association and Slovenian Railways Brass Band. The two aforementioned associations have repeatedly demonstrated their proficiency at the international level and at major competitions in Slovenia. Through concerts, performances and other events, the associations publicly promote the Company's positive image and are cultural ambassadors of Slovenske železnice. Through their virtuosity and knowledge, which Slovenske železnice helps develop, members of the associations participate in independent projects, at events organised by the Company and at the national level, and thus spread our rich cultural heritage.



Slovenske železnice became the general sponsor of the Olimpija Hockey Club on 6 September. Slovenske železnice Group companies have supported Slovenian hockey in previous years, and thus contributed to the development of aforementioned sport in Slovenia.

We support ideas that bring positive returns and benefits to the Company, Group employees and retired railway workers. At the beginning of the year, we supported free ski schools under the slogan *Šolar na smuči* (Schoolkids on Skis), which were organised at the ski resorts on Krvavec, Rogla, Mariborsko Pohorje, Vogel and Cerkno. The ambassador to the project was

former professional alpine skier Jure Košir, while the honorary sponsor was the President of the Republic of Slovenia Borut Pahor.



Preventive campaigns

We dedicate a great deal of attention to good interpersonal relations, a healthy lifestyle and improving the quality of life of our employees and their families. We therefore participated in the Slovenia-wide *Ustavi se!* (Stop!) campaign. As part of the campaign, sponsors and ambassadors warned of the excessively fast pace of life, and encouraged employees, our passengers and business partners to search for and give thought to opportunities to improve the quality of living.



We actively include the users of our services, passengers and business partners in the projects and campaigns that we organise. We launched two preventive campaigns on the first day of school, Safe Way to School by Train and Correct Crossing of Railway Tracks, which ran throughout Slovenia for one week. At the beginning of the new school year we also tightened other safety measures, paying particular attention to those who were taking the train to school for the first time.

Mobility to boost tourism

Slovenske železnice regularly provides financial support to non-profit organisations and organises numerous charitable train rides and other projects. We thus organised numerous charitable train rides throughout the year, and took great pleasure in joining the Santa Claus for a Day campaign in mid-December, in which volunteers gave gifts to socially disadvantaged children throughout Slovenia. Railway employees participated in the aforementioned campaign for the second year in a row, and again assisted by providing warehousing services and the transport of gifts by vans across all of Slovenia.



Santa Claus rode the train all over Slovenia, and brought joy to children and their parents. In addition to rides that we organised for the children of railway employees for the fourth consecutive year, we also organised 28 train rides with Santa Claus to different cities and towns in Slovenia for other passengers. Santa and his elves gave children candy and gifts (a memory game with images of Slovenian trains) that were made by SŽ-ŽIP. More than 6,000 passengers travelled by train with Santa Claus, the highest number to date. For the seventh year in a row, passengers on trains to Fairy-Tale Land in Celje were entertained by fairy-tale fairies. A total of 15 trains travelled to Fairy-Tale Land in December, including trains from Zagreb for the first time. In a partnership with Sava Hotels Bled, we enlivened travel by train between the Nova Gorica and Lake Bled stations every weekend in December and on two December holidays with the hero from the fairy tale Muca Copatarica (The Cat Who Hid the Slippers).



Through special train rides, we enhance the range of tourist services and promote the development of culture in various Slovenian cities and towns. One such project is Take the Train Across the Celje Region, a joint projectv organised by Slovenske železnice, the Celeia Institute of Cultural Events and Tourism and 21 municipalities in this region of Slovenia.



Slovenske železnice, the Chamber of Publishing and Book-Selling and the Transport Association (both within the Chamber of Commerce and Industry of Slovenia) hosted the EU Commissioner for Transport Violeta Bulc in 2017 as part of the Reading is the Best Journey event. The Commissioner read 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.



We opened the renovated railway station in Medvode. This is a case in which the local community has assumed responsibility for the care and management of a station building. A cooperation agreement was signed that serves as the basis for targeted cooperation in the development of tourism and public passenger transport in the aforementioned municipality.



Linking of mobility with important events

In cooperation with the Ljubljana Festival, now-traditional packages for travelling by train to Ljubljana Festival events were organised. Slovenske železnice also offers transport to important sporting events. Thus, all passengers who arrived at points of sale with cheerleading gear were taken free of charge on 18 September, from all over Slovenia, to the official reception of the Slovenian national basketball team, which a day early was crowned European champion in Turkey. Some 5,000 fans rode trains to the reception.

A restored train from the Second World War was presented at the Pivka Military History Park during the Festival of Military History organised from 11 to 17 September. The train, which was lended to the park by Slovenske železnice, received the new designation '52 4936', and is the largest and heaviest museum piece on display at the Military History Park.



G4-EN12 G4-EN27 G4-EN30

ENVIRONMENTAL RESPONSIBILITY®

G4-EN27 G4-EN30 G4-EN30 G4-EN30 G4-EN34 G4-EN3

Recertification of the environmental management system was carried out in 2017 at Slovenske železnice, d. o. o. and the subsidiaries SŽ-Infrastruktura, d. o. o., SŽ–Potniški promet, d. o. o. and SŽ–Tovorni promet, d. o. o. for the certification period 2017–2020. On the basis of recom-

mendations issued, the Company adopted 20 measures for improving the functioning of the environmental management system, as follows:

- general systemic measures aimed at improving the functioning of the environmental management system (3);
- measures to mitigate the risk of accidents and/or emergencies that could result in the pollution of the natural environment (3);
- measures aimed at improving the management of resources that could affect the quality of the natural environment (7); and
- measures to reduce environmental pollution (7).

The Management Board of Slovenske železnice approved the implementation of two projects in 2017 that will help Slovenske železnice Group companies improve environmental protection and energy management. They involve the implementation of the international environmental protection standard (ISO 14001:2015) and the international energy management standard (ISO 50001:2011). As the result of the implementation of the two aforementioned standards, Slovenske železnice Group companies will:

- improve energy management and increase energy efficiency;
- mitigate the potential risks of accidents that could have negative impacts on the environment;
- reduce direct and indirect negative impacts on the environment; and
- consistently comply with sustainable development requirements.

At companies that have an established environmental management system, 13 internal assessments were conducted in 2017 in accordance with SIST EN ISO 14001:2005, where the main emphasis was on verifying the implementation of the requirements of the environmental management system in practice.

Number of internal assessment performed

Company	Number
SŽ–Infrastruktura, d. o. o.	7
SŽ–Tovorni promet, d. o. o.	4
SŽ–Potniški promet, d. o. o.	1
Slovenske železnice, d. o. o.	1
Total	13

Through a corporate office responsible for internal controls, quality assurance and environmental protection, the controlling company Slovenske železnice, d. o. o. provides Slovenske železnice Group subsidiaries technical support in the implementation, maintenance and improvement of the environmental management system. The tasks implemented by the office for internal controls, quality assurance and environmental protection are defined in an internal regulation that governs the implementation of the environmental management system within the Slovenske železnice Group. In the scope of its tasks, the aforementioned office maintains and coordinates the implementation of the environmental management system, carries out internal assessments, participates in external assessments, provides the necessary technical assistance to all stakeholders within the Slovenske železnice Group, and participates in projects that are linked to environmental protection and sustainable development.

Based on the adopted environmental policy and the regulation governing environmental protection, Slovenske železnice Group companies carry out

the following activities:

- the adoption of measures to reduce negative burdens on the natural and living environment;
- the adoption of measures to mitigate the risk of accidents that could result in the pollution of the natural environment;
- the consistent fulfilment of obligations in the area of environmental protection as prescribed by the applicable legislation;
- the improvement of the economic and environmental effects of environmental management; and
- the appropriate control over the implementation of processes that could have a negative impact on the environment in the event of inappropriate management or potential accidents.

There were no extraordinary events (accidents or incidents) at Slovenske železnice Group companies in 2017 that in any way resulted in harmful impacts on the environment.

Noise

The main objectives of envi-

ronmental protection are to

reduce the environmental bur-

den caused by the activities of

Slovenske železnice Group com-

panies, to prevent pollution, to

ensure the efficient consumption

of energy and management of

all other sources of environmen-

tal burden, and to ensure the ap-

propriate handling of waste, par-

ticularly hazardous substances.

The most notable of environmental effects faced by the operator of the public rail infrastructure is the noise generated by rail traffic in some of the most heavily trafficked rail sections within the City of Ljubljana. Two of the main reasons for the increased number of complaints due to noise generated by rail traffic in this area are the closure of traffic in urban centres and the redirection of road

traffic from the city centre onto thoroughfares that run adjacent to the city centre. A total of 24 complaints were filed with various Slovenske železnice Group companies in 2017, nearly all due to noise generated by rail traffic. We have recorded a slight increase in the number of complaints due to noise. Companies responsible for handling complaints do so appropriately and adopt the necessary measures aimed at noise reduction. If noise is the result of several noise sources (road and rail), the complainants are sent appropriate referrals.

In order to meet new EU technical require-

ments aimed at the reduction of the noise generated by rail vehicles, new rail vehicles, which in the context of other measures will contribute significantly to the improved quality of rail passenger transport services, will be considerably less noisy. We thus anticipate fewer complaints due to noise.



GRI Energy efficiency®

G4-EN3 G4-EN6

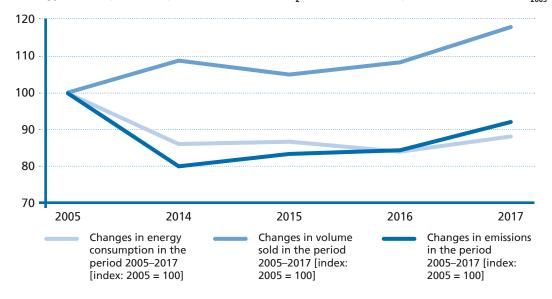
G4-EN7

Slovenske železnice actively strives for continuous improvements in energy efficiency in rail transport. The fact is that energy consumption in the transport sector accounts for more than 30% of all greenhouse gas emission in the Republic of Slovenia. The scope of train traction services was up by 18.2% in 2017 relative to 2005, while the quantity of energy consumed in traction was down by 11.5% during the same period. As a result, the level of atmospheric CO₂ emissions was down by nearly 8% or 11,000 tonnes.

The scope of train traction services was up by 8.8% in 2017 relative to 2016, while associated total energy consumption

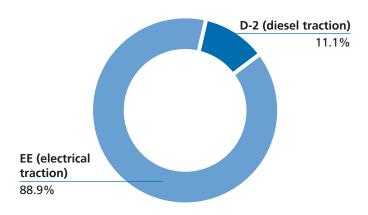
was up by only 5.6%. The main reason lies in 4% growth in electrical traction and a 7% reduction in specific electricity consumption for traction per unit of work performed. For this reason, the level of CO₂ emissions was also up by 9.2%. In the context of a 4.6% decrease in passenger kilometres in rail passenger transport, the carbon footprint increased by 8.9% (from 49 g/km in 2016 to 54 g/km in 2017), while the carbon footprint per unit of freight carried in 2017 remained at the level recorded in 2016 (19 g/net tkm). The carbon footprint is calculated using a methodology developed by Umanotera, the Slovenian foundation for sustainable development. The calculation of the carbon footprint takes into account the total consumption of electricity and gas oil (D-2) in the provision of rail transport.

Framework environmental targets	2017	Index 2017/2016	Index 2017/2005
1. Increasing the energy efficiency of rail transport			
a. Total energy consumption in rail transport (kWh thousand)	291,194	105.5	88.6 🛪
a.1 Total electricity consumption in rail transport (kWh thousand)	183,731	115.1	98.0 🛪
a.2 Total consumption of D2 in rail transport (kWh thousand)	107,464	92.4	76.2 🛪
 b. Specific electricity consumption for traction per unit of work performed (passenger and freight transport; kWh/thousand GTKM) 	21.29	101.7	77.9 🛪
 c. Specific consumption of D2 for traction per unit of DMU work performed (passenger transport; kg/ thousand GTKM) 	10.02	101.6	77.8 🔊
d. Specific consumption of D2 for traction per unit of diesel locomotive work performed (freight transport; kg/thousand GTKM)	5.61	109.6	94.0 🛪
e. Total train traction (thousand GTKM)	9,702,397	108.8	118.2 🛪
f. Passenger transport (GTKM thousand)	650,098	95.6	83.7 🔰
g. Freight transport (GTKM million)	5,079	111.6	141.9 🛪
2. Reduction of greenhouse gas emissions generated by rail	transport		
a. Total CO ₂ emissions (thousand kg)	129,745	109.2	92.1 🛪
b. CO ₂ emissions/PKM [kg/PKM]	0,054	109.0	118.5 🎽
c. CO ₂ emissions/NTKM [kg/NTKM]	0,019	99.6	63.3 🛪

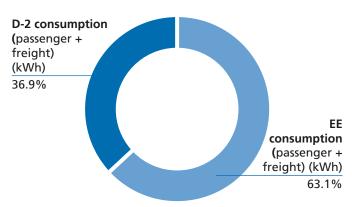


Changes in energy consumption, scope of traction and CO₂ emissions in the period 2005 to 2017 (i₂₀₀₅=100)

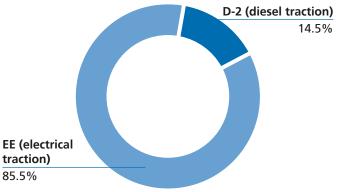
Actual traction in rail transport in 2017



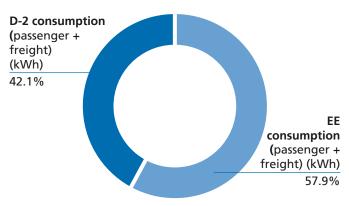
Breakdown of energy consumption in rail transport in 2017



Actual traction in rail transport in 2016



Breakdown of energy consumption in rail transport in 2016



INVESTING IN ALL AREAS OF OPERATIONS

In addition to investment in rolling stock, which are required to ensure the continuity of rail passenger and freight services, we also invested in the upgrading of the business information system in 2017, with the aim of improving the provision of our services.

DISCLOSURES BY KEY ACTIVITY

QUALITY MANAGEMENT SYSTEM

Slovenske železnice was acknowledged for its Integrated Public Passenger Transport project and received the Transport Ticketing Global Award 2017 for Most Innovative Customer Serving Operator. Slovenske železnice received first prize amongst fierce global competition.

Numerous activities were carried out in 2017 for the transition to and implementation of the requirements of the new ISO 9001:2015 standard by the following Group companies: Slovenske železnice, d. o. o., SŽ-Infrastruktura, d. o. o., SŽ-Tovorni promet, d. o. o., SŽ-Potniški promet, d. o. o., Prometni institut Ljubljana, d. o. o. and Fersped, d. o. o.

We planned and carried out an assessment of gaps where we identified differences between the requirements that we already fulfil and those that we must implement in the system and processes. As required, we carried out all planned internal assessments in accordance with ISO 9001:2015, management reviews at companies and within the Group, numerous activities for the transition to the new standard, such as seminars for the relevant management staff and internal assessors, and activities for the implementation of the new requirements of the standard.

> A second control assessment was carried out on 8 and 9 November 2017 in accordance with the requirements of the ISO 9001:2015 standard. That assessment was successfully completed and we received new ISO 9001:2015 certificates that are valid until 22 January 2019, when the seventh recertification period expires.

Activities are also in progress relating to a tender and the signing of an agreement with a selected certification agency for the next three-year period, i.e. the eighth recertification cycle.



We planned and carried out an as-

sessment of gaps where we iden-

tified differences between the re-

quirements that we already fulfil

and those that we must imple-

ment in the system and processes.

Development of the quality management system in line with the ISO 9000 group standards.

ISO 9001 internal assessment

A total of 16 internal assessments were carried out at the individual companies, offices and other organisational units of Slovenske železnice Group companies, in which no cases of non-compliance were identified, while seven observations were made and 41 recommendations were issued.

Company	Number of cases of non- compliance identified	Number of observations made	Number of recom- mendations issued
SŽ, d. o. o.	0	2	16
SŽ–Infrastruktura, d. o. o	0	0	6
SŽ–Tovorni promet, d. o. o.	0	3	6
SŽ–Potniški promet, d. o. o	0	0	4
Prometni institut Ljubljana, d. o. o.	0	0	3
Fersped, d. o. o.	0	2	6
Total	0	7	41

ISO 9001 external assessment

The second control assessment was carried out between 8 and 9 November 2017 in the scope of the seventh recertification period of the quality management system according to ISO 9001:2015. External assessors identified five minor cases of non-compliance, which were rectified, and made 31 observations and issued 10 recommendations for which we drafted a programme of measures for improvements in conjunction with Group companies.

Company	Number of cases of non- compliance identified	Number of observations made	Number of recom- mendations issued
SŽ, d. o. o.	1	6	0
SŽ–Infrastruktura, d. o. o	0	12	2
SŽ–Tovorni promet, d. o. o.	0	2	0
SŽ–Potniški promet, d. o. o	2	3	5
Prometni institut Ljubljana, d. o. o.	0	2	2
Fersped, d. o. o.	2	6	1
Total	5	31	10

Education of employees about work objectives and procedures, and preventive and corrective measures

Continue the trend of improving traffic safety

A total 8,324 training courses and verifications of professional qualifications were organised for railway operations workers. Functional training was attended by 6,938 employees.

Details regarding employee training and education during 2017 are given in the section Employees.

There were 18 fewer accidents in 2017 than in 2016. In terms of cause, there were two fewer railway-related accidents and 16 fewer non-railway accidents. The biggest impact was seen in a significant reduction in accidents at level crossings.

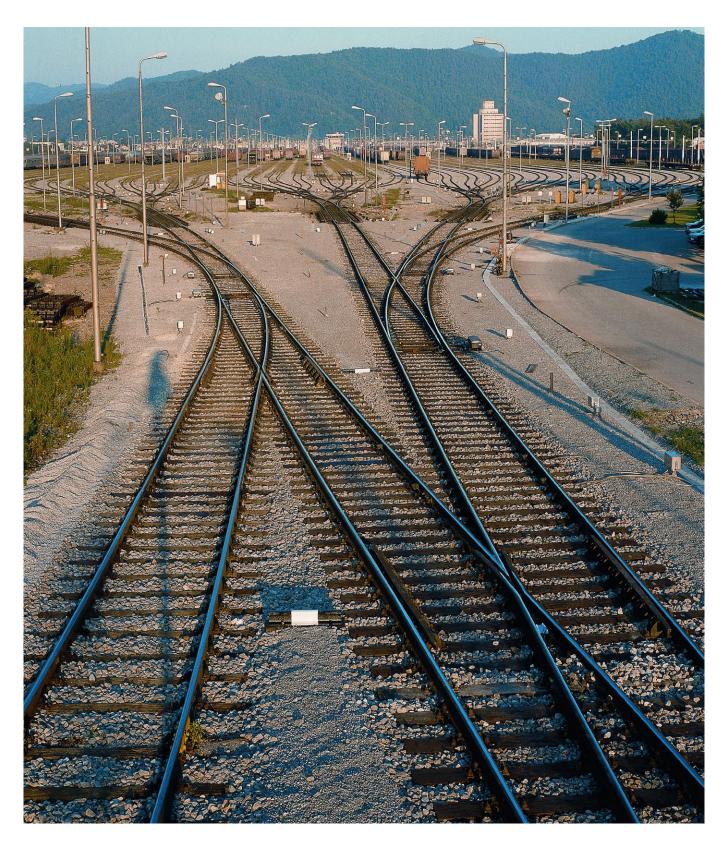
Details regarding employee training and education in 2017 are given in the section Traffic safety and regulation.

Objectives

. . .

Achieved in 2017

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 for 65% of services at SŽ–Tovorni promet. Data from the survey are presented in Performance analysis by individual area in the sections Passenger transport and Freight transport.



Reducing complaints, refunds and claims for damages

Passenger transport

	2013	2014	2015	2016	2017
Complaints	375	386	441	403	504
Compliments	206	210	192	236	261
Reclamations	1,397	1,500	1,597	1,072	807
Claims for damages	20	22	56	17	23

The target number of complaints was exceeded by 26% due to an increase in the number of train-related complaints (punctuality, appearance, technical deficiencies, etc.) and complaints relating to stations (services, technical deficiencies, etc.).

The target number of compliments was exceeded by more than 30% due to an increase in the number of compliments relating to train staff (helpfulness) and compliments relating to staff at stations (helpfulness and the proper handling of passengers).

The number of refunds was significantly lower than expected in 2017, primarily due to fewer exchanges of multiple units when running ICS trains.

Claims for damages were filed due to delays that caused passengers to miss their connection to the last train of the day. Compensation was paid for overnight accommodations or transport by taxi in such cases.

	2013	2014	2015	2016	2017
Complaints	0	10	11	23	9
Comments on the state of affairs	1,379	948	694	922	485
Reclamations (number per charged consignments in %)	1.52	1.27	1.17	0.89	1.00
Reclamations (value of entries over turnover in %)	0.59	0.55	0.44	0.27	0.56
Claims for damages (number)	74	104	39	49	186
Claims for damages (value over transport revenues in %)	0,002	0,094	0,013	0,024	0.01

Freight transport

The number of complaints in freight transport was down. All complaints related to transport processes.

The number of formal reports about the actual situation (CIT20) was down (index 2017/2016 = 53).

The majority of CIT 20 formal reports were the result of damage to freight (wet paper, scratched cars, etc.) and missing seals.

We received and handled 186 claims for damages in 2017 (from users and foreign railway operators):

57 claims from users of transport services; and

129 claims from foreign railway operators (for the joint and several coverage of damages).

Achieved in 2017

Reduction of train delays

Passenger transport

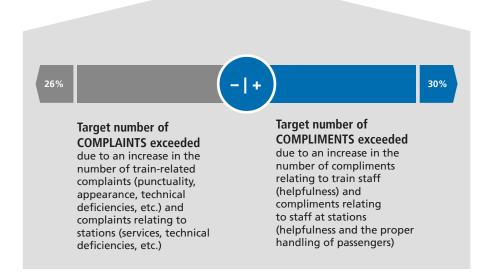
	2013	2014	2015	2016	2017
Passenger train delays (min./100 km)	2.9	4.7	4.4	2.3	4.0

Average delays amounted to 4.0 min/100 km in 2017 due to the increased scope of planned closures of lines and the resulting compensation with bus transport, the malfunctioning of rolling stock and extraordinary events.

Freight transport (all operators)

	2013	2014	2015	2016	2017
Freight train delays (min./100 km)	62.6	122.1	103.3	84.0	110.7

Similar to passenger transport, increased delays in freight transport were the result of renovations on a section of the Celje–Laško line and at the Slovenska Bistrica station, the acceptance and handover of trains at border stations with foreign railway operators, and extraordinary events that were the result of weather conditions and natural causes.



GRI G4-EC7

INVESTMENTS®

The Slovenske železnice Group's total investments in fixed assets amounted to EUR 38,291 thousand in 2017, which was 46.8% of the annual investment plan. Investments were up by 15% in 2017 relative to 2016.

Investments by the Slovenske železnice Group in 2017 by company

(EUR thousand)	2017	2016	Index
SŽ, d. o. o.	3,950	3,038	130.0
SŽ–Tovorni promet, d. o. o.	13,355	12,904	103.5
SŽ–Potniški promet, d. o. o.	12,718	8,113	156.8
SŽ–Infrastruktura, d. o. o.	5,324	2,735	194.7
SŽ–Vleka in tehnika, d. o. o.	1,555	2,296	67.7
SŽ–ŽGP Group	672	3,092	21.7
– of which Kamnolom Verd	140	337	41.6
SŽ–ŽIP, storitve, d. o. o.	645	843	76.5
Fersped, d. o. o.	66	82	80.6
Prometni institut Ljubljana, d. o. o.	5	79	6.0
SŽ–Železniška tiskarna, d. d.	0	88	0.0
Slovenske železnice Group	38,291	33,270	115.1

Investments by the Slovenske železnice Group in 2017 by purpose

(EUR thousand)	2017	Structure	2016	Index
Rolling stock	28,818	75.3	24,281	118.7
Construction machinery	62	0.1	370	16.7
Road vehicles	1,058	2.8	563	187.8
Information technology	2,837	7.4	2,228	127.3
Property	3,456	9.0	3,983	86.8
Production equipment	1,297	3.4	1,028	126.1
Communications equipment	215	0.6	126	170.5
Other	549	1.4	691	79.4
Total	38,291	100.0	33,270	115.1

A total of 75.3% of all investments (or EUR 28,818 thousand) in 2017 were earmarked for rolling stock that is required for the uninterrupted provision of passenger and freight transport services. Investments in rolling stock are made continuously and primarily include regular modifications to and the maintenance of vehicles after the expiry of their lifecycle.





Investments by individual company by purpose

	EUR thousand	SŽ Group	SŽ, d. o. o.	SŽ–Tovorni promet	SŽ–Potniški promet	
Α.	ROLLING STOCK	28,818	0	12,844	12,353	
1.	Tractive vehicles	14,236	0	4,964	9,273	
1.1	New acquisitions	655	0	0	655	
1.2	Periodic maintenance	8,832	0	527	8,304	
1.3	Adaptations	4,749	0	4,437	313	
2.	Unpowered rolling stock	10,961	0	7,880	3,081	
2.1	New acquisitions	2,296	0	2,296	0	
2.2	Periodic maintenance	8,665	0	5,584	3,081	
2.3	Adaptations	0	0	0	0	
3.	Specific-purpose rail vehicles	3,621	0	0	0	
3.1	New acquisitions	2,436	0	0	0	
3.2	Periodic maintenance	1,185	0	0	0	
3.3	Adaptations	0	0	0	0	
В.	CONSTRUCTION MACHINERY	62	0	0	0	
1.	Heavy machinery	62	0	0	0	
2.	Light machinery	0	0	0	0	
с.	ROAD VEHICLES	1,058	88	20	14	
1.	Passenger transport vehicles	0	0	0	0	
2.	Goods vehicles	147	0	0	0	
3.	Transport vehicles	107	0	0	0	
4.	Cars	803	88	20	14	
D.	INFORMATION TECHNOLOGY	2,837	1,632	64	300	
E.	PROPERTY	3,456	2,114	384	13	
1.	Holiday capacities	2,081	2,027	0	0	
2.	Housing	0	0	0	0	
3.	Investment maintenance (buildings)	67	0	0	2	
4.	Maintenance of tracks and switch points	159	0	0	0	
5.	Facilities for commercial activity	702	0	277	0	
6.	Land	1	1	0	0	
7.	Equipment	446	87	107	12	
F.	PRODUCTION EQUIPMENT	1,297	0	0	0	
G.	COMMUNICATIONS EQUIPMENT	215	19	11	13	
Н.	OTHER	549	96	33	25	
	Slovenske železnice Group	38,291	3,950	13,355	12,718	

SŽ–Tiskarna	Prometni institut	Fersped	ŽIP	ŽGP (incl. Verd)	VIT	SŽ– Infrastruktura
0	0	0	0	158	0	3,463
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	158	0	3,463
0	0	0	0	17	0	2,419
0	0	0	0	140	0	1,044
0	0	0	0	0	0	0
0	0	0	0	62	0	0
0	0	0	0	62	0	0
0	0	0	0	0	0	0
0	0	0	165	147	117	508
0	0	0	0	0	0	0
0	0	0	0	0	0	147
0	0	0	77	12	18	0
0	0	0	88	135	99	361
0	0	13	6	29	103	690
0	3	7	351	20	495	69
0	0	0	0	15	38	0
0	0	0	0	0	0	0
0	0	0	0	0	66	0
0	0	0	0	0	159	0
0	3	0	259	0	164	0
0	0	0	0	0	0	0
0	0	7	92	5	68	69
0	0	46	116	146	631	357
0	2	0	4	7	7	152
0	0	0	3	104	202	86
0	5	66	645	672	1,555	5,324

A total of EUR 18,681 thousand (80.7% of the plan) was earmarked for periodic maintenance, EUR 8,832 thousand for the periodic maintenance of tractive vehicles, EUR 8,665 for the periodic maintenance of unpowered rolling stock and EUR 1,185 thousand for the periodic maintenance of specific-purpose rail vehicles.

Planned purchases of new rolling stock amounted to EUR 5,387 thousand and were realised in the amount of 23.6% of planned funds. A total of 20 new Sggrrs wagons were purchased for SŽ–Tovorni promet, while three new, specific-purpose motor vehicles (for the maintenance of overhead lines and railway lines) were purchased for SŽ-Infrastruktura.

Major investments were also made in the upgrading of the business information system and in real estate.

PARTICIPATION IN THE INTERNATIONAL ENVIRONMENT®

Slovenske železnice is actively involved in the international environment, where we work with international railway organisations and associations, and European railway operators. In cooperation with railways organisations, we submit positions and proposals for the co-formulation of a common European railway policy and

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thus contribute to the further development and efficient functioning of the Single European Railway area.

Community of European Railways and Infrastructure Companies (CER)

Inclusion in the formulation of the EU's transport policy

The Community of European Railways and Infrastructure Companies (CER), which is headquartered in Brussels, once again carefully monitored developments in connection with the European Union's transport policy in 2017, particularly in the rail sector. The CER represents the interests of its members at the European level vis-à-vis the EU's three main institutions involved in the adoption of legislation (the European Parliament, the Council of the European Union and the European Commission). It strives for improvements in the political and regulatory framework, and thus in the business environment in which its members operate.

In 2017 the CER put a great deal of effort into the implementation of the technical pillar of the 4th Railway Package, which was approved in 2016 and includes the updating of three significant laws in current legislation. The purpose of the changes is to eliminate the remaining administrative and technical barriers in the establishment of the Single European Railway Area and thus promote improved passenger and freight services. The plan is for Member States to transpose the updated interoperability and safety directives into national legislation by June 2019.

In May 2017 the European Commission published the legislative package known as Europe on the Move, which

includes measures for clean, competitive and connected mobility. It is a wide-ranging set of initiatives that will make traffic safer, encourage smart road charging, reduce CO_2 emissions, air pollution and congestion, and cut red-tape for businesses. The long-term benefits of these measures will extend far beyond the traffic sector. The first series of eight legislative initiatives focuses more on road transport, and also includes a proposal for the revision of the Eurovignette Directive. The CER also plays an active role in the aforementioned proposal, as it strives for equal conditions between road and rail transport in the charging of fees for the use of the infrastructure and in the internalisation of external costs.

Formulation of the EU's financial framework after 2021

Together with numerous other representative railway organisations, the CER was also included in discussions regarding the European Union's next multiannual financial framework, which will begin in 2021. The European Com-

> mission will publish a proposal in this regard during the first half of 2018. Railway organisations are advocating for a strong budgetary framework for the traffic sector, in particular for rail traffic, which will facilitate the continuation of major investments in the rail infrastructure, rolling stock, technologies, research and innovations. Calls are also being made to continue the

financing of projects through EU grants, which is made possible through the Connecting Europe Facility (CEF).

Discussions with consumer associations

A total of 75.3% of all invest-

ments (or EUR 28,818 thousand) in

2017 were earmarked for rolling

stock that is required for continu-

ous supply of rail passenger and

freight services.

The CER participated in important discussions about passenger rail transport with representatives of consumer associations. The focus of discussions was on proposed amendments to Regulation (EC) No 1371/2007 on rail passengers' rights and obligations, and on the proposal regarding the European Accessibility Act. The railway sector is committed to achieving a high level of passenger satisfaction. The CER therefore strives to ensure that every political initiative allows railway operators to continue their good work in this area.

Definition of the priority tasks of the European railway sector

The CER also defined several priority tasks for the European railway sector for the short-term period 2018–2019: implementation of the technical pillar of the 4th Railway Package, improved cooperation in ticketing and the exchange of data, innovations and digitalisation, including next-generation signalling systems and automated trains, the enhanced development of competitive rail freight corridors, and improved conditions for fairer intermodal competition.

UIC: Standardisation, digitalisation, safety and international corridors

The International Union of Railways (UIC), headquartered in Paris, whose primary missions are to promote and sup-

port rail traffic, sustainable development and interoperability, the formulation of new technical standards, the development and promotion of all forms of international cooperation between its members and the development of new methods for promoting the performance of rail traffic, placed special emphasis on standardisation, digitalisation, security and international corridors in 2017. In cooperation with its members, the UIC also organised major conferences and workshops in 2017.

Members, including Slovenske železnice, participate in numerous working groups of experts from all areas of rail transport in the scope of the UIC's forums and platforms. Together with technical departments at the UIC's headquarters, they implement numerous projects in the scope of the UIC and in a broader context, and in the scope of the EU's Horizon

2020 programme for research and innovation and the technology initiatives of Shift2Rail.

The UIC's core activity is **standardisation**, a process that the UIC carries out for the benefit of its members. That process primarily includes the drafting and publication of International Rail Solutions (IRS) and the administration of the existing portfolio of technical materials. In 2017 the UIC began planning the optimisation of its role on the development of standards and solutions for the railway community. The development of standardisation processes will result in significant improvements in the quality, appropriateness and efficiency of the drafting and publication of the UIC's technical documentation.

In the area of **digitalisation**, the UIC used its digitalisation platform to carry out numerous global activities in key areas linked to the **security of services and productivity**. Various workshops indicated the interest of the digital ecosystem in the railway sector, which must become more open, improve its responsiveness and creativity, and secure funding from various start-up companies and incubators.

CIT: Implementation of electronic transport documents

Slovenske železnice is also a member of the International Rail Transport Committee (CIT), whose core mission is the application of the Convention concerning International Carriage by Rail (COTIF). The activities of the CIT in 2017 focused on the practical implementation of electronic transport documents and other products of the CIT, and on the drafting of legal clarification regarding the legal recognition of electronic transport documents by national courts and other national legal authorities. The CIT also drafted guidelines and reviewed the obligation to protect privacy in the processing of personal data that is used in international rail transport. Slovenske železnice actively responds to the CIT's initiatives and monitors the development of and amendments to CIT documents.

G4: Participation in the platform for the exchange of opinions and experiences

Slovenske železnice also plays an active role in the G4 Group, which is a regional interest group of the UIC and CER for the area between the Danube River and Adriatic Sea, and serves as a platform for the exchange of opinions and experiences. The group brings together railway operators and infrastructure managers from Slovenia, Austria, Slovakia, Hungary, Croatia and Bosnia and Her-

zegovina.

At the annual meeting held in Vienna in November, the director generals of G4 Group members agreed on even closer cooperation and links in the development of railways and railway traffic in the region. Prometni institut Ljubljana presented the SEESARI initiative, whose primary objectives are

to link interested stakeholders from the railway sector and identify innovative solutions and projects that will contribute to support for and the development of railways in South-Eastern Europe and to the broader European railway system.



Cooperation with foreign delegations and embassies

High profile visits by the heads of foreign railway administrations in 2017 included a visit by a delegation from Republika Srpska Railways, which is preparing for the imminent task of corporate restructuring, and is thus gathering experience from other railway companies.

In November, in cooperation with the Embassy of the United Kingdom of Great Britain and Northern Ireland, Slovenske železnice organised British Day, at which representatives of Slovenske železnice Group companies met with representatives of ten British companies that operate in the railway and logistics sector. Such events facilitate international business cooperation and opportunities for the further development of railway services.

INFORMATION TECHNOLOGY

The Information and New Technologies Sector (INTS) ensures the development of and information support for business processes, develops and manages the IT infrastructure, and provides user support through a service centre.

Slovenske železnice is actively involved in the international environment, where we work with international railway organisations and associations, and European railway operators. In 2017 the INTS was heavily involved in the upgrading of Slovenske železnice's business information system, which takes the form of a computerisation programme aimed at introducing an integrated information system for all Group companies. the faster, more efficient and above all more reliable implementation of core work and business processes within the Slovenske železnice Group.

Most significant new features of the ISRTM in 2017

Slovenske železnice's central information system (IS SŽ), located in the data centre, operates continuously, with a 24-hour on-call service. As such, it provided reliable support for the core and back-office functions of the Slovenske železnice Group again in 2017.

The core element of Slovenske železnice's central information system is the information system for rail transport monitoring (ISRTM).

ISRTM is a highly complex system intended to provide support for the management of rail traffic, to monitor freight traffic, and the movement of consignments and tractive vehicles and the work of traction staff, and to support other basic processes in real time. At any given moment, the system provides accurate, precise and comprehensive information about locations, freight content and rolling stock in the entire area covered by the operations of Slovenske železnice Group companies. It also facilitates domestic and international calculations of waybills as the main generator of revenues, and the exchange of data with other railway operators and the users of services. The system, which processes close to 1,000 trains and 300 tractive vehicles per day, requires 2,000 employees to function. The system keeps records of the work of 800 train drivers, and processes 5,000 freight wagons per day (of which as many as 2,000 are laden with consignments).

The ISRTM also plays an important role as a system for the real-time exchange of data:

- with external users (foreign railway operators, the Customs Administration of the Republic of Slovenia, RTV Slovenija, the Port of Koper and more than 40 forwarding companies);
- with autonomous systems at Slovenske železnice (e.g. the ROMAN system for preparation of timetables and the GEMA system for monitoring electric energy consumption);
- with the numerous external systems of other operators, infrastructure managers, European associations and agencies, such as:
 - RNE TIS uniform monitoring of trains throughout Europe (exchange under the TSI-TAF standard);
 - ISR monitoring of wagons in international freight transport;
 - HERMES exchange of train composition data among operators; and
 - CARS data required for customs supervision.

Several upgrades were carried out and new functionalities developed in the ISRTM in 2017, which contributed to

The core element of Slovenske železnice's central information system is the information system for rail transport monitoring (ISRTM). In 2017 we successfully adapted the information system to changes in the local and international railway environment. We should also highlight the development of an active timetable system which displays notifications and train delays on mobile devices, the completion of the electronic solution for the exchange of data re-

garding waybills, and the development and implementation of a portal for the review and calculation of work performed by train drivers (EV31 personal portal).

With regard to the IT infrastructure, excellent results were achieved in terms of the availability of all key IT services, which ensured the uninterrupted provision of rail transport and other services. The risks associated with unforeseen failures of the IT infrastructure were mitigated through a project aimed at reconfiguring the existing computer centre and the start of a project to establish a back-up computer centre. Existing server capacities were also expanded with an emphasis on ensuring IT security.

The customer support service centre also plays an important role in the provision of high-quality information services. That centre's tasks include:

- Operational: regular maintenance of hardware and software.
- Support: 24/7/365 support to end-users in the elimination of errors on personal computers, tablet computers, mobile phones and printers, in the elimination of software problems and assistance in work with IT equipment. We received a total of 9,957 service requests in 2017, of which 9,906 were resolved and 51 remain open.
- Optimisation: the service centre reduced the number of measures implemented in the field. The work of the service centre focuses on reducing the costs of maintenance and management of IT sources throughout the Slovenske železnice Group.

The development of SharePoint information portal began in 2017 with the aim of providing user-friendly support for the centralised management of data. The following solutions were developed:

- Support for the internal audit environment for the management of recommendations, the cooperation of audited units and other participants, and reporting on the status of recommendations. Records of recommendations do not in themselves ensure an audit trail.
- Start of the development of an environment for managing changes, the managing and monitoring of employees' tasks and a calendar-based overview of events.
- Start of the development of a project management system on the SharePoint platform and the upgrading

of the MS Project Server. The environment will ensure the organised management of projects according to a standardised approach and the standardisation of requested documentation.

The short-term plan includes the development of an environment for managing management decisions, the monitoring of risks and records of lawsuits for the legal department.

DIGITALISATION

Upgrading of Slovenske železnice's business information system

In November 2014 the Management Board of Slovenske železnice, d. o. o. kicked off the project to upgrade Slovenske železnice's business information system, which in the form of a computerisation programme (several mutually linked projects) envisages the provision of a high-capacity integrated business information system for all Group companies in the areas of purchasing and material operations, construction, the management of PRI assets, the management of rolling stock assets, human resource management (including the calculation of wages and time management), support for the financial monitoring of projects, the management of contracts (added to the programme at the end of 2017), and the activities of the subsidiaries SŽ-ŽIP, SŽ-Železniška tiskarna, Slovenske železnice, d. o. o. and Prometni institut.

The programme envisages the building of a business information system based on standard, high-capacity global platform solutions and on standard registries (business partners, services, etc.). It also includes the introduction of high-capacity business intelligence application (e.g. Business Intelligence and Business Analytics).

Business processes are being changed in parallel with the introduction of individual components of the business information system. We are automating and optimising business processes based on best practices in activities comparable to our own. It is a complex and comprehensive programme that will be implemented in a short period of time for such a programme, and in the scope of planned and limited funds.

A large portion of the programme, which will be com- The digitalisation pleted in 2018, was already implemented by the end of 2017. The Group's strategic activities

Digitalisation strategy of Slovenske železnice

The decision was made in the middle of 2017 to expand the upgrading of the business information system to all activities, in particular the Group's strategic activities.

This no longer means just computerisation. New digital technologies facilitate the changes to business processes and new business models. We are thus entering the age of digitalisation. The Group's strategic activities are all such that digitalisation will change them more than in other industrial sectors. This is particularly true for the Group's strategic activities.

In September 2017 the Group's Management Board adopted the digitalisation strategy of Slovenske železnice and initiated activities for the implementation thereof. The strategy was developed in cooperation with a large number of key management staff and experts from Group companies and with competent external experts.

The digitalisation strategy derives from the business strategy, and very ambitiously envisages the rapid transformation of Group companies through the use of state-of-theart digital technologies. By implementing the strategy, we will ensure that Group companies have a significant competitive advantage in their respective strategic activities.

The strategy includes the following activities and areas:

- transport and logistics,
- passenger transport,
- rail traffic management,
- construction activity,
- assets management (maintenance activity) in the following areas:
 - rail infrastructure,
 - rolling stock,
 - property,
- other activities at Group companies,
- integrated business information system (finance, accounting, purchasing and material operations),
- customer relationship management (CRM),
- human resources,
- business analytics and business intelligence,
- management of operational efficiency,
- project systems,

are all such that digitalisation

will change them more than in

other industrial sectors.

- electronic operations,
- document and archiving systems,
- cooperative systems, and
- information technology and information security.

Digitalisation programmes of Slovenske železnice

The digitalisation strategy is being implemented through

digitalisation programmes for strategic activities within the Group. In addition to the programme aimed at the upgrading of the business information system, we also ambitiously began preparations for other digitalisation programmes in 2017.

The digitalisation programme for the transport-logistics activity will provide an integrated business information system that, in addition to support for rail transport, will also facilitate comprehensive support for multimodal and intermodal forms of transport, and for the accompanying logistics services.

- In the scope of the programme, we are planning to expand the use of electronic operations to include our customers, other operators, logistics provides and other railway traffic managers.
- High-capacity business analytics and business intelligence systems will facilitate an overview of all operations, as well as prompt and high-quality business decisions.
- We will implement a high-capacity customer relationship management (CRM) system in the scope of the programme.
- The existing ISRTM will be upgraded on an advanced technological platform.
- Support will be provided by TAF TSI.

The programme was completely defined by the end of 2017, while implementation of the first projects from the programme will begin in the spring of 2018. The programme will be completed by the end of 2021. The new information system will facilitate a high level of automation and the optimisation of business processes, and the expansion of operations. This will provide the Group's strategic activities a significant competitive advantage.

The digitalisation programme in the area of document and archive systems will ensure a gradual transition to paperless operations. The following will be required in the scope of the programme:

- the organisation and consolidation of physical archives;
- the establishment of a certified electronic archive and its integration with business applications;
- the digitalisation of elements of the physical archive;
- the modernisation of the existing document system; and
- the regulation and updating of normative arrangements (internal rules).

The first draft of the programme, which is being developed in cooperation with management staff and experts from various organisational units, and an external expert, was prepared by the end of 2017. The programme will be approved by April 2018, followed by the implementation of individual projects from the programme, which will be implemented in full by the middle of 2021.

Digitalisation programme in the area of managing operational efficiency

We began drafting the digitalisation programme in the area of managing operational efficiency in the final quarter of 2017.

The aforementioned area includes:

- planning and forecasting at various levels (sales, purchasing, costs, human resources, investments, balance sheet planning, etc.);
- key efficiency indicators;
- standardised and automated business reports;
- financial and accounting consolidation; and
- the monitoring of profitability at the level of activities/ products and profit centres.

This is an extremely important area that is not currently supported by state-of-the-art information tools. Implementation of the programme will contribute significantly to raising the level of corporate governance within the Group. The programme will be ready by the spring of 2018 and will be implemented in full over a three-year period.

We began activities in 2017 for the drafting of a digitalisation programme for the passenger transport activity. In addition to projects in progress (e.g. ticketing and WiFi), the programme for the passenger transport activity will provide an integrated business information system to support multimodal services, and high-capacity business analytics and business intelligence systems that will facilitate transparency and an overview of the effectiveness of services to the lowest level of individual train. A system for the automated verification and validation of tickets will also be implemented in the scope of the programme. The focus on the customer will be supported by state-ofthe-art digital marketing systems. The programme will be ready by the middle of 2018.

We are planning the drafting of certain other digitalisation programmes in 2018, including in the area of rail traffic management.

Our digitalisation programmes exceed similar initiatives in Slovenia in terms of scope and complexity. Group companies will be provided a rapid, but systematic and commercially manageable leap into the digital era.

GRI

RESEARCH AND DEVELOPMENT®

Research and development activities play a special role in the Slovenske železnice Group's overall business process, as it serves as the basis for the technological and commercial development of the Group, which follows technological innovations and contemporary forms of business processes and business cooperation on the Slovenian and European transport markets.

Research and development activities are coordinated by Prometni institut Ljubljana through horizontal cooperation with all Slovenske železnice Group companies. Those activities are carried out in the following key substantive areas:

- international development cooperation,
- technological and commercial development of transport processes,
- development of the public railway infrastructure, and
- European tenders and the disbursement of EU funds.

International development cooperation

SEESARI

In international terms, Slovenske železnice strengthened its cooperation in the South-East Europe region, where at the initiative of Prometni institut Ljubljana and 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's kick-off meeting was held in Belgrade in January 2016, while a general meeting of the initiative's participants was held in Ljubljana in 2017 at Slovenske železnice, where further development guidelines of the initiative were defined, in particular with regard to strengthening regional railway links and improving the quality of rail transport services.

Participation in international railway and transport organisations is essential for research and development. Those organisations include: the International Union of Railways (UIC), the European Union Agency for Railway (ERA), the Trans-European Rail Network (TER), the Trans-European Motorways Network (TEM) Master Plan, etc. Also of importance are participation in UIC projects for monitoring activities carried out within the framework of the UIC by individual project, and the transformation of effects into internal activities. Participation within the framework of the UIC included the following groups: Functional Groups 62, 63 and 64, Operators Group, European Radio Implementation Groups 66, 67 and 68, Cab Radio Functional Test Specification Group and in the scope of the working body 'Future Railway Mobile Communication System' (FRMCS). The FRMCS's working body reviewed activities relating to the drafting of new functional specifications in the area of mobile communication systems and defined the next steps for their inclusion in the Technical Specification for Interoperability (TSI).

Shift2Rail

Also of great importance 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, accelerated inclusion of new and advanced technologies in innovative rail product solutions, and the promotion of the competitiveness of the European rail sector with respect to the changing demands in the area of transport in the European Union.

Technological and commercial development of transport processes

Integrated public passenger transport

At the end of 2016, a consortium of contractors with SŽ–Potniški promet as the lead partner completed a project aimed at the integration of public passenger transport in Slovenia, in the framework of which a standardised ticket was introduced

for secondary-school and college students.

That ticket can be used on both intercity trains and buses, and also includes the option of using urban transport. In the near future, the ticket will also be available for use by other categories of passengers, which will make public transport more accessible to all users. A project to establish Wi-Fi is also in progress in the area of public passenger transport by rail with the aim of providing

A development strategy for SŽ-Potniški promet's rolling stock until 2030, an investment project identification document (IPID) and a pre-investment plan (PIP) for the purchase of passenger coaches were drafted in 2017.

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 within the next year.



Upgrading of passenger transport rolling stock

The planned upgrading of passenger transport rolling stock, the first phase of which includes the purchase of 25 multiple units and 20 wagons, will contribute to a significant improvement in the quality of public passenger transport by rail, as passengers will be provided transport in new, air-conditioned, comfortable and contemporarily equipped rolling stock that will also have sufficient space for the transport of bicycles. At the same time, the new multiple units will contribute to shorter passenger transport times under the condition that the public rail infrastructure is appropriately regulated.

A development strategy for SŽ–Potniški promet's rolling stock until 2030, an investment project identification document (IPID) and a pre-investment plan (PIP) for the purchase of passenger coaches were drafted in 2017. In 2017, we also continued with the modification of diesel multiple units, with an emphasis on the installation of air-conditioning units, sanitary facilities, new wall and ceiling panels, more comfortable seats, etc. We tested a

> wireless connection on the Siemens 312 passenger multiple unit. Also drafted was investment documentation for the project to establish access to internet services on passenger trains (Wi-Fi project). That documentation describes the expansion of the wireless connection to other passenger trains. This will allow passengers to access the internet securely on trains and at train stations, and man-

age their work, school or other leisure-time activities while travelling.

'With Slovenske železnice – from home to your destination'

New services are being developed in the area of passenger transport by rail that will allow passengers to travel via public transport from home to their destination. A system of services that supplement the primary activity of passenger transport by rail is being established according to the Mobility as a Service (MaaS) concept. The system will be based on the establishment of a system of services: park and ride (P + R) and e-mobility.

Upgrading of the ticketing system

We signed an agreement in 2017 with a consortium of companies for a project to implement and maintain a rail ticketing information system. The upgrading of the ticketing system includes a comprehensive software solution for the implementation and maintenance of the ticketing system, comprising system and application software (application for the sale of tickets via mobile terminals and fixed points of sale, as well as mobile and online sales), and system integration, ticketing hardware (server licences and fixed points of sale with all necessary hardware and software) and the maintenance of hardware and software. The first phase of the project includes the integration of the existing functionalities of the ticketing system with a new technological solution, while the second phase involves the establishment of new functionalities, such as online ticket sales and sales via mobile phones.

Energy management

In order to comprehensively manage energy at the Company, by ensuring a reliable supply of energy and energy products at competitive prices, of the requisite quality and in sufficient quantities, an energy management project is being implemented with the aim of establishing systems and procedures for improving energy efficiency, i.e. an energy management system pursuant to the SIST EN 50001 standard. Project activities are proceeding in

accordance with the timetable, while certification of the system is planned in May and June 2018.

Electronic timetable

The project to establish electronic timetables for operators in the Slovenske železnice Group is being implemented to facilitate the transition from printed timetables to electronic format using tablet computers. Research and development activities to establish electronic timetables is a significant

step forward in the use of electronic timetables in the

provision of rail transport services. A bidder has been selected for the supply of tablet computers and for creating a data exchange link to the public network, as well as a system for the remote management of tablet computers (mobile device management – MDM). Testing of the use of the e-timetable was carried out for all train drivers in the Slovenske železnice Group in 2017.

Traffic management technology

In order to achieve the required capacities in the rail infrastructure and shorten travelling times, the appropriate

Notwithstanding the importance of digitalisation, logistics represent an activity that will always be closely and directly linked to the development of the physical infrastructure. That development represents the core of every logistics activity involving people and freight.

upgrading of traffic management technology and adaptation of the operational timetable are crucial, in addition to new technological solutions. The emphases are on the creation of the technical bases for the implementation of updated operational procedures in strategically important transport routes, which reduce infrastructure maintenance and traffic management costs, and increase the security of rail transport. Rail transport will therefore become competitive relative to other transport routes and types.

Digitalisation programmes of Slovenske železnice

Digitalisation programmes are described in detail in the separate section Digitalisation.

Development of the public railway infrastructure

GSM-R: Global System for Mobile Communications – Railway

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 establish the conditions to increase rail traffic relative to other transport systems. Implementation of the GSM-R in the infrastructure was completed in 2017 in the scope of those processes. The relevant certificate was received from the notified body, as well as the operating permit from the Public Agency for Rail Transport of the Republic of Slovenia, as the safety authority. A tender is also in progress for the equipping of rolling stock with GSM-R equipment (cab radio) for communication between train drivers and traffic management centres.

Baltic–Adriatic RFC 5, Mediterranean RFC 6 and Amber RFC

In order to implement Regulation No 913/2010 of the European Parliament and of the Council concerning a European rail network for competitive freight, the establishment and management of two freight corridors, RFC 5 (Baltic-Adriatic) and RFC 6 (Mediterranean), are being carried out, taking into account Regulation No 1316/2013 of the European Par-

liament and of the Council establishing the Connecting Europe Facility, including activities for establishing new corridors for competitive freight transport. Preparations are also being made for the establishment of the new, competitive freight transport corridor known as the Amber Rail Freight Corridor. Representatives of the ministries responsible for transport of Poland, Slovakia, Hungary and Slovenia signed the Memorandum of Understanding on the establishment of the Executive Board of the Amber Rail Freight Corridor in Brussels on 5 December 2017. The Amber Rail Freight Corridor starts in the north from Warsaw and the Polish-Belarus border and ends in the south in Koper in Slovenia and on the Hungarian-Serbian border. The aforementioned axis links important industrial centres and intermodal terminals with the Adriatic Sea and Balkan countries. The Budapest–Kelebia railway line, which still must be upgraded, is part of the aforementioned corridor. The Amber Rail Freight Corridor may play a significant role in the transport of goods from the Far East by rail to their final destination in Poland and to the Port of Koper by sea.

Ljubljana logistics terminal

In the process of being drafted are the technical bases for a detailed municipal spatial plan (DMSP) and the design concept for the Ljubljana rail-road terminal (RRT) with parameters for a core network terminal based on the regulation governing the trans-European transport network (TEN-T) for the Ljubljana intermodal logistics terminal project with the aim of establishing the conditions for a modern rail-road terminal (RRT) in the Central and SE Europe region.

Measurement of the geometric and dynamic parameters of the PRI in the Republic of Slovenia

In the spring of 2017, another three-year sub-contract was concluded with the Hungarian company Magyar Ál-

lamvasutak Zrt (MÁV) for the semi-annual measurement of the geometric parameters of lines, and the wear and corrugation of tracks in 2019. Prometni institut Ljubljana participates in data analyses and the drafting of final reports. The dynamic parameters of lines are also measured and evaluated. Dynamic measurements were performed twice in 2017 on two sections: in the summer on the Ljubljana–Maribor line in both directions (as is done every year) and on the Pragersko–Hodoš line in December, prior to the planned increase in track speeds. High frequency accelerometers (sensors) were purchased in the scope of the European Union's NeTIRail-INFRA project.

European tenders and the disbursement of EU funds

We systematically monitored tenders for the potential acquisition of financing from various European funds. Contacts were established with potential tender partners, while the areas within the Company that are suitable for such financing were analysed. Thus, in the process of being drafted are investment documentation and applications for grants to co-finance the purchase of rolling stock equipment for use in the scope of the European Train Control System (ETCS) in the PRI in Slovenia and abroad.





MANAGEMENT OF RISKS AND OPPORTUNITIES®

The controlling company Slovenske železnice, d. o. o. is responsible for monitoring and assessing the appropriateness and effectiveness of procedures and measures adopted to eliminate identified deficiencies in the area of risk management for the entire Slovenske železnice Group.

In accordance with the adopted risk management system strategy, a decision was made at the end of the second quarter of 2016 to upgrade the existing system with a methodology that follows the principles of contemporary risk management, and that is based on calculations of VaR and PaR, and on the Monte Carlo methodology for analysing scenarios.

The methodology is based on the allocation of risks into categories that indicate how a particular risk is present. We divide risks into continuous and discrete. Making a distinction is important, as the mechanisms of effects differ. As a result, the mathematical approach used in the methodology also differs with regard to the nature of a risk.

If the cause of a risk is determined to be a one-time event that resulted in a loss, that risk is deemed a typical discrete risk (e.g. a fire or accident). A continuous risk in this case is different, as the cause that leads to financial consequences is always present because risks are associated with a certain process that is continuously changing (e.g. market and competition risks). We cannot determine the frequency at which a risk arises, but we can assess the impact of persistence.

A discrete risk is described using three parameters (frequency, typical and greatest damage), while continuous risks are described using only the maximum possible damage, where the time horizon of the assessment is one year. For both categories, we also assigned a period of time to risks, from the realisation of a risk until the day that operations returned to the same state prior to the realisation of that risk.

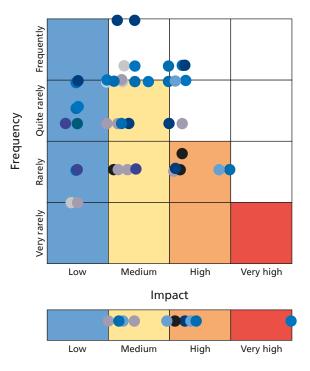
Workshops were organised in September to present the new risk assessment methodology, and were attended by all responsible employees and the management staffs of all Group companies. Based on the information obtained, we updated the register of key risks that have the greatest financial impact on net cash flow. The most recent update of assessments and measures was carried out in December 2017, while the risk register comprised a total of 67 risks at the end of 2017.

Risk matrix

The risk matrix is divided into discrete and continuous risks, for which we only measure the impact, as we cannot address the frequency of the realisation of continuous risks (1 x 4 matrix below). The closer the points associated with a particular risk are to the red field in the matrix, the more crucial that risk is to the Company.

The cost (or loss) associated with risks comprises the direct cost of risks (i.e. the expected or average effect of a risk on a company's cash flow) and the indirect cost of risks (i.e. the cost that arises to maintain sufficient liquidity reserves to hedge against risks that represent the cost of a company's capital).

Matrix of discrete and continuous risks for the Slovenske železnice Group in the worst-case scenario:



Frequency

Frequently	more than once every 3 years					
Quite rarely	once every 3 years – once every 7 years					
Rarely	once every 7 years - once every 20 years					
Very rarely	less than once every 20 years					
Scale of losses in typical scenario (Impact)						
Low	EUR 0 – EUR 10,000					
Medium	EUR 10,000 – EUR 100,000					
High	EUR 100,000 - 1,000,000					
Very high	> EUR 1,000,000					
Scale of losses in	worst-case scenario (Impact)					

Scale of losses i	in worst-case scenario (Impact)
Low	EUR 0 – EUR 100,000
Medium	100,000 – EUR 1,000,000
High	EUR 1,000,000 - 10,000,000
Very high	> EUR 10,000,000

Risk register

In 2017, we dedicated more attention to the management of risks that have major financial consequences, but that arise rarely (once every seven years to once every 20 years) or extremely rarely (less than once every 20 years). If those risks are realised, however, they have catastrophic consequences for the operations of the Slovenske železnice Group. We eliminated risks that overlap at a subsidiary or the controlling company (combined or centralised processes). We verified the segregation of responsibilities and duties

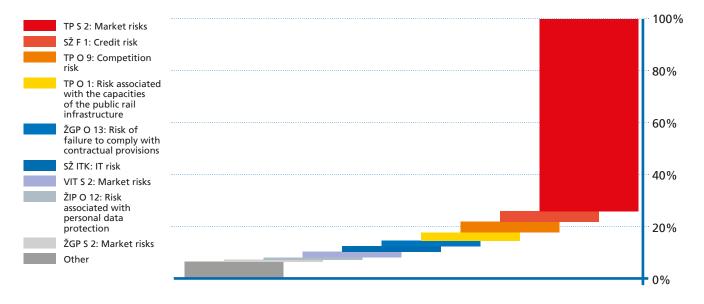
in such situations, and eliminated the duplicate impact of a specific risk.

Risk profile

The risk profile illustrates the structure of exposure to risks or the risk measure at the level of an individual company, where the contribution to aggregate exposure is calculated for every individual risk.

Aggregate risk exposure is assessed as the worst-case scenario (the negative effect or consequence of the realisation of risks on cash flow) that could be realised with a probability of 5% once every twenty years, and represents the basis for the calculation of the liquidity reserves required by a company to cover or hedge against negative effects of risks on cash flow.

Risk profile for the Slovenske železnice Group following the implementation of risk management measures



Average assessed costs required to cover risks on an annual basis

The success of risk management is measured by comparing assessments of the annual costs required to cover risks, before and after the implementation of measures.

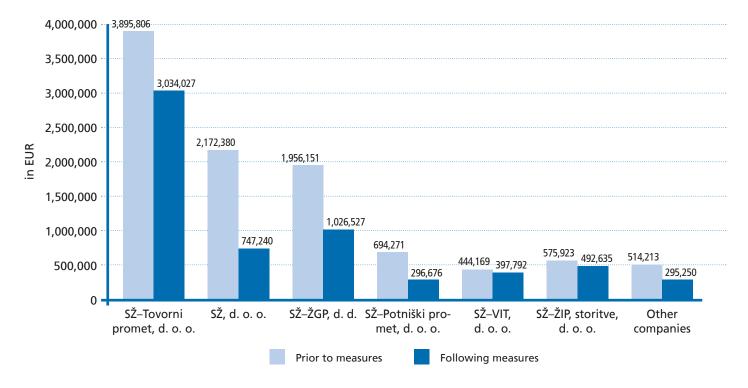
The assessed annual costs of risks comprise the direct cost of risks (i.e. the effect of risks on net cash flow) and the indirect cost of risks (i.e. the cost to maintain sufficient liquidity reserves to hedge against risks that represent the cost of a company's capital).

Through adopted measures, we have assessed that we will reduce the assessed annual cost at the Slovenske železnice Group level by nearly 40%, most notably at

Slovenske železnice, d. o. o. (annual savings of EUR 1.4 million to cover risks), SŽ–Tovorni promet, d. o. o. (EUR 0.9 million) and SŽ-ŽGP, d. d. (EUR 0.9 million).

We expect the greatest savings in the future from a reduction in estimated damage in the event of the realisation of risks associated with information technology (the controlling company Slovenske železnice, d. o. o. is the risk owner), where numerous projects are in progress as part of the digitalisation strategy.

Other key measures in the future will focus primarily on mitigating risks associated with failure to comply with contractual provisions at SŽ-ŽGP, d. d. and the market risks to which SŽ–Tovorni promet, d. o. o. is exposed.



Estimated savings from the coverage of risks based on measures adopted to reduce estimated damages are presented by individual company in the graph below.

Risk management activities are adopted and verified quarterly at meetings of the extended management staff of an individual company and included in the combined register of measures of the Slovenske železnice Group. with risks will contribute to the improved assessment of the value of risks, and thus improve the strategy for mitigating the consequences of the realisation of risks.

We will keep more detailed records next year of the realisation of risks and their financial effects on the Slovenske železnice Group. The recording of the costs associated

STATUS AND DEVELOPMENT OF CORPORATE REPORTING BY SLOVENSKE ŽELEZNICE®

In accordance with the principles of sustainable reporting as the consequence of increasingly in-depth understanding of the impact of non-financial factors on the longterm and short-term commercial success of the Slovenske železnice Group, the annual report for 2017 represents an upgrade to reporting, primarily in terms of harmonisation with the Global Reporting Initiative GRI G4 sustainable reporting guidelines. Material content and disclosures that we have added to scope of reporting according to the GRI G4 as follows:

- relations with stakeholders, where we present a stakeholder map, forms of engagement and key topics of relevance to specific stakeholders; and
- a uniform and more transparent presentation of the competitive environment, achievements, risks and opportunities by activity.

The report covers the period 1 January to 31 December 2017.

The implementation of sustainable reporting is a process. The fact is that the operations of Slovenske železnice are sustainable. The age of the organisation is not proof of that fact alone; our operating and financial results in recent years are also proof. It is also a fact that the rapidly changing environment, particularly in the area of mobility, brings more challenges than ever before to all railways, including the Slovenian railways. Slovenske železnice thus understands sustainable reporting methods as a form of assistance in the identification of new indicators and means for adapting to or exploiting changes in the development function.

This report represents a step forward in the development of corporate reporting. Further development will follow valid frameworks for the introduction of integrated thinking and reporting.





GRI TABLE®

GENERAL STANDARD DISCLOSURES

Indicator	Disclosure	Section	Page	Comment
Strategy a	and analysis			
G4-1	Statement of the highest decision- making body on the importance of sustainable development for the organisation and sustainable development strategy	Statement of the Director General	14	
Organisat	ional profile			
G4-2	Key impacts, risks and opportunities	Operating environment	41	
		Analysis by activity	49, 51, 53, 55, 56, 62, 65, 66, 71, 72, 73, 75	
G4-3	Name of the organisation	General information	22	
G4-4	Primary brands, products and services	General information regarding subsidiaries as at 26 April 2018	23	
		Analysis by activity	49	
		Business model and development policies	24	
G4-5	Location of headquarters	General information	22	
G4-6	Number of countries where the organ- isation operates, and names of coun- tries where either the organisation has significant operations or that are specifically relevant to the sustainabili- ty topics covered in the report	Analysis by activity	49	The number of countries is cov- ered in part in the 2017 report in the section Analysis by activity. In the future, we are planning a sep- arate scheme that will show the presence of activities by country.
G4-7	Ownership and legal form	General information	22	
		Key stakeholders	27	
		Corporate governance statement	30, 32, 35	
G4-8	Markets served (geographic and sectoral breakdown, and breakdown by type of customer)	Analysis by activity	49	
G4-9	Scale of the organisation (number of employees, number of activities, sales revenue, liabilities/equity, number of products and services)	Employees	100	
		Performance analysis	42	
		Analysis by activity	49	
G4-10	Employees by type of employment, type of contract, region and gender	Employees	101	In accordance with internal rules, we do not disclose data regarding em- ployees by contract type and region.
G4-11	Percentage of employees covered by collective agreements	Employees (Structure of employees)	102	
G4-14	Clarification of how the organisation takes into account the precautionary principle.	Corporate governance statement	31	
		Management of risks and opportunities	136	
G4-15	Codes and prescribed principles	Corporate governance statement	30, 31	We disclose codes that relate to corporate governance. In the future, we plan to disclose other codes that apply to the Group.

Indicator	Disclosure	Section	Page	Comment				
G4-16	Membership in organisations	Participation in the international environment	128					
Identification of material aspects and boundaries								
G4-17	Entities included in the consolidated financial statements	Corporate governance statement	35					
G4-18	Process of defining report content and aspect boundaries.	Corporate governance statement	31	Reporting content includes the requirements of codes and plans,				
		Status and development of corporate reporting by Slovenske železnice	139	and the development of corporate reporting. We are planning the definition of aspect boundaries in the future.				
G4-19	List of all material aspects identified in the process of defining report content	Corporate governance statement	31	Reporting content includes the requirements of codes and plans,				
		Status and development of corporate reporting by Slovenske železnice	139	and the development of corporate reporting. We are planning the definition of materiality in the future.				
G4-20	Material aspect boundaries within the organisation	Business model and development policies	24	Reporting content includes the sections Business model and				
		Corporate governance statement	31	development policies and Status and development of corporate reporting by Slovenske železnice.				
		Status and development of corporate reporting by Slovenske železnice	139	We are planning a detailed review of material aspect boundaries.				
G4-21	Material aspect boundaries outside the organisation	Business model and development policies	24	Reporting content includes the sections Business model and				
		Corporate governance statement	31	development policies and Status and development of corporate reporting by Slovenske železnice.				
		Status and development of corporate reporting by Slovenske železnice	139	We are planning a detailed review of material aspect boundaries.				
G4-23	Significant changes from previous reporting periods in terms of scope and aspect boundaries	Status and development of corporate reporting by Slovenske železnice	139					
Stakehold	ler engagement							
G4-24	List of stakeholder groups engaged by the organisation	Key stakeholders	27					
G4-25	Bases for the identification and selection of stakeholders, including the frequency of engagement by stakeholder group	Key stakeholders	27					
G4-26	Approaches to stakeholder engagement, including the frequency of engagement by stakeholder group	Key stakeholders	27					
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to them, including through reporting	Key stakeholders	27					

Indicator	Disclosure	Section	Page	Comment
Report pr	ofile			
G4-28	Reporting period	Status and development of corporate reporting by Slovenske železnice	139	
G4-29	Date of most recent previous report	Significant events in 2017	8	The annual report of the Slovenske železnice Group for 2016 was approved by the Supervisory Board on 13 July 2017.
G4-30	Reporting cycle	Status and development of corporate reporting by Slovenske železnice	139	Annual report
G4-31	Contact point for questions regarding the report	General information	22	
G4-32	GRI content index	GRI table	141	
G4-33	External assurance of reporting according to the GRI Standards			The external assurance of reporting according to the GRI Standards is planned in the future.
Upravljan	je			
G4-34	Governance structure of the	General information	22	
	organisation, including committees of the highest governance body	Corporate governance statement	30, 33, 35	
G4-38	Composition of the highest governance body and committees	Corporate governance statement	30, 33	
G4-56	Description of values, principles, standards and norms, such as codes of	Business model and development policies	25	
	conduct and ethics	Corporate governance statement	30	

143

SPECIFIC STANDARD DISCLOSURES

Indicator	Disclosure	Section	Page	Comment
ECONOMI	С ІМРАСТЅ			
Economic	performance			
G4-EC1	Direct economic value	Performance analysis	42	
	generated and distributed (revenues, operating	Analysis of financial position	77	
	costs, employee wages and bonuses, payments to the owners of capital, payments to the	Profit and loss by individual company/activity	80	
	state (taxes), donations and other investments in the community)	Collection of statements of financial position of Group companies as at 31 December 2017	94	
G4-EC7	Development and impact of	Analysis by activity	66	
	infrastructure investments and support activities	Investments	124	
		Research and development	132	
ENVIRONM	IENTAL IMPACT			
Energy				
G4-EN3	Energy consumption within the organisation	Energy efficiency	116	
G4-EN6	Reduction of energy consumption within the organisation	Energy efficiency	116	Total energy consumption has risen due to the increased scope of train traction services provided.
G4-EN7	Reduction in energy requirements of products and services	Energy efficiency	116	The need for energy for products and services has risen with the increased scope of work. However, Slovenske železnice strives to make improvements in the area of energy efficiency. Specific energy consumption is otherwise in decline.
G4-EN8	Total water withdrawal by source	Environmental responsibility	114	We are planning the disclosure of this information in the future
G4-EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas			following the upgrading of the environmental management system at Slovenske železnice
G4-EN21	NOx, SOx and other significant air emissions			Group companies. In the scope of indicators, we report in part on measures to
G4-EN23	Total weight of waste by type and disposal method			mitigate the environmental impacts of products and services. We also report in part on
G4-EN27	Extent of impact mitigation of environmental impacts of products and services			significant environmental impacts, such as noise.
G4-EN30	Significant environmental impacts of transporting products and other goods and materials for the organisation's operations, and transporting members of the workforce	ransporting products and er goods and materials for organisation's operations, I transporting members of the		
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms			

Indicator	Disclosure	Section	Page	Comment
SOCIAL IM	PACTS			
Labour pra	actices and decent work			
G4-LA1	Total number and rates of new employee hires and employee turnover	Employees (Restructuring of personnel in 2017)	100	
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, with respect to core activities	Employees (Structure of employees)	101	
G4-LA6	Occupational injury rate	Employees (Workplace injuries)	105	
G4-LA9	Average hours of training per year per employee by gender and by employee category	Employees (Education and training in the Slovenske železnice Group)	103	We monitor the situation through the number of trainings hours.
G4-LA12	Composition of governance bodies and the structure of employees by	Corporate governance statement	30, 35	
	employee category according to gender, age (less than 30 years, 30–50 years and over 50 years), minority group membership and other relevant indicators of diversity	Employees (Structure of employees)	101	
G4-LA13	Number of grievances about labour practices filed, addressed and resolved	Corporate governance statement	30	The Slovenske železnice Group pursues the principle of equal
	during the reporting period	Employees (Structure of employees)	101	 wages for all employees in accordance with the applicable labour legislation.
G4-LA16	Število zaznanih, prejetih in rešenih pritožb v zvezi z delovnimi praksami v poročanem obdobju	Employees (Concern for employees)	103	
Company				
G4-SO1	Percentage of operations with	Key stakeholders	27	
	implemented local community engagement, impact assessments and development programmes	Engagement with the wider environment	109	
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Corporate governance statement	37	
Product re	sponsibility			
G4-PR5	Results of surveys measuring customer	Freight transport	52	
	satisfaction	Passenger transport	63	

IMPROVED KEY FINANCIAL INDICATORS

10

310-003

All of Slovenske železnice's key financial indicators improved in 2017 relative to the previous year. We can thus direct the fruits of our success to development and investment activities with increased business optimism.

FINANCIAL REPORT

3

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 in Ljubljana. The consolidated financial statements for the period ending 31 December 2017 relate to the Slovenske železnice Group, which comprises the controlling company and its subsidiaries. The consolidated financial statements of the Slovenske železnice Group for the year ending 31 December 2017 are presented below. The consolidated financial statements include Slovenske železnice, d. o. o. and its subsidiaries, and the Slovenske železnice Group's participating interests in associates (hereinafter: the Group). A detailed overview of the composition of the Slovenske železnice Group is presented in the section Governance of subsidiaries in the business report.

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 26 April 2018.

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 judgements

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 property, 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 according to valid 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 to require impairment 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-employments 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

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:

- Slovenske železnice, 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)
- VV-LOG d. o. o. (which is 2/3 owned by Fersped, d. o. o. and 1/3 owned by the company itself)
- 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.)
- SŽ-ŽIP, d. o. o., Savudrija, Croatia (100% owned by SŽ--ŽIP, storitve, d. o. o.)
- SI-Cargo Logistics, d. o. o., Belgrade, (Republic of Serbia), 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 in their capital.

Ferit, s. r. l., Trieste (Italy), which is 80% owned by Fersped, d. o. o., and Fercargo, d. o. o., Sarajevo (Bosnia and Herzegovina), which is 70% owned by Fersped, d. o. o., are excluded from consolidation due to a lack of control.

The accounting policies relate to both the Slovenske železnice Group and Slovenske železnice, d. o. o., and are only presented in the first part of the financial report.

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 Slovenske železnice 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.

Standard/ interpretation	Effective from	Expected effect on the financial statements		
IFRS 16	1 January 2019	Being studied		
IFRS 9	1 January 2018	No material effect		
IFRS 15	1 January 2018	No material effect		
IFRIC 15	1 January 2018	No material effect		

IFRS 16 Leases

The Official Journal of the European Union published Commission Regulation (EU) 2017/1986 of 31 October amending Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 16 Leases, which will replace IAS 17. The application of IFRS 16 includes reporting on leased assets and the disclosure of liabilities in connection with leased assets for the majority of lease agreements, with certain exceptions. In accordance with the aforementioned standard, a lessee must account for all lease payments according to a single model in the scope of a company's financial position. The standard allows lessees to apply two exceptions in disclosure: when the value of the underlying asset is low and when the lease term is 12 months or less. On the day a lease commences, the lessee recognises a lease liability and a right-of-use asset for the duration of the lease.

The lessee must disclose interest expenses relating to the lease liability and the depreciation costs associated with the right-of-use asset separately. The lessee must also remeasure the lease liability when certain events arise, such as a change in the lease term or a change in the amount of future lease payments as the result of a change in the index or rate used to determine those payments. The value of the remeasured lease liability is generally recognised as an adjustment to the right-of-use asset.

The Slovenske železnice Group and Slovenske železnice, d. o. o. are studying the effect of the new standard, which they will apply when it enters into force.

IFRS 9 Financial Instruments

In July 2014, the IASB published the final version of this standard, which introduces new requirements regarding the classification and measurement of financial assets and liabilities, the recognition of associated impairments and hedge accounting. Revised IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Companies must apply the amendments to the standard retroactively, but are not required to present comparable data.

The Slovenske železnice Group and Slovenske železnice, d. o. o. do not expect the aforementioned standard to have a material impact on their financial statements for the following reasons:

- Financial assets that are currently classified as available-for-sale and measured at fair value through profit or loss will continue to be measured on the same basis in accordance with IFRS 9.
- Assets that are currently measured at fair value through profit or loss will continue to be measured on the same basis in accordance with IFRS 9.
- Debt instruments currently measured at amortised cost meet the requirements for classification at amortised cost in accordance with IFRS 9.

The new impairment model requires the recognition of provisions for impairments that are based on expected credit losses instead of actual credit losses, as is the case with IAS 39. The Slovenske železnice Group and Slovenske železnice, d. o. o. do not expect an increase in impairments of receivables, as the existing system of adjustments to the value of receivables ensures sufficient impairments, even under IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers, as published by the IASB in April 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 Slovenske železnice Group does not expect any material differences in the timing of revenue recognition.

The majority of its revenues derive from contracts defined as the distinct supply of goods and services. Contracts do not include separately identifiable liabilities, and we believe that the currently valid accounting policy on the recognition of revenues is in line with the new requirements of IFRS 15.

For the most part, the Slovenske železnice Group does not recognise revenues from contracts with customers in which a financial component has been identified. The disclosure of revenues in connection with financing will not have a material impact on the Slovenske železnice Group's financial statements.

IFRS 15 includes special criteria for determining the costs incurred to obtain contracts with customers, which are capitalised. They include those costs that would not arise if the Company did not obtain a contract. The Company only recognises those costs as an asset if it expects them to be recovered. The Slovenske železnice Group assesses that no material costs to obtain or fulfil contracts exist. The Slovenske železnice Group may consider two possibilities for the implementation of the new standard:

- An adjusted retrospective approach, without changes to comparable financial statements and an adjustment to equity at the beginning of 2018.
- A full retrospective approach, with retrospective changes to comparable financial statements for every previous reporting period.

The Slovenske železnice Group and Slovenske železnice, d. o. o. will implement the new standard in the compilation of the financial statements for 2018 by applying the standard for future periods and disclosing the total effects of the transition, with an adjustment to equity at the beginning of 2018.

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
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 9 Prepayment Features with Negative Compensation	1 January 2019	No material effect
Amendments to IAS 40 Investment Property	1 January 2018	No material effect
Amendments to various standards – Annual Improvements to the IFRS 2014–2016 Cycle	1 January 2018	No material effect
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	No material effect
IFRIC 23 Uncertainty Over Income Tax Treatments	1 January 2019	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
Amendments to 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 February 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 February 2015	No material effect
Amendments to various standards – Annual Improvements to IFRS 2012–2014 Cycle	1 January 2016	No material effect
Amendments to IAS 7 Statement of Cash Flows	1 January 2017	No material effect
Amendments to IAS 12 Income Taxes	1 January 2017	No material effect
Amendments to IFRS 12 Disclosure of Interests in Other Entities	1 January 2017	No material effect

Individual accounting policies

a) Basis for consolidation

The consolidated financial statements of the Slovenske železnice Group include the financial statements of the controlling company Slovenske železnice, 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 Slovenske železnice 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 Slovenske železnice Group. The Slovenske železnice Group controls a subsidiary when:

- it exercises influence over the company in which it has invested;
- it 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
- it 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 Slovenske železnice 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 Slovenske železnice Group.

When the Slovenske železnice Group loses control over a subsidiary:

- the assets and liabilities of the former subsidiary, noncontrolling 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 Slovenske železnice Group in a former subsidiary is disclosed in other financial assets.

Slovenske železnice, d. o. o. accounts for investments in subsidiaries in its financial statements at historical cost.

Slovenske železnice, d. o. o. recognises revenues from financial assets in the amount it receives from the distribution of a subsidiary's profits that accumulated following the date of acquisition of a particular financial asset. Pursuant to the provisions of Article 533 of the Companies Act, control agreements have been concluded with 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 Ljubljana, d. o. o. and Fersped, d. o. o. Pursuant to Article 542 of the Companies Act, the controlling company must settle the annual losses of a subsidiary for the duration of a control agreement, if such losses are not covered by other profit reserves to which profit was allocated for the duration of an agreement.

Controlled companies within the Slovenske železnice Group disclosed a profit in 2017. The controlling company was not obliged to cover the annual losses of subsidiaries pursuant to Article 542 of the Companies Act.

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 Slovenske železnice Group include the latter's share of the profits and losses of associates calculated according to the equity method. If the Slovenske železnice 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 Slovenske železnice 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 Slovenske železnice Group's interest in an associate. Unrealised losses are excluded in the same manner as gains.

b) Conversion of foreign currencies

Transactions in foreign currencies

Transactions denominated in a foreign currency are translated into the functional currency of the Slovenske železnice Group (i.e. the euro) 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 rate 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 rate differences are recognised in the statement of profit or loss.

Financial statements of Slovenske železnice Group companies

The consolidated financial statements of the Slovenske železnice Group are compiled in euros. The items from the financial statements of each Slovenske železnice 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 rate differences are recognised in other comprehensive income and disclosed in the item 'exchange rate differences' within equity. The proportionate amount of exchange rate 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 accumulated 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 the 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 2017. 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 Slovenske železnice Group is disclosed by Fersped, d. o. o. and VV-LOG, 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 original cost or revalued original cost, and a separate adjustment to value, where the adjustment to value represents the cumulative write-down resulting from depreciation. 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, borrowing costs 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/depreciation and revaluation

The straight-line depreciation method is used. Amortisation and depreciation are calculated separately, and are 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 2017 and 2016

	Lowest	Highest
1. Buildings	1.00%	10.00%
2. Production equipment	2.00%	25.00%
3. Computer equipment	20.00%	50.00%
4. Motor vehicles	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 the 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 property 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, property is classified to investment property or property, plant and equipment, taking into account the proportionate use of the property for a specific purpose (calculated based on surface area). If the proportionate use of property for leasing purposes exceeds 90%, the property is disclosed in full as investment property. If the proportionate use of property for leasing purposes is less than 10%, the property is disclosed in full as property, plant and equipment. In other cases, property 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 property, 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 property is deemed investment property. When ancillary services account for more than 20% of total revenues from the associated agreement, the property 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 property 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 exists 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, small inventory with a useful life of less than one year, work in progress, and inventories of finished goods and merchandise.

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 comprise rights arising from property and other relationships that entitle their holder to demand the payment of a debt, the delivery of goods or the rendering of services from a specific person. Receivables in connection with the sale of goods and the provision of services are typically recognised simultaneously with 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 at least 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 past due in the amount of 30%,
 - b) receivables 181 to 365 days past due in the amount of 50%, and
 - c) receivables more than 365 days past due in the amount of 100%;
- trade receivables for which compulsory composition has been confirmed (disclosed on separate accounts):
 a) receivables up to 365 days past due in the amount of 50%, and
 - b) receivables more than 365 days past due 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,
- Ioans 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 typically 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 Slovenske železnice 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 Slovenske železnice Group intends and has the ability to hold to maturity, except:

- those financial assets that the Slovenske železnice Group initially recognises as assets at fair value through profit or loss,
- those financial assets that the Slovenske železnice 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 that are 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 noncurrent 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 classified as loans and receivables or as financial assets at fair value through profit or loss. They are measured at fair value if fair value 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 rate 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 Group 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 Group 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 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 termination benefits at retirement 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 termination benefits at retirement 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 revenue generated from investing activities. It arises in connection with investments, and also in connection with receivables in the form of accrued 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 the consolidated financial statements.

Finance costs are recognised when accrued, 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 account 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.

Determination of fair value

Given Slovenske železnice, 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 Slovenske železnice Group and Slovenske železnice, d. o. o. use 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 Slovenske železnice 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 Slovenske železnice 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 CONSOLIDATED FINANCIAL STATEMENTS OF THE SLOVENSKE ŽELEZNICE GROUP

2.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Balance	as at
in EUR	Note	31 Dec. 2017	31 Dec. 2016
ASSETS	_	574,926,962	554,747,800
A. Non-current assets		378,010,765	367,848,773
Intangible assets	2.6.1.1	5,209,209	3,373,755
Property, plant and equipment	2.6.1.2	295,955,825	293,367,521
Investment property	2.6.1.3	46,468,652	42,618,093
Investments in associates	2.6.1.4	12,478,349	12,313,226
Other financial assets	2.6.1.4	4,162,294	4,156,229
Financial receivables	2.6.1.5	3,133,327	3,045,047
Operating receivables	2.6.1.6	5,047,642	3,891,215
Deferred tax assets	2.6.1.7	4,403,947	3,256,925
Other non-current assets	2.6.1.8	1,151,520	1,826,762
B. Current assets		196,916,197	186,899,027
Assets held for sale		52,573	19,804
Inventories	2.6.1.9	33,893,935	30,270,261
Financial receivables	2.6.1.10	824,336	694,996
Trade receivables	2.6.1.11	66,399,598	78,565,424
Other operating receivables	2.6.1.12	60,740,370	28,528,520
Receivables for corporate income tax	2.6.2.10	495,687	2,178,438
Cash and cash equivalents	2.6.1.13	34,509,698	46,641,584
EQUITY AND LIABILITIES		574,926,962	554,747,800
A. Equity	2.6.1.14	330,332,962	305,586,451
a) Equity of the owner of the controlling company		325,724,946	300,357,382
Called-up capital		205,274,421	205,274,421
Share premium account		45,002,140	45,002,140
Legal reserves		1,869,355	1,573,711
Other profit reserves		28,315,958	6,701,431
Fair value reserves		-2,382,728	-28,776
Retained earnings		47,647,673	41,855,093
1. Retained earnings from previous years		19,974,814	24,693,260
2. Undistributed retained earnings from the financial year		27,672,859	17,161,833
Translation differences		-1,873	-20,638
b) Non-controlling interest	·	4,608,016	5,229,069
B. Non-current liabilities		144,880,688	154,891,715
Provisions for jubilee benefits and termination benefits	2.6.1.15	28,463,196	24,129,405
Other provisions	2.6.1.15	931,819	1,236,039
Non-current deferred income	2.6.1.16	2,409,409	3,973,054
Financial liabilities	2.6.1.17	111,392,771	125,178,455
Operating liabilities	2.6.1.18	1,683,280	374,479
Deferred tax liabilities		213	283
C. Current liabilities		99,713,312	94,269,634
Financial liabilities	2.6.1.17	12,644,474	13,808,310
Trade payables	2.6.1.19	29,368,411	27,953,271
Other operating liabilities	2.6.1.18	57,440,702	52,506,905
Liabilities for corporate income tax	2.6.2.10	259,725	1,148

2.2 CONSOLIDATED STATEMENT OF PROFIT OR LOSS

in EUR	Note	2017	2016
1. Net sales revenue	2.6.2.1	397,100,113	390,809,392
2. Change in the value of inventories of finished goods and work in progress		29,867	1,318,847
3. Capitalised own products and services	2.6.2.2	32,448,420	32,358,369
4. Other operating revenue	2.6.2.3	87,801,898	77,435,894
5. Costs of goods, materials and services	2.6.2.4	205,961,776	194,263,454
6. Labour costs	2.6.2.5	241,648,389	244,214,599
7. Write-downs	2.6.2.6	36,306,517	35,937,114
8. Other operating expenses	2.6.2.7	2,522,290	2,865,523
9. Operating profit or loss (1 ± 2 + 3 + 4 - 5 - 6 - 7 - 8)		30,941,326	24,641,812
10. Finance income	2.6.2.8	3,769,017	4,809,016
11. Finance costs	2.6.2.9	4,912,042	4,696,207
12. Net finance income/costs (10 – 11)		-1,143,025	112,809
13. Pre-tax profit or loss (9 + 13)		29,798,301	24,754,621
14. Current tax		301,046	576,480
15. Deferred taxes	2.6.1.7	-1,147,101	-877,437
16. Corporate income tax	2.6.2.10	-846,055	-300,957
17. Net profit or loss for the accounting period		30,644,356	25,055,578
Net profit or loss for the accounting period pertaining to:			
a) owner of the controlling company		30,629,299	24,607,867
b) non-controlling interest		15,057	447,711

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

2.3 CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR	Note	2017	2016
Net profit or loss for the accounting period		30,644,356	25,055,578
Items that will not be reclassified subsequently to profit or loss		-2,222,001	763,724
Actuarial gains/losses		-2,387,125	-263,671
Attributable changes in equity of associates		165,124	1,027,395
Items that may be reclassified subsequently to profit or loss		-68,656	134,712
Net changes in the fair value of available-for-sale instruments		1,221	-914
Other changes		-88,641	144,186
Exchange rate differences		18,764	-8,560
Other comprehensive income for the financial year		-2,290,657	898,436
Total comprehensive income for the reporting period		28,353,699	25,954,014
Total comprehensive income for the reporting period attributable to:			
a) owner of the controlling company		28,367,563	24,607,867
b) non-controlling interest		-13,864	447,710

2.4 CONSOLIDATED STATEMENT OF CASH FLOWS

in E	UR	Note	2017	2016
Α.	CASH FLOWS FROM OPERATING ACTIVITIES			
a)	Net profit or loss		30,644,357	25,055,578
	Pre-tax profit or loss	2.2	29,798,301	24,754,622
	Corporate income tax and other taxes not included in operating expenses		-846,056	-300,956
b)	Adjustments for		27,648,261	32,510,634
	amortisation and depreciation (+)	2.6.2.6	34,812,773	34,244,043
	revaluation operating revenues (-)		-2,890,135	-4,550,482
	revaluation operating expenses (+)		1,493,745	1,693,071
	finance income, excluding finance income from operating receivables (-)	2.6.2.8	-3,545,873	-4,408,715
	finance costs, excluding finance costs from operating liabilities (+)	2.6.2.9	4,797,970	4,552,156
	other adjustments to revenues and expenses		157,977	-5,579,422
	other adjustments to balance sheet operating items		-7,178,196	6,559,983
c)	Changes in net working capital (and provisions and deferred tax assets and liabilities) from balance sheet operating items		-13,232,981	-34,429,296
	Opening less closing operating receivables		-18,844,456	-3,814,194
	Opening less closing deferred tax assets		-1,147,022	-877,567
	Opening less closing available-for-sale assets (disposal groups)		0	-19,804
	Opening less closing inventories		-3,623,674	-5,714,985
	Closing less opening operating liabilities		7,916,315	-22,994,632
	Closing less opening provisions		2,465,926	-1,008,240
	Closing less opening deferred tax liabilities		-70	126
d)	Net cash flows from operating activities (a + b + c + d + e)		45,059,637	23,136,916
В.	CASH FLOWS FROM INVESTING ACTIVITIES			
a)	Inflows from investing activities		8,030,249	9,530,151
	Inflows from interest received, and shares in the profit of others		808,885	3,265,309
	Inflows from the disposal of property, plant and equipment	2.6.1.2	1,509,860	2,785,779
	Inflows from the disposal of investment property	2.6.1.3	1,099,895	3,039,066
	Inflows from the disposal of financial assets		4,611,609	439,997
b)	Outflows from investing activities		-45,449,439	-33,371,364
	Outflows for the acquisition of intangible assets	2.6.1.1	-2,372,422	-1,550,625
	Outflows for the acquisition of property, plant and equipment	2.6.1.2	-35,845,975	-30,305,730
	Outflows for the acquisition of investment property	2.6.1.3	-1,946,090	-1,476,762
	Outflows for the acquisition of financial assets	2.6.1.4	-5,284,952	-38,247
c)	Net cash flows from investing activities (a + b)		-38,228,075	-27,106,522
С.	CASH FLOWS FROM FINANCING ACTIVITIES			
a)	Inflows from financing activities		28,000,000	1,500,000
	Inflows from the increase in financial liabilities	2.6.1.17	28,000,000	1,500,000
b)	Outflows from financing activities		-44,072,961	-12,833,955
	Outflows for interest paid		-3,702,466	-3,518,720
	Outflows for the repayment of capital		-1,600	-9,365
	Outflows for the repayment of financial liabilities	2.6.1.17	-40,463,673	-9,226,111
	Outflows for the payment of dividends and other shares in profit		-3,607,688	-3,598,479
c)	Net cash flows from financing activities (a + b)		-16,072,961	-11,333,955
D.	Closing balance of cash and cash equivalents	2.6.1.13	34,509,699	46,641,584
x)	Net cash flow in period (sum of Ac, Bc and Cc)		-12,134,980	-15,556,972
	+/- Calculated exchange rate differences from foreign currency assets		3,095	0

2.5 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in the period 1 January to 31 December 2017

						Retained	l earnings		Equity of		
in EUR	_Share capital	Share premium account	Legal reserves	Other profit reserves	Fair value reserves	Retained earnings from previ- ous years	Undistrib. retained earn. from the fin. year	Tran- slation differen- ces	the owner of the	Non-con- trolling interest	Total
Opening balance for 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
Changes in equity – transactions with owners	0	0	0	0	0	-3,000,000	0	0	-3,000,000	-607,188	-3,607,188
Payment of shares in profit and dividends						-3,000,000			-3,000,000	-607,188	-3,607,188
Changes in total comprehensive income for the reporting period	0	0	0	0	-2,353,952	73,452	30,629,299	18,764	28,367,563	-13,864	28,353,699
Entry of net profit or loss for the reporting period							30,629,299		30,629,299	15,057	30,644,356
Items that will not be reclas- sified subsequently to profit					-2,355,173	162,093			-2,193,080	-28,921	-2,222,001
or loss Items that may be reclassified					1,221	-88,641			-87,420		-87,420
subsequently to profit or loss Gains and losses from the con-											
version of foreign companies' financial statements								18,764	18,764		18,764
Changes within equity	0	0	295,644	21,614,527	0	-1,791,898	-20,118,273	0	0	0	0
Allocation of remaining portion of net profit for the comparable reporting period to other						17,161,833	-17,161,833				0
<u>components of equity</u> Allocation of a portion of net											
profit from the reporting period to other components of equity			295,644	21,614,527		-18,953,731	-2,956,440				0
Closing balance for reporting period	205,274,421	45,002,140	1,869,355	28,315,958	-2,382,728	19,974,815	27,672,859	-1,874	325,724,946	4,608,016	330,332,962

in the period 1 January to 31 December 2016

						Retained	l earnings		Equity of		
in EUR	Share Other premium Legal profit Share capital account reserves reserves	Fair value reserves	Retained earnings from previ- ous years	Undistrib. retained earn. from the fin. year	retained slation rn. from differen-	the owner of the N controlling	Non-con- trolling interest	Total			
Opening balance for 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 or loss for the reporting period							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 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

2.6 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.6.1 Notes to the statement of consolidated financial position

2.6.1.1 Intangible assets

in EUR	31 Dec. 2017	31 Dec. 2016
Long-term property rights	1,601,803	1,745,214
Goodwill	3,568,239	1,579,374
Non-current deferred development costs	39,167	49,167
Total	5,209,209	3,373,755

On 26 December 2017, the Group acquired a controlling interest in VV-LOG, d. o. o., with the purchase of 2/3 participating interest (VV-LOG d. o. o. hold a 1/3 own participating interest). When the Group initially began accounting for business combinations, it took into account the carrying amount of assets and liabilities as their fair value. In accordance with the provisions of IFRS 3, Initial accounting may be amended within twelve months from the date of acquisition. The calculation of goodwill is presented below.

in EUR	Fair value as at 31 December 2017	Carrying amount as at 31 December 2017
ASSETS		
Cash and cash equivalents	872,277	872,277
Intangible assets	1,396	1,396
Property, plant and equipment, and intangible assets	32,360	32,360
Financial receivables	65,000	65,000
Operating receivables	863,310	863,310
EQUITY AND LIABILITIES		
Operating liabilities	820,428	820,428
NET ASSETS FROM ACQUISITION	1,013,915	
Purchase price	3,002,780	
Carrying amount of net assets acquired	1,013,915	
GOODWILL	1,988,865	

Changes in intangible assets

in EUR	Long-term property rights	Goodwill	Non-current deferred development costs	Total
Historical cost				
Balance as at 1 January 2016	7,199,132	1,579,374	139,338	8,917,844
Acquisitions	1,048,192	0	50,000	1,098,192
Disposals	-1,281	0	0	-1,281
Write-downs	-14,665	0	0	-14,665
Balance as at 31 December 2016	8,231,378	1,579,374	189,338	10,000,090
Balance as at 1 January 2017	8,231,378	1,579,374	189,338	10,000,090
Increase (VV-LOG, d. o. o.)	4,135	1,988,865	0	1,993,001
Acquisitions	451,825	0	0	451,825
Disposals	-255,650	0	0	-255,650
Balance as at 31 December 2017	8,431,689	3,568,239	189,338	12,189,266
Value adjustment				
Balance as at 1 January 2016	6,037,867	0	139,338	6,177,205
Write-downs	-15,946	0	0	-15,946
Amortisation	464,242	0	834	465,076
Balance as at 31 December 2016	6,486,164	0	140,171	6,626,335
Balance as at 1 January 2017	6,486,164	0	140,171	6,626,335
Increase (VV-LOG, d. o. o.)	2,739	0	0	2,739
Write-downs	-250,874	0	0	-250,874
Amortisation	591,856	0	10,000	601,856
Balance as at 31 December 2017	6,829,885	0	150,171	6,980,056
Carrying amount				
Balance as at 1 January 2016	1,161,265	1,579,374	0	2,740,639
Balance as at 31 January 2016	1,745,214	1,579,374	49,167	3,373,755
Balance as at 1 January 2017	1,745,214	1,579,374	49,167	3,373,755
Balance as at 31 December 2017	1,601,803	3,568,239	39,167	5,209,209

The Slovenske železnice Group had no commitments for the acquisition of intangible assets as at 31 December 2016 and 31 December 2017, nor had it pledged intangible assets as collateral.

A total of 69.5% of all intangible assets in use as at 31 December 2017 have been depreciated in full (that proportion stood at 65.2% as at 31 December 2016). That proportion is calculated taking into account the historical cost of intangible assets.

2.6.1.2 Property, plant and equipment

in EUR	31 Dec. 2017	31 Dec. 2016
Land	9,960,999	9,669,890
Buildings	54,253,740	55,747,270
Equipment	216,589,210	213,587,160
- rolling stock	194,867,952	194,559,096
- other equipment	21,721,258	19,028,064
Property, plant and equipment in acquisition	15,151,876	14,363,201
Total	295,955,825	293,367,521

Changes in property, plant and equipment

			Plant and equipment, and investments in		Property, plant and equipment	Total property, plant and
in EUR	Land	Buildings	the assets of others	leasing	in acquisition	equipment
Historical cost						
Balance as at 1 Jan. 2016	10,504,728	122,585,948	822,494,362	3,301,951	7,386,423	966,273,412
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 Dec. 2016	9,669,890	126,098,667	824,050,500	3,320,357	14,363,201	977,502,615
Balance as at 1 Jan. 2017	9,669,890	126,098,667	824,050,500	3,320,357	14,363,200	977,502,615
Increase (VV-LOG, d. o. o.)	0	0	68,629	0	0	68,629
Acquisitions	833,332	1,185,432	32,305,680	2,530,808	791,695	37,646,947
Disposals	-8,228	-778,834	-45,416,255	-22,000	0	-46,225,317
Transfers to investment property	-533,995	-685,696	0	0	0	-1,219,691
Write-downs	0	0	-1,819	0	-3,020	-4,839
Transfers	0	0	99,419	-99,419	0	0
Exclusion from consolidation	0	0	-15,521	0	0	-15,521
Balance as at 31 Dec. 2017	9,960,999	125,819,569	811,090,633	5,729,746	15,151,876	967,752,823
Value adjustment						
Balance as at 1 Jan. 2016	0	65,496,940	603,267,953	653,214	0	669,418,107
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 Dec. 2016	0	70,351,397	612,877,367	906,331	0	684,135,094
Balance as at 1 Jan. 2017	0	70,351,397	612,877,367	906,331	0	684,135,094
Increase (VV-LOG, d. o. o.)	0	0	36,269	0	0	36,269
Increases	0	-78	85,480	-39,515	0	45,887
Decreases	0	-609,205	-45,225,815	-21,633	0	-45,856,653
Transfers to investment property	0	-341,719	0	0	0	-341,719
Depreciation	0	2,165,434	31,086,506	526,180	0	33,778,120
Exclusion from consolidation	0	0	-12,599	0	0	-12,599
Balance as at 31 Dec. 2017	0	71,565,829	598,859,807	1,371,363	0	671,796,998
Carrying amount						
Balance as at 1 Jan. 2016	10,504,728	57,089,008	219,226,409	2,648,738	7,386,423	296,855,306
Balance as at 31 Dec. 2016	9,669,890	55,747,270	211,173,133	2,414,026	14,363,201	293,367,521
Balance as at 1 Jan. 2017	9,669,890	55,747,270	211,173,133	2,414,026	14,363,201	293,367,521
Balance as at 31 Dec. 2017	9,960,999	54,253,740	212,230,826	4,358,383	15,151,876	295,955,825

Moveable property and real estate valued at EUR 84,135,574 were pledged as guarantees for long-term loans as at 31 December 2017 (EUR 87,525,153 as at 31 December 2016).

The Group had commitments for the purchase of property, plant and equipment in the amount of EUR 125,536,595 as at 31 December 2017 (EUR 138,429,510 as at 31 December 2016).

A total of 46.4% of all items of property, plant and equipment in use as at 31 December 2017 have been depreciated in full (that proportion stood at 47.5% as at 31 December 2016). That proportion is calculated taking into account the historical cost of property, plant and equipment.

2.6.1.3 Investment property

in EUR	31 Dec. 2017	31 Dec. 2016
Investment property	46,468,652	42,618,093
Total	46,468,652	42,618,093

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 1 Jan. 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 Dec. 2016	37,567,550	23,427,821	60,995,371
Balance as at 1 Jan. 2017	37,567,549	23,427,821	60,995,370
Acquisitions	1,781,275	1,970,737	3,752,012
Disposals	-98,054	-679,115	-777,168
Transfers for sale	-17,825	-74,606	-92,431
Transfers to property, plant and equipment	0	0	0
Transfers from property, plant and equipment	533,994	685,693	1,219,688
Balance as at 31 Dec. 2017	39,766,940	25,330,531	65,097,471
Value adjustment			
Balance as at 1 Jan. 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 Dec. 2016	0	18,377,278	18,377,278
Balance as at 1 Jan. 2017	0	18,377,277	18,377,277
Depreciation	0	432,795	432,795
Disposals	0	-522,972	-522,972
Transfers to property, plant and equipment	0	0	0
Transfers from property, plant and equipment	0	341,719	341,719
Balance as at 31 Dec. 2017	0	18,628,819	18,628,819
Carrying amount			
Balance as at 1 Jan. 2016	38,050,162	5,231,049	43,281,211
Balance as at 31 Dec. 2016	37,567,549	5,050,544	42,618,093
Balance as at 1 Jan. 2017	37,567,549	5,050,544	42,618,093
Balance as at 31 Dec. 2017	39,766,940	6,701,712	46,468,652

The Group has not pledged investment property as collateral.

The Group generated rental income of EUR 1,626,137 in 2017 (EUR 1,751,302 in 2016). Depreciation costs associated with investment property totalled EUR 432,795 (EUR 449,607 in 2016).

The fair value of investment property was determined with the help of certified real estate valuers and amounted to EUR 68,920,246 as at 31 December 2017 (EUR 68,584,928 as at 31 December 2016).

2.6.1.4 Non-current financial assets

in EUR	31 Dec. 2017	31 Dec. 2016
Investments in associates	12,478,349	12,313,226
Available-for-sale financial assets	4,162,294	4,156,229
Total	16,640,643	16,469,455

The Group had no non-current financial assets pledged as guarantees for long-term loans as at 31 December 2017, nor at 31 December 2016.

Information regarding associates as at 31 December 2017

Business name of associate	Business address of associate	Activity	Ownership as at 31 Dec. 2017	Ownership as at 31 Dec. 2016
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., Ljubljana	Tivolska cesta 50, Ljubljana	Freight rail transport	33.72%	33.72%
CKTZ, d. d., Zagreb	Trg senjskih uskoka 7-8, Zagreb	Combined transport services	29.41%	29.41%

	Ec	quity	Profit or loss for the year		
in EUR	31 Dec. 2017	31 Dec. 2016	2017	2016	
Terme Olimia, d. d.	33,409,463	32,663,032	756,569	1,500,131	
Adria Kombi, d. o. o., Ljubljana	10,811,876	10,896,921	1,378,954	2,089,467	
CKTZ, d. d., Zagreb	2,915,403	2,862,288	307,299	257,725	
Total investments in associates	47,136,742	46,422,241	2,442,822	3,847,323	

Balance of investments in associates

in EUR	31. Dec. 2017	31. Dec. 2016
Terme Olimia, d. d.	7,975,112	7,796,933
Adria Kombi, d. o. o., Ljubljana	3,645,764	3,674,442
CKTZ, d. d., Zagreb	857,473	841,851
Total investments in associates	12,478,349	12,313,226

Changes in investments in associates

	Slovenske že	Slovenske železnice Group		
in EUR	31. Dec. 2017	31. Dec. 2016		
Balance as at 1 January	12,313,226	11,285,831		
Attributable profit/loss	735,965	1,138,463		
Dividends received	-542,759	-961,672		
Increase in participating interest in associates	0	841,242		
Attributable changes in equity of associates	-28,083	9,362		
Balance as at 31 December	12,478,349	12,313,226		

	Participating	Amount of i	Amount of investment in EUR		
Available-for-sale financial assets	interest in %	31. Dec. 2017	31. Dec. 2016		
– Emonika NS, d. o. o.	3.00	1,953,330	1,953,330		
– EUROFIMA	0.42	2,033,709	2,033,709		
– Emonika PS, d. o. o.	3.00	67,549	67,549		
– HIT RAIL		54,439	54,439		
– Telekom, d. d.		27,350	27,350		
– Ferit, s. r. l., Trst	80.00	8,000	8,000		
– Fercago, d. o. o., Sarajevo	70.00	924	924		
 Other shares and participating interests 		16,993	10,893		
Total		4,162,294	4,156,229		

2.6.1.5 Non-current financial receivables

in EUR	31 Dec. 2017	31 Dec. 2016
Receivables for funds paid to institution (Železniški zdravstveni dom)	2,401,003	2,401,003
Deposits at banks	720,210	631,768
Other financial receivables	12,114	12,276
Total	3,133,327	3,045,047

2.6.1.6 Non-current operating receivables

in EUR	31 Dec. 2017	31 Dec. 2016
Trade receivables	106,633	106,070
Trade credits for the purchase of real estate	3,515,243	3,450,295
Other operating receivables	1,425,766	334,850
Total	5,047,642	3,891,215

2.6.1.7 Deferred tax assets

in EUR	31 Dec. 2017	31 Dec. 2016
Deferred tax assets	4,403,947	3,256,925

Deferred tax assets are recognised in an amount that is in line with the adjusted tax base.

Company	Consolidated 31. Dec. 2017	Consolidated 31. Dec. 2016
· SŽ, d. o. o.	1,221,900	827,603
· SŽ-Infrastruktura, d. o. o.	1,782,564	1,501,353
· SŽ-Potniški promet, d. o. o.	248,994	0
· SŽ-Tovorni promet, d. o. o.	471,892	0
· SŽ-ŽGP Group	216,316	211,865
· SŽ-VIT, d. o. o.	0	288,040
· Fersped, d. o. o.	447,298	402,990
· SŽ-Železniška tiskarna, d. d.	4,177	5,559
· Prometni institut, d. o. o.	10,805	19,515
Total	4,403,946	3,256,925

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 operating results, the Group assesses that there is an increased probability of a reduction in tax bases as the result of non-deductible expenses. Deferred tax assets were therefore higher relative to 2016.

Changes in deferred tax assets within the Slovenske železnice Group in 2017:

in EUR	Tax loss	Provisions	Tax allowances for investments	Adjustments to the value of receivables	Total
Balance at 1 January 2016	1,688,780	407,471	0	283,297	2,379,548
Used	-761,600	-39,770	0	-88,589	-889,959
Created	1,757,885	8,428	0	1,023	1,767,336
Balance at 31 December 2016	2,685,065	376,129	0	195,731	3,256,925
Used	-296,440	-23,919	-1,554	-9,136	-331,049
Created	264,857	831,264	347,128	34,822	1,478,071
Balance at 31 December 2017	2,653,482	1,183,474	345,574	221,417	4,403,947

2.6.1.8 Other non-current assets

in EUR	31 Dec. 2017	31 Dec. 2016
Deferred licence maintenance costs	596,509	596,509
Deferred costs from the periodic revision of locomotives	229,431	937,076
Deferred costs for the reserve fund for leased housing	325,580	293,177
Total	1,151,520	1,826,762

2.6.1.9 Inventories

in EUR	31 Dec. 2017	31 Dec. 2016
Material	11,173,578	7,844,054
Replacement parts	16,629,658	16,312,970
Small inventory and packaging	473,270	516,403
Work in progress	3,399,366	3,416,840
Products and merchandise	2,218,063	2,179,994
Total	33,893,935	30,270,261

Write-offs and impairments of inventories amounted to EUR 359,212 and EUR 180,163 respectively in 2017 (write-offs of obsolete inventories amounted to EUR 24,945, while impairments of inventories totalled EUR 221,408 in 2016). There are no liens on inventories.

2.6.1.10 Current financial receivables

in EUR	31 Dec. 2017	31 Dec. 2016
Financial assets at fair value through profit or loss	0	526,172
Deposits at banks	0	168,723
Other financial receivables	824,336	101
Total	824,336	694,996

The majority of other financial receivables (EUR 816,000) comprise receivables from banks for deposited funds.

2.6.1.11 Trade receivables

in EUR	31 Dec. 2017	31 Dec. 2016
Current trade receivables from domestic customers	48,256,725	58,058,334
Current trade receivables from foreign customers	18,142,873	20,507,090
Total	66,399,598	78,565,424

	2017		2017 2016			
in EUR	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Current trade receivables from domestic customers	53,124,528	4,867,803	48,256,725	63,050,792	4,992,458	58,058,334
Current trade receivables from foreign customers	20,225,521	2,082,648	18,142,873	22,581,163	2,074,073	20,507,090
Total	73,350,049	6,950,451	66,399,598	85,631,955	7,066,531	78,565,424

Secured receivables amounted to EUR 45,105 as at 31 December 2017 (the same as at 31 December 2016).

Net adjustments to the value of current trade receivables were created as follows:

in EUR	2017	2016
Balance as at 1 January	7,066,531	7,808,363
Reversal of value adjustments	-531,508	-673,123
Creation of value adjustments	415,428	653,149
Reduction for written-off receivables	0	-721,858
Balance as at 31 December	6,950,451	7,066,531

Maturity breakdown of trade receivables

in EUR	31 Dec. 2017	31. Dec. 2016
Non-past-due receivables	59,180,184	71,573,286
Past-due receivables	14,169,865	14,058,669
- up to 30 days	4,168,976	4,614,308
- 31 to 90 days	1,981,616	1,796,449
- 91 to 365 days	1,473,701	823,254
- more than 365 days	6,545,572	6,824,658
Total	73,350,049	85,631,955

2.6.1.12 Other current operating receivables

in EUR	31 Dec. 2017	31 Dec. 2016
Receivables from government and other institutions	9,368,770	9,747,036
Receivables from employees	313,949	290,471
Other receivables associated with finance income	0	1,562
Current operating receivables from advances	495,446	165,037
Current security deposits	30,000	36,072
Other current operating receivables	930,696	1,732,755
Deferred costs	486,031	298,546
Accrued income	49,031,963	16,211,983
Securities and other current deferred costs and accrued income	83,515	45,058
Total	60,740,370	28,528,520

The following items account for the highest proportion of accrued income:

- the accrued development element compensation for the discharge of the PSO in 2017 in the amount of EUR 11,052,467, as defined in the amendments to the Agreement on the discharge of the public service obligation in the inland and cross-border regional transport of passengers by rail for the period 2017–2031.
- the accrued amount of insufficient compensation for the discharge of the PSO in 2015 and 2016 in the amount of EUR 9,000,000, pursuant to Regulation (EC) No 1370/2007 on public passenger transport services by rail and by road;
- accrued compensation to operators due to impediments in traffic as the result of the closure of tracks and line during upgrades to the PRI network in the amount of EUR 8,727,694 EUR (EUR 3,930,683 in 2016);
- 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 4,065,942 in 2016);
- accrued income from investment maintenance on the infrastructure in the amount of EUR 1,531,188 (EUR 1,468,494 in 2016);
- accrued income from the regular maintenance of infrastructure buildings in the amount of EUR 5,108,386 (EUR 0 in 2016);
- accrued compensation (from an insurance company) due to a fire at buildings in Ptuj in the amount of EUR 1,249,105 (EUR 0 in 2016);
- accrued income from claims for damages on motorised trains and locomotives in the amount of EUR 1,317,241 (EUR 326,784 in 2016);
- accrued income from delays according to the relevant schedule, savings due to changes in phases and for other reasons in the maintenance of the Celje and Laško passenger stations in the amount of EUR 1,446,298 (EUR 0 in 2016).

Write-offs and impairments of receivables in 2017 are disclosed in operating expenses in the amount of EUR 628,121 (EUR 883,499 in 2016).

2.6.1.13 Cash and cash equivalents

in EUR	31 Dec. 2017	31 Dec. 2016
Cash in hand	570,348	544,283
Cash in bank accounts	33,939,350	46,097,301
Total	34,509,698	46,641,584

2.6.1.14 Equity

in EUR	31 Dec. 2017	31 Dec. 2016
Called-up capital	205,274,421	205,274,421
Share premium account	45,002,140	45,002,140
Legal reserves	1,869,355	1,573,711
Other profit reserves	28,315,958	6,701,431
Fair value reserves	-2,382,728	-28,776
Retained earnings from previous years	19,974,814	24,693,260
Undistributed retained earnings from the financial year	27,672,859	17,161,833
Translation differences	-1,873	-20,638
Non-controlling interest	4,608,016	5,229,069
Total	330,332,962	305,586,451

Changes in equity	in EUR
Balance as at 1 January 2016	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 rate differences from the conversion of foreign companies' financial statements	-8,560
Other increases	144,185
Balance as at 31 December 2016	305,586,451
Net profit for the financial year	30,644,356
Payment of dividends and shares in profit	-3,607,188
Actuarial gains and losses	-2,387,125
Attributable changes in equity of associates	165,124
Net changes in the fair value of available-for-sale instruments	1,221
Translation differences from the conversion of foreign companies' financial statements	18,764
Other changes	-88,641
Balance as at 31 December 2017	330,332,962

2.6.1.15 Provisions

Provisions for jubilee benefits and termination benefits

in EUR	31 Dec. 2017	31 Dec. 2016
Provisions for termination benefits	25,251,707	20,692,730
Provisions for jubilee benefits	3,211,489	3,436,675
Total	28,463,196	24,129,405

Changes in provisions for jubilee benefits and termination benefits

in EUR	Termination benefits	Jubilee benefits	Total
Balance as at 1 January 2016	20,198,140	3,634,885	23,833,025
Used	-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
Balance as at 1 January 2017	20,692,731	3,436,674	24,129,405
Used	-185,818	-540,518	-726,337
Current employment costs	1,992,789	440,255	2,433,044
Interest (expenses)	403,757	62,062	465,818
Reversal of provisions – closure, rights, etc. (revenues)	-25,355	-186,984	-212,339
Actuarial gains/losses	2,373,604	0	2,373,604
Balance as at 31 December 2017	25,251,707	3,211,489	28,463,196

The following material assumptions were taken into account in the calculation of provisions for termination benefits at retirement and jubilee benefits:

	2017	2016
Average monthly gross wage in Slovenia	EUR 1,630	EUR 1,580
Discount rate	1.96%	2.12%
Overall wage growth	2.00%	1.5%
Retirement conditions (age)		
men (transitional period)	62	62
women (transitional period)	60	60
men	65	65
women	65	65

Other provisions

in EUR	31 Dec. 2017	31 Dec. 2016
Provisions for litigation	606,661	796,389
Provisions for guarantees issued	227,391	350,000
Provisions for the clean-up of a quarry	97,767	89,650
Total	931,819	1,236,039

Changes in other provisions

in EUR	Provisions for litigation	Provisions for guarantees issued	Provisions for the clean- up of a quarry	Total
Balance as at 1 January 2016	1,104,408	615,541	86,708	1,806,657
Created	253,831	0	2,942	256,773
Used	-313,772	-114,035	0	-427,807
Reversed	-248,078	-151,506	0	-399,584
Balance as at 31 December 2016	796,389	350,000	89,650	1,236,039
Balance as at 1 January 2017	796,389	350,000	89,650	1,236,039
Created	69,318	16,922	8,117	94,357
Reversed	-214,949	0	0	-214,949
Used	-44,097	-139,531	0	-183,628
Balance as at 31 December 2017	606,661	227,391	97,767	931,819

A total of 73 legal proceedings in the total amount of EUR 3,859,796 (labour, civil and economic disputes) were in progress against the Slovenske železnice Group during 2017. On the day the annual report was compiled, 29 cases had been closed.

In accordance with assessments of the possible outcomes of specific disputes, drawn up on the bases of reports prepared by law firms, provisions were created in 15 cases as at 31 December 2017 in the total amount of EUR 606,661. In the remaining cases, it has been assessed that there is a more than 50% probability that rulings will not be handed down in favour of the plaintiffs. In specific cases, insurance coverage was secured, or it is not yet possible to assess the outcome of disputes because the cases involved are in the initial phase.

2.6.1.16 Non-current deferred income

in EUR	Waived contributions	Government grants	Deferred income from construction services	Total
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	-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
Balance as at 1 January 2017	2,741,908	1,098,470	132,676	3,973,054
Created	4,816,356	0	15,762	4,832,118
Used and/or transferred to current portion	-5,319,695	-1,053,110	-22,958	-6,395,763
Balance as at 31 December 2017	2,238,569	45,360	125,480	2,409,409

2.6.1.17 Financial liabilities

in EUR	31 Dec. 2017	31 Dec. 2016
Non-current financial liabilities to banks	8,076,923	18,846,154
Other non-current financial liabilities	103,315,848	106,332,302
Total non-current financial liabilities	111,392,771	125,178,456
Current financial liabilities to banks	10,769,231	11,769,231
Liabilities to banks arising from the fair value of derivatives	980,947	1,160,804
Other current financial liabilities	894,296	878,275
Total current financial liabilities	12,644,474	13,808,310
Total	124,037,245	138,986,766

Changes in financial liabilities

in EUR	2017
Balance as at 1 January 2017	138,986,765
Proceeds from loans raised	28,000,000
Outflows from loans raised	-40,463,673
Changes in liabilities from financial instruments	-179,857
Changes in liabilities for interest	26,392
Increase in other liabilities (leasing)	143,057
Exchange rate differences	-2,474,556
Write-offs of liabilities	-883
Balance as at 31 December 2017	124,037,245

Non-current financial liabilities

in EUR	Date of agreement or annex	Date of maturity	Balance as at 31 Dec. 2017	Collateral
- Restructuring of liabilities	27 Jul. 2015	31 Jul. 2019	8,076,923	Bills of exchange
- Financing of locomotive purchases	7 Sep. 2004	10 Sep. 2019	36,900,000	Sureties
- Financing of locomotive purchases	7 Sep. 2004	9 Sep. 2019	37,100,000	Sureties
- Financing of locomotive purchases	19 Nov. 2008	15 Dec. 2020	27,595,283	Sureties
 Loan from the Eco Fund for property, plant and equipment 	12 Jan. 2010	30 Apr. 2020	23,534	Mortgage
Total			109,695,740	

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 1,697,031 (EUR 2,222,356 in 2016) 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.

2.6.1.18 Operating liabilities

in EUR	31 Dec. 2017	31 Dec. 2016
Non-current liabilities	1,683,280	374,479
Trade payables	472,538	0
Other non-current operating liabilities	1,210,742	374,479
Current liabilities	57,440,702	52,506,905
Liabilities based on advances	844,392	1,449,027
Liabilities to employees	21,529,862	24,907,433
Liabilities to the government and government institutions	9,362,677	8,800,494
Liabilities to others	11,257,581	5,498,375
Deferred income	3,202,233	877,025
Accrued costs and expenses	11,243,957	10,974,551
Total	59,123,982	52,881,384

Accrued costs and expenses

in EUR	31 Dec. 2017	31 Dec. 2016
Unused annual leave	7,795,480	6,733,600
Use of passenger coaches	1,014,659	1,091,070
Termination benefits for redundant employees	140,430	1,280,285
Use of freight wagons	681,204	694,484
Accrued compensation in international freight transport	160,000	120,000
Accrued compensation for the closure of lines (maintenance of the public rail infrastructure)	150,000	150,000
Accrued cross-border services	125,180	111,617
Accrued scholarship costs	158,925	12,375
Accrued costs of hours worked	195,276	201,127
Accrued concession fees	318,468	216,276
Other	504,335	363,717
Total	11,243,957	10,974,551

2.6.1.19 Trade payables

in EUR	31 Dec. 2017	31 Dec. 2016
Domestic trade payables	22,101,701	18,488,620
Foreign trade payables	7,266,710	9,464,651
Total	29,368,411	27,953,271

in EUR	31 Dec. 2017	31 Dec. 2016
Non-past-due liabilities	28,054,704	20,956,890
Past-due liabilities	1,313,707	6,996,381
- up to 30 days	696,029	5,508,719
- 31 to 90 days	214,971	1,181,427
- 91 to 365 days	290,826	174,452
- more than 365 days	111,881	131,783
Total	29,368,411	27,953,271

Contingent receivables and liabilities

in EUR	31 Dec. 2017	31 Dec. 2016
Mortgages and liens received	20,111,848	2,816,928
Estimated value of superficies assigned to Emonika, d. o. o.	3,955,500	3,955,500
Receivables arising from interest rate swaps and FX forward transactions	120,631,389	133,685,224
Guarantees and bills of exchange received	16,555,498	13,804,918
Unused overdraft facilities and loans	30,000,000	26,000,000
Merchandise on consignment	6,486	9,226
Enforcement drafts received	40,435	40,435
Withheld dividend payments	24,435	0
Total contingent receivables	191,325,591	180,312,230
Liens on real estate and moveable property (contractual value)	102,484,507	104,124,752
Guarantees and bills of exchange issued	50,423,532	72,405,694
Liabilities arising from interest rate swaps and FX forward transactions	122,515,393	133,241,073
Liabilities for merchandise on consignment	6,486	9,226
Approved revolving loan	30,000,000	25,000,000
Pledge of receivables	0	2,400,000
Total contingent liabilities	305,429,918	337,180,745

2.6.2 Notes to the statement of profit or loss

2.6.2.1 Net sales revenue

in EUR	2017	2016
Revenues on the domestic market	209,196,327	206,123,925
Services and products	208,666,843	204,294,940
- services and products in connection with associates	304,434	291,221
- services and products in connection with others	208,362,409	204,003,719
Merchandise and materials	529,484	1,828,985
- merchandise and materials in connection with others	529,484	1,828,985
Revenues on the foreign market	187,903,786	184,685,467
Services	187,903,786	184,685,467
- services and products in connection with others	187,903,786	184,685,467
Total	397,100,113	390,809,392

Net sales revenue comprises:

in EUR	Consolidated 2017	Consolidated 2016
- Slovenske železnice, d. o. o.	1,438,299	1,406,682
- SŽ-Tovorni promet Group	171,322,803	164,950,623
– SŽ-Potniški promet, d. o. o.	36,071,623	40,342,647
– SŽ-Infrastruktura, d. o. o.	122,511,338	133,041,164
- SŽ-VIT, d. o. o.	11,174,938	11,702,407
- SŽ-ŽIP Group	3,875,247	4,303,542
- Prometni institut Ljubljana, d. o. o.	262,976	216,327
- SŽ-Železniška tiskarna Ljubljana, d. d.	42,420	36,918
- SŽ-ŽGP Group	32,504,612	14,887,032
- Fersped, d. o. o.	17,895,857	19,922,050
Total	397,100,113	390,809,392

The majority of the Slovenske železnice Group's net revenues are generated by the SŽ-Tovorni promet Group, SŽ–Potniški promet, d. o. o., SŽ-Infrastruktura, d. o. o. and the SŽ-ŽGP Group. Total transport revenues in the amount of EUR 192,190,599 (EUR 187,970,735 in 2016) were generated on the local and foreign markets by the SŽ-Tovorni promet Group in the amount of EUR 158,301,609 (EUR 152,715,076 in 2016) and SŽ–Potniški promet, d. o. o. in the amount of EUR 33,888,990 (EUR 35,255,659 in 2016).

SŽ-Infrastruktura, d. o. o. generated the majority of its revenues based on agreements with the Slovenian government:

in EUR	2017	2016
Public service obligation of the maintenance of the PRI	78,145,296	79,410,697
Public service obligation of traffic management	34,000,000	35,000,000
Performance of tasks as manager of the PRI	1,401,777	1,484,527
Management and maintenance of housing and buildings that are not part of the PRI	404,225	409,836
Total	113,951,298	116,305,060

The majority of the SŽ-ŽGP Group's net revenues are generated in the performance of its core activity, i.e. the renovation of railway lines.

2.6.2.2 Capitalised own products and services

in EUR	2017	2016
Capitalised own products and services	32,448,420	32,358,369

The capitalised own products and services of the Slovenske železnice 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.

2.6.2.3 Other operating revenues

in EUR	2017	2016
Revenues from the discharge of the public service obligation of passenger transport by rail	65,714,567	43,835,616
Revenue from other subsidies	865,609	2,635,993
Compensation and fines received	9,654,722	6,570,229
Revenues from the reversal of non-current accrued expenses and deferred income for the wages of disabled persons	4,733,474	4,640,773
Revenues from the reversal of provisions	1,199,720	1,980,607
Revenues from the sale of property, plant and equipment, and the revaluation of receivables and liabilities	5,585,253	17,602,059
Other revenues	48,553	170,617
Total	87,801,898	77,435,894

The increase in revenues from the discharge of the public service obligation in the transport of passengers by rail in 2017 was the result of amendments to the Agreement on the discharge of the public service obligation for the period 2017–2031, and is explained in detail in section 2.6.1.12 Other current operating receivables.

2.6.2.4 Costs of goods, materials and services

in EUR	2017	2016
Historical cost of goods sold and costs of materials used	305,509	5,460,978
Costs of materials	39,125,788	30,147,291
Energy costs	30,762,849	29,650,291
Costs of replacement parts	4,865,626	4,597,906
Write-off of small inventory	1,920,396	1,942,858
Costs of office materials	497,210	461,475
Other material costs	410,792	705,152
Total cost of goods and materials sold and cost of materials used	77,888,170	72,965,951
Costs from the manufacture of products and provision of services	36,665,799	31,714,827
Transport services	22,863,943	26,696,658
Maintenance services	16,068,416	14,072,959
Reimbursement of employee expenses	3,078,403	2,987,672
Payment transaction and banking services	587,826	834,352
Intellectual and personal services	3,039,404	3,617,846
Insurance premiums	4,921,329	4,297,513
Advertising, publicity and representation	1,162,162	820,028
Costs under the RIV Rules	6,032,796	5,623,823
Costs under the RIC Rules	944,303	1,061,465
Costs of other services:	32,709,225	29,570,361
- rental costs	15,230,094	13,268,096
of which fee for access to the public railway infrastructure	8,698,332	7,875,488
- costs of municipal services	1,619,037	1,687,989
- costs of services provided by the Port of Koper	3,913,143	3,570,221
 costs of student services and hired labour 	4,504,230	2,998,745
- costs of transport services (traction) provided by foreign operators	1,409,002	1,851,042
 unclaimed VAT in the part where SŽ-Infrastruktura discharges its public service obligation 	1,418,664	1,418,664
- cleaning costs for premises, external areas and clothing, and property surveillance	643,975	618,239
 costs of services associated with contracted work 	676,139	668,317
 membership fees and contributions paid to international organisations and other associations 	641,341	545,995
- administrative fees, administrative announcements and court fees	310,518	275,096
- border services provided by foreign railway administrations	205,011	164,142
- other costs	2,138,071	2,503,815
Total costs of services	128,073,606	121,297,504
Total	205,961,776	194,263,454

The costs of goods, materials and services comprise:

in EUR	Consolidated 2017	Consolidated 2016
- Slovenske železnice, d. o. o.	4,454,885	3,762,628
- SŽ-Tovorni promet Group	60,692,273	59,539,320
- SŽ-Potniški promet, d. o. o.	11,770,180	14,797,752
– SŽ-Infrastruktura, d. o. o.	46,261,191	44,827,944
- SŽ-VIT, d. o. o.	34,970,571	31,455,786
– SŽ-ŽIP Group	10,791,059	10,276,195
- Prometni institut Ljubljana, d. o. o.	263,166	223,169
- SŽ-Železniška tiskarna Ljubljana, d. d.	137,397	138,020
- SŽ-ŽGP Group	25,866,896	17,877,461
- Fersped, d. o. o.	10,754,158	11,365,179
Total	205,961,776	194,263,454

The most significant material costs comprise the electricity and other fuels used to drive rolling stock in the amount of EUR 23,919,328 (EUR 23,137,278 in 2016) and the costs of materials and replacement parts for rolling stock maintenance in the amount of EUR 4,234,772 (EUR 3,957,322 in 2016).

The largest item amongst costs of services are the costs of services associated with the manufacture of products and provision of services, which include the costs of others (external contractors) in the performance of Group companies' activities. Almost the entire amount of the aforementioned costs arose at the following entities:

in EUR	Consolidated 2017	Consolidated 2016
- SŽ-VIT, d. o. o.	6,570,437	6,391,489
– SŽ-ŽIP Group	6,745,286	6,205,257
– SŽ-ŽGP Group	13,095,246	10,214,804
- Fersped, d. o. o.	10,199,612	8,853,336
Total	36,610,581	31,664,886

Costs of auditor

in EUR	2017	2016
Auditing of the annual report	93,083	87,870
Other assurance services	7,220	7,220
Other non-audit services	3,300	0
Total	103,603	95,090

2.6.2.5 Labour costs

in EUR	2017	2016	
Costs of wages and salaries	173,221,294	166,582,826	
Pension insurance costs	23,237,561	22,969,215	
Other social security costs	12,747,563	12,709,983	
Other labour costs	32,441,971	41,952,575	
- reimbursements	19,645,195	19,191,200	
- annual leave allowance	8,233,307	8,321,498	
- actuarial calculation	2,407,360	1,212,777 831,705	
- contractual penalty for unused annual leave for 2016	1,016,470		
- costs for jubilee benefits and termination benefits	811,747	72,751	
- redundant employees	221,402	12,254,429	
- other costs	106,490	68,215	
Total	241,648,389	244,214,599	

2.6.2.6 Write-downs

in EUR	2017	2016
Depreciation	34,812,773	34,244,043
Operating expenses for intangible assets and property, plant and equipment	324,143	563,218
Operating expenses for working capital	1,169,601	1,129,853
Total	36,306,517	35,937,114

2.6.2.7 Other operating expenses

in EUR	2017	2016
Fees for the use of building land, and other taxes and levies	1,000,845	936,129
Bonuses for pupils and students on compulsory job training	607,162	604,939
Donations (for sporting, cultural and humanitarian activities)	343,559	241,643
Fines and compensation for damage incurred by legal and natural persons	223,633	366,643
Costs of procurement of coats for employees to mark anniversary of Slovenske železnice, d. o. o.	185,912	0
Reimbursement of the PDII for ensuring the rights of Slovenske železnice, d. o. o.'s workers who performed work in organisational units in the territory of the Republic of Croatia	78,254	77,463
Provisions for guarantees issued	25,040	2,941
Accrued costs of operators in connection with the provision of transport services (ice storm)	0	279,922
Compensation due to traffic impediments (track closures)	0	150,000
Other expenses	57,885	205,843
Total	2,522,290	2,865,523

2.6.2.8 Finance income

in EUR	2017	2016	
Finance income from participating interests in associates	735,965	1,138,463	
Finance income from participating interests in other companies	6,247	1,132,418	
Finance income from other investments	6,425	· · ·	
Total finance income from participating interests	748,637	2,797,053	
Finance income from loans to others	2,797,235	1,611,662	
Total finance income from loans granted	2,797,235	1,611,662	
Finance income from other operating receivables	223,145	400,301	
Total finance income from operating receivables	223,145	400,301	
Total	3,769,017	4,809,016	

Nearly the full amount of **finance income from participating interests** is accounted for by participation in the profit of associates and other companies.

Finance income from loans granted in the amount of EUR 2,784,278 (EUR 1,596,898 in 2016) is accounted for in full by the controlling company Slovenske železnice, d. o. o. and primarily comprises revenues from the revaluation of financial liabilities (positive exchange rate differences in connection with EUROFIMA) in the amount of EUR 2,731,539 (EUR 1,540,863 in 2016).

2.6.2.9 Finance costs

in EUR	2017	2016			
Finance costs from bank loans	530,865	779,484			
Finance costs from other financial liabilities	4,267,104	3,772,672			
Total finance costs from financial liabilities	4,797,969	4,552,156			
Finance costs from trade payables	69,943	116,650			
Finance costs from other operating liabilities	44,130	27,401			
Total finance costs from operating liabilities	114,073	144,051			
Total	4,912,042	4,696,207			

The majority of **finance costs from financial liabilities** in the amount of EUR 4,275,146 (EUR 3,997,806 in 2016) are accounted for by the controlling company Slovenske železnice, d. o. o. and primarily comprise expenses from the revaluation of financial liabilities (exchange rate differences) in the amount of EUR 257,631 (EUR 1,805,979 in 2016), interest on loans received from banks in the amount of EUR 521,718 (EUR 744,510 in 2016) and from EUROFIMA in the amount of EUR 364,135 (EUR 481,505 in 2016), and costs associated with derivatives in the amount of EUR 3,099,212 (EUR 931,333 in 2016).

Interest as the result of actuarial calculations in the total amount of EUR 465,818 (EUR 495,435 in 2016) represents the most significant item at all Group companies.

2.6.2.10 Corporate income tax

in EUR	2017	2016
Current tax	301,046	576,480
Deferred tax	-1,147,102	-877,437
Total corporate income tax	-846,055	-300,957
Pre-tax profit	29,798,301	24,754,621
Tax calculated at effective tax rate	7,144,309	5,353,987
Tax from decrease in revenues	-1,663,173	-1,557,418
Tax from increase in revenues	595	532
Tax from decrease in expenses	1,381,563	749,771
Tax from increase in expenses	-157,609	-156,486
Tax from decrease in tax base	-71,319	-280,927
Tax from increase in tax base	80,533	66,828
Tax from tax allowances	-6,413,852	-3,599,807
Total corporate income tax	-846,055	-300,956
Effective tax rate	-2.84	-1.22

The Group disclosed corporate income tax receivables in the amount of EUR 495,687 as at 31 December 2017 (EUR 2,178,437 in 2016) and corporate income tax liabilities of EUR 259,725 (EUR 1,148 in 2016). 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 19% in Slovenia in 2017 (17% in 2016), while tax rates for the Group range from 9% to 20%.

2.6.3 Transactions with associates

Gross earnings of groups of persons

in EUR	2017	2016
Management Board of the controlling company	334,998	399,984
Supervisory Board of the controlling company	115,843	109,780
External members of the committees of controlling company's Supervisory Board	10,572	9,533
Management boards of subsidiaries	1,424,279	1,501,889
Supervisory boards of subsidiaries	98,138	81,656
External members of the committees of subsidiaries' supervisory boards	5,919	5,171
Group employees under individual contracts	6,071,794	4,657,628
Total	8,061,543	6,765,641

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 payments for the performance of functions on supervisory boards and the committees thereof, session fees, fringe benefits and the reimbursement of costs.

Earnings of the Management Board during the 2017 financial year – Slovenske železnice Group

(in EUR)

			Variable I	remuneration -	- gross				Repayment		
Name and		Fixed - remune-	Based on	Based on	<u> </u>	Deferred	Termi-	Fuinan	of previo- usly paid	Tatal	
surname/ company	Function	ration – gross	quantitative criteria	qualitative criteria	Total	remunera- tion	nation	Fringe benefits	bonuses (clawback)	Total (gross)	Total(net)
company	runction	gr033 1	cincenta	cintenta	2	3	4	5	(clawback) 6	(1 do 6)	iotal(net)
Controlling com	pany Slovenske železn	ice, d. o. o.				_		-	-	(* == = = ,	
Dušan Mes	Director General	107,038	0	0	0	0	0	4,998	0	112,036	58,184
Tomaž Kraškovic	Member of the Management Board	101,809	0	0	0	0	0	2,133	0	103,942	56,687
Milan Jelenc	(Director) Director (1. Jan14. Feb. 2017)	12,330	0	0	0	0	0	274	0	12,604	6,481
Albert Pavlič	Workers' Director	102,403	0	0	0	0	0	4,013	0	106,416	54,984
Total		323,580	0	0	0	0	0	11,418	0	334,998	176,336
SŽ-Tovorni prom	et, d. o. o.	,			-						.,
Melita Rozman											
Dacar	Director	96,898	0	0	0	0	0	4,491	0	101,389	52,448
Drago Savić	Workers' Director	78,011	0	0	0	0	0	4,287	0	82,298	41,686
Total		174,909	0	0	0	0	0	8,778	0	183,687	94,134
SI Cargo Logistic	c, d. o. o., Beograd										
Dragan Grujić	Director	53,051	0	0	0	0	0	0	0	53,051	41,491
SŽ-Potniški prom	net, d. o. o.										
Boštjan Koren	Director	91,736	0	0	0	0	0	48	0	91,784	51,990
Remzija Cinac	Workers' Director	73,796	0	0	0	0	0	4,169	0	77,965	41,141
Total		165,532	0	0	0	0	0	4,217	0	169,749	93,131
SŽ-Infrastruktura	a, d. o. o.										
Matjaž Kranjc	Director	97,029	0	0	0	0	0	4,825	0	101,854	50,310
Matjaž Skutnik	Workers' Director	79,968	0	0	0	0	0	942	0	80,910	46,431
Total		176,997	0	0	0	0	0	5,767	0	182,764	96,741
SŽ-Vleka in tehn	ika. d. o. o.	.,			-						,
Dušan Žičkar	Director	97,385	0	0	0	0	0	3,778	0	101,163	53,862
Zdravko Skrbiš	Workers' Director	78,021	0	0	0	0	0	3,017	0	81,038	43,693
Total		175,406	0	0	0	0	0	6,795	0	182,201	97,555
SŽ-ŽIP storitve, o	40.0	175,400	Ŭ	Ŭ	Ū	U	0	0,755		102,201	57,555
Vojka Martinčič	Director	102,910	0	0	0	0	0	6,164	0	109,074	56,797
Vesna Ritlop	Workers' Director	73,020	0		0	0	0	3,523	0	76,543	39,239
Total			0	0	0	0	0				
		175,930	0	0	0	0	0	9,687	0	185,617	96,036
Fersped, d.o.o.											
Metod Podkrižnik	Director (1 Jan28 Dec. 2017)	87,583	0	0	0	0	0	48	0	87,631	49,204
Prometni institu	t. d. o. o.										
Peter Verlič	Director	68,721	0	0	0	0	0	2,173	0	70,894	40,598
SŽ-Železniška tis		,			-	-	-	_,	-	,	
Janez Brezovar	Director	68,572	0	0	0	0	0	98	0	68,670	40,354
SŽ-ŽGP Ljubljana		00,572	Ū	<u> </u>	•	0		50		00,070	+0,054
Anton Žagar	Director (1 Jan4 May 2017)	33,331	0	0	0	0	0	10	0	33,341	18,109
Dušan Mes	Director (4 May-23 Aug. 2017)	0	0	0	0	0	0	0	0	0	0
Tine Svoljšak	Director (23 Aug31 Dec. 2017)	34,486	0	0	0	0	0	1,318	0	35,804	18,464
Pavel Piškur	Workers' Director	79,107			0			4,582		83,689	44,129
Total		146,924	0	0	0	0	0	5,910	0	152,834	80,702
Kamnolom Verd,	d. o. o.	.,.			-						
Matjaž Komprej	Director	68,880	0	0	0	0	0	4,918	0	73,798	38,676
SŽ-ŽGP Beograd,			Ū	Ű.			J	.,515		. 2,733	20,070
Leon Kostiov	Director	4,318	0	0	0	0	0	0	0	4,318	3,627
SŽ-ŽGP Podgoric		0101	0	5	5	0	0	5	0	-, J 10	5,027
Veljko Flis	Director	9,065	0	0	0	0	0	0	0	9,065	6,072
Total			0	0	0	0	0	59,809	0		
Other employees		1,699,468				0			0	1,759,277	954,657
contracts		5,970,179	0	0	0	0	49,902	51,712	0	6,071,793	3,585,042

Earnings of the Management Board during the 2016 financial year – Slovenske železnice Group

(in EUR)

			Variable ren	nuneration – g	ross				Repayment		
Name and surname/ company	Function	Fixed remune- ration – gross	Based on quantitative criteria	Based on qualitative criteria	Total	Deferred remunera- tion	Termi- nation benefits	Fringe bene- fits	of previo- usly paid bonuses (clawback)	Total (gross)	Total(net)
		1			2	3	4	5	6	(1 do 6)	
Controlling comp	oany Slovenske železnice, d. o). 0.									
Dušan Mes	Director General	103,979	0	0	0	0	0	3,509	0	107,488	53,639
Tomaž Kraškovic	Member of the Management Board (Director) 1 Apr31 Dec. 2016	74,183	0	0	0	0	0	1,823	0	76,006	39,238
Milan Jelenc	Director	98,690	0	0	0	0	0	2,254	0	100,944	49,571
Albert Pavlič	Workers' Director	99,318	0	0	0	0	0	4,880	0	104,198	49,513
Total		376,170	0	0	0	0	0	12,466	0	388,636	191,961
SŽ-Tovorni prom	et, d. o. o.							·			
Melita Rozman Dacar	Director	95,718	0	0	0	0	0	5,382	0	101,100	49,766
Drago Savić	Workers' Director	76,972	0	0	0	0	0	1,806	0	78,778	40,949
Total		172,690	0	0	0	0	0	7,188	0	179,878	90,715
SI Cargo Logistic	, d. o. o., Beograd										
Dragan Grujić	Director	56,373	0	0	0	0	0	0	0	56,373	44,084
SŽ-Potniški prom	iet, d. o. o.										
Boštjan Koren	Director	88,658	0	0	0	0	0	0	0	88,658	48,569
Remzija Cinac	Workers' Director	71,527	0	0	0	0	0	1,806	0	73,333	37,624
Total		160,185	0	0	0	0	0	1,806	0	161,991	86,193
SŽ-Infrastruktura	a, d. o. o.										
Matjaž Kranjc	Director	94,145	0	0	0	0	0	5,786	0	99,931	46,472
Silva Kristan	Workers' Director (1 Jan31 Jan. 2016)	6,285	0	0	0	0	0	0	0	6,285	3,632
Matjaž Skutnik	Workers' Director (1 Feb31 Dec. 2016)	72,043	0	0	0	0	0	0	0	72,043	40,965
Total		172,473	0	0	0	0	0	5,786	0	178,259	91,069
SŽ-Vleka in tehni	ika, d. o. o.										
Dušan Žičkar	Director	94,565	0	0	0	0	0	4,607	0	99,172	53,639
Zdravko Skrbiš	Workers' Director	75,828	0	0	0	0	0	3,508	0	79,336	43,291
Total		170,393	0	0	0	0	0	8,115	0	178,508	96,930
SŽ-ŽIP storitve, d	l. o. o.										
Vojka Martinčič	Director	100,978	0	0	0	0	0	7,262	0	108,240	60,595
Vesna Berdajs	Workers' Director	71,571	0	0	0	0	0	4,154	0	75,725	40,551
Total		172,549	0	0	0	0	0	11,416	0	183,965	101,146
Fersped, d. o. o.											
Metod Podkrižnik	Director (1 Apr31 Dec. 2016)	61,968	0	0	0	0	0	74	0	62,042	33,235
Jožef Petrovič	Director (1 Jan31 Mar. 2016)	20,655	0	0	0	0	0	1,243	0	21,898	11,445
Total		82,623	0	0	0	0	0	1,317	0	83,940	44,680
Prometni institut	t, d. o. o.										
Peter Verlič	Director	67,409	0	0	0	0	0	2,621	0	70,030	37,272
SŽ-Železniška tis											
Janez Brezovar	Director	67,520	0	0	0	0	0	50	0	67,570	38,148
SŽ-ŽGP Ljubljana	, d. d.										
Anton Žagar	Director (1 Jan31 Dec. 2016)	94,357	0	0	0	0	0	30	0	94,387	49,373
Boštjan Kovač	Director (1 Jan22 Sep. 2016)	65,731	0	0	0	0	21,951	4,081	0	91,763	47,239
Robert Rožič	Director (1 Jan31 Aug. 2016)	29,268	0	0	0	0	0	3,687	0	32,955	15,307
Pavel Piškur	Workers' Director (9 Nov31 Dec. 2016)	10,946	0	0	0	0	0	747	0	11,693	6,437
Total		200,302	0	0	0	0	21,951	8,545	0	230,798	118,356
Kamnolom Verd,											
Matjaž Komprej	Director	68,273	0	0	0	0	0	5,758	0	74,031	38,896
SŽ-ŽGP Beograd,	d. o. o.										
Leon Kostiov	Director	4,335	0	0	0	0	0	0	0	4,335	3,641
SŽ-ŽGP Podgoric	a, d. o. o.										
Veljko Flis	Director	9,075	0	0	0	0	0	0	0	9,075	6,081
Total		1,780,370	0	0	0	0	21,951	65,068	0	1,867,389	989,172
Other employees	on individual contracts	4,543,774	0	0	0	0	0	30,560	0	4,574,334	2,658,982

Remuneration of Supervisory Board members in 2017

(in EUR)

Name and surname/company	Function	Gross an- nual wages for perfor- mance of function	Gross annu- al atten- dance fees for SB and committee meetings	Fringe benefits	Total (gross)	Total (net)	Travel expenses
		1	2	3	(1 to 3)		
Slovenske železnice							
Bojan Brank	Member and Chairman of the SB, member of the HR committee	18,025	4,070	48	22,143	16,178	167
Mitja Križaj	Member of the SB, member and chair of the audit committee	14,162	5,577	48	19,787	14,503	220
Aleksander Nagode	Member and Deputy Chairman of the SB, member of the audit committee	13,905	5,357	48	19,310	13,996	0
Jože Oberstar	Member of the SB, member and chair of the HR committee	14,162	4,290	48	18,500	13,407	0
Silvo Berdajs	Member and employee representative of the SB, member of the audit committee	12,875	5,302	48	18,225	13,207	0
Jože Pavšek	Member and employee representative of the SB, member of the HR committee	12,875	4,565	48	17,488	12,671	0
Barbara Nose	External member of the audit committee	8,240	2,332	0	10,572	7,689	
Total		94,244	31,493	288	126,025	91,651	387
SŽ-Infrastruktura, d							
Darja Kocjan	Member and Chairwoman of the SB	15,450	2,695	48	18,193	13,184	0
Matej Čepeljnik	Member and Deputy Chairman of the SB	11,330	2,695	48	14,073	10,187	0
Nikola Knežević (1 Jan12 Jul. 2017)	Member and employee representative of the SB	5,482	990	48	6,520	4,694	0
Silvo Berdajs (19 Jul31. Dec. 2017)	Member and employee representative of the SB	4,652	1,430	0	6,082	4,423	0
Total		36,914	7,810	144	44,868	32,488	0
SŽ-ŽGP Ljubljana, d.							
Gorazd Podbevšek	Member and Chairman of the SB, member and deputy chair of the audit committee	17,970	3,685	48	21,703	15,736	0
Dušan Mes	Member and Deputy Chairman of the SB, member and chair of the audit committee	10,535	2,200	48	12,783	9,249	0
Silvo Berdajs	Member and employee representative of the SB	12,820	3,685	48	16,553	11,991	0
Marjeta Mlinar (9 Jan31 Dec. 2017)	External member of the audit committee	5,039	880	0	5,919	4,305	0
Total		46,364	10,450	144	56,958	41,281	0
Kamnolom Verd, d.	0. 0.						
Tine Svoljšak (13 Sep31 Dec. 2017)	Chairman of the SB	0	0	0	0	0	0
Anton Žagar (1 Jan13 Sep. 2017)	Chairman of the SB	0	488	48	536	341	0
Dušan Žičkar	Member of the SB	0	248	48	296	167	0
Pavel Piškur	Member and employee representative of the SB	0	398	48	446	276	0
Total		0	1,134	144	1,278	784	0
SŽ-Železniška tiskar			222	10	274	222	^
Boštjan Koren Istok Puš	Member and Chairman of the SB Member and Deputy Chairman of	- <u> </u>	323 242	48	<u> </u>	222 163	0
Miran Parkelj	the SB Member and employee	0	242		290	163	0
Total	representative of the SB	0	807	145	952	548	0
Total		177,522	51,694	865	230,081	166,752	387
		177,344	51,034	005	230,001	100,7 52	307

SB – Supervisory Board

Remuneration of Supervisory Board members in 2016

(in EUR)

Name and surname/company	Function	Gross an- nual wages for perfor- mance of function	Gross annu- al atten- dance fees for SB and committee meetings	Fringe benefits	Total (gross)	Total (net)	Travel expenses
		1	2	3	(1 do 3)		
Slovenske železnice							
Bojan Brank	Member, Deputy Chairman and Chairman of the SB, member and deputy chair of the SB's committee	16,369	4,785	0	21,154	15,506	166
Mitja Križaj	Member of the SB, member and chair of the audit committee	14,162	5,445	0	19,607	14,409	205
Aleksander Nagode	Member and Deputy Chairman of the SB, member of the audit committee	13,650	5,445	0	19,095	13,888	0
Jože Oberstar	Member of the SB, member and chair of the SB's committee	10,909	3,795	0	14,704	10,694	0
Silvo Berdajs	Member and employee representative of the SB, member of the audit committee	12,875	5,445	0	18,320	13,324	0
Jože Pavšek	Member and employee representative of the SB, member of the HR committee	12,238	4,290	0	16,528	12,021	0
Barbara Nose	External member of the audit committee	7,553	1,980	0	9,533	6,933	0
Total		87,756	31,185	0	118,941	86,775	371
SŽ-Infrastruktura, d	. 0. 0.						
Darja Kocjan	Member and Chairwoman of the SB (18 Jun. – 31 Dec. 2016)	8,055	1,705	0	9,760	7,099	0
Matej Čepeljnik	Member and Deputy Chairman of the SB (18 Jun. – 31 Dec. 2016)	6,029	1,705	0	7,734	5,625	0
Nikola Knežević	Member and employee representative of the SB (18 Jun. – 31 Dec. 2016)	5,522	1,485	0	7,007	5,096	0
Total		19,606	4,895	0	24,501	17,820	0
SŽ-ŽGP Ljubljana, d	. d.						
Gorazd Podbevšek	Member and Chairman of the SB, member and deputy chair of the audit committee	20,763	2,200	0	22,963	16,701	0
Dušan Mes	Member and Deputy Chairman of the SB, member and chair of the audit committee	17,276	2,200	0	19,476	14,165	0
Silvo Berdajs	Member and employee representative of the SB (22 Sep. – 31 Dec. 2016)	2,804	275	0	3,079	2,239	0
Pavel Piškur	Member of the SB and member of the committee (1 Jan. –22 Sep. 2016)	11,826	1,925	0	13,751	10,001	0
Marjeta Mlinar	External member of the audit committee (1 Jan. – 22 Sep. 2016)	4,731	440		5,171	3,761	0
Total		57,400	7,040	0	64,440	46,867	0
Kamnolom Verd, d.							
Anton Žagar	Member and Chairman of the SB	0	780	0	780	567	0
Dušan Žičkar	Member of the SB	0	600	0	600	436	0
Pavel Piškur	Member and employee representative of the SB	0	600	0	600	436	0
Total		0	1,980	0	1,980	1,439	0
SŽ-Železniška tiskar		_		_			
Boštjan Koren Istok Puš	Member and Chairman of the SB Member and Deputy Chairman of	0 0	<u> </u>	0	<u> </u>	235 176	0
Miran Parkelj	the SB Member and employee representative of the SB	0	242	0	242	176	0
Total		0	807	0	807	587	0
Total		164,762		0			371
iotai		104,/02	45,907	U	210,669	153,488	3/1

SB – Supervisory Board

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
2016		
Terme Olimia, d. d.	0	13,820
Adria Kombi, d. o. o., Ljubljana	21,189,552	284,577
CKTZ, d. d., Zagreb	232,236	170,025
Total	21,421,788	468,422
2017		
Terme Olimia, d. d.	0	174,796
Adria Kombi, d. o. o., Ljubljana	19,347,949	77,648
CKTZ, d. d., Zagreb	245,241	464,597
Total	19,593,190	717,041

Sales transactions with the associate Adria Kombi, d. o. o., Ljubljana and CKTZ, d. d., Zagreb, 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 2017 and 2016, 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 companies of the Slovenske železnice 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	2017	2016
Public service obligation of the maintenance of the PRI	78,145,296	79,410,697
Public service obligation of traffic management	34,000,000	35,000,000
Performance of tasks as manager of the PRI	1,401,777	1,484,527
Management and maintenance of housing and buildings that are not part of the PRI	404,225	409,836
Total	113,951,298	116,305,060

Transactions are executed on the basis of the Agreement on the provision of services by the manager of the public railway infrastructure for the period 2016–2020 and annexes 3 and 4 to that agreement for the period 1 January 2017 to 31 December 2017.

Revenues from transactions between the government and the subsidiary SŽ–Potniški promet, d. o. o.

in EUR	2017	2016
Revenues from the discharge of the public service obligation provision	65,714,567	43,835,616

Based on Agreement no. 2431-17-300003 on the discharge of the public service obligation (PSO) in the inland and cross-border regional transport of passengers by rail for the period 2017–2031 and annex 1 and amendments to the aforementioned agreement concluded with the Slovenian government, the company received compensation of EUR 65,714,567 for services rendered in 2017 in connection with train kilometres travelled to cover a portion of the costs associated with the discharge of the PSO in accordance with the applicable timetable and 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. o. o.

in EUR	2017	2016
Provision of constructions services for:		
- Ministry of Infrastructure of the Republic of Slovenia	17,071,693	0
- Municipalities	734,345	2,774,778
Total	17,806,038	2,774,778

Transactions with the owners of associates

in EUR	31 Dec. 2017	31. Dec. 2016
Balance of current trade and other operating receivables	2,428,736	1,980,340
Balance of current trade and other operating liabilities	2,568,590	2,738,844

in EUR	2017	2016
Transport – receivables	16,051,714	13,560,705
Transport – liabilities	29,481,250	27,968,348

The disclosure of transactions with the owners of associates includes companies in SDH, d. d.'s portfolio in which the participating interest of the Republic of Slovenia and SDH, d. d., is greater than 20%.

2.6.4 Events after the end of the accounting period

Based on the resolution of the Slovenian government, the Infrastructure Directorate of the Republic of Slovenia (as contracting authority) and SŽ–Potniški promet, d. o. o. (as contractor) signed amendments on 23 March 2018 to the Agreement on the discharge of the public service obligation in the inland and cross-border regional transport of passengers by rail for the period 2017–2031. Based on that agreement, the compensation paid to the contractor for development work in connection with the discharge of the PSO for the upgrading and modernisation of rolling stock are defined and regulated in detail.

The liquidation of SŽ-ŽGP, d. o. o., Belgrade began on 23 January 2018 based on the resolution of the Serbian Business Registers Agency.

3 FINANCIAL RISKS WITHIN THE SLOVENSKE ŽELEZNICE GROUP

The financial risks to which the Slovenske železnice 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 Slovenske železnice Group manages interest rate risk in accordance with the Rules on the comprehensive management of risks within the Slovenske železnice Group. The Slovenske železnice Group's credit portfolio includes loans bearing a variable interest rate. However, 77.06% 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 Dec. 2017	Balance as at 31 Dec. 2016
Financial receivables	3,957,663	3,740,043
Financial liabilities	-124,037,245	-138,986,765
Net financial instruments bearing a variable interest rate	-120,079,582	-135,246,722

The following instruments are used to hedge exposure to interest rate risk:

- in part through current operations, by linking the interest rates on the Slovenske železnice 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 Dec. 2017	Balance as at 31 Dec. 2016
Total loans (principal)	120,480,661	134,740,137

Concluded interest rate swap (IRS) agreements:

in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
Total loans (principal)	92,846,154	103,615,385

Concluded IRS agreements by maturity:

Maturity	in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
10 September 2019		74,000,000	74,000,000
31 July 2019		18,846,154	29,615,385
Total loans (principal)		92,846,154	103,615,385

Liabilities for IRS at fair value:

Creditor	in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
Total liabilities		835,344	1,160,804

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 304,280, 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 Slovenske železnice Group likewise manages currency risk in accordance with the Rules on the comprehensive management of risks within the Slovenske železnice Group. The Slovenske železnice 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 Slovenske železnice 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 (operating results would have been reduced by a maximum of EUR 141,149 in 2017 and EUR 164,788 in 2016).

for EUR 1	31 Dec. 2017	31 Dec. 2016
HRK	7,4400	7,5597
RSD	118,6600	123,6000
BAM	1,9558	1,9558

31 December 2017

in EUR	EUR	CHF	HRK	RSD	Total
Cash and cash equivalents	34,052,169		242,633	214,896	34,509,698
Current operating receivables (excluding receivables from the government)	65,330,898		457,811	610,889	66,399,598
Non-current operating receivables	5,046,243			1,399	5,047,642
Current financial receivables	824,336				824,336
Non-current financial receivables	3,133,327				3,133,327
Non-current operating liabilities (excluding other liabilities)	-1,683,280				-1,683,280
Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances)	-29,261,446		-87,190	-19,775	-29,368,411
Non-current financial liabilities	-83,791,405	-27,595,283		-6,083	-111,392,771
Current financial liabilities	-12,641,383		-49	-3,042	-12,644,474
Exposure disclosed in the statement of financial position	-18,990,541	-27,595,283	613,205	798,284	-45,174,335
Nominal value of concluded forward transactions	-27,595,283	27,595,283			
Net exposure disclosed in the statement of financial position	-46,585,824		613,205	798,284	-45,174,335

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

A total of 77.1% of loans in the Slovenske železnice Group's credit portfolio are denominated in euros, while 22.9% of loans are denominated in Swiss francs. We hedge against the currency risks associated with the latter using a FX forward transaction concluded until loan maturity (end of September 2020).

Loan liabilities by currency	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
EUR	92,885,378	104,670,298
CHF interest rate	27,595,283	30,069,839
Total loans (principal)	120,480,661	134,740,137

Concluded FX forward contracts:

in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
NLB, d. d.	27,595,283	30,069,839

Concluded FX forward contracts by maturity:

Maturity in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
25 September 2020	27,595,283	30,069,839

Concluded FX forward contracts by fair value:

Fair value of FX forward transaction in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
NLB, d. d.	145,602	526,172

Revenues/expenses from changes in exchange rates:

in EUR	2017	2016
Loan liabilities in CHF	2,473,908	-1,805,979
Other operating liabilities	52,739	-3,818
Total revenues/expenses from changes in exchange rates:	2,526,647	-1,809,797

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 Slovenske železnice Group managed the liquidity risk to which it was exposed in 2017, 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:

- **b** 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 Slovenske železnice 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 Slovenske železnice Group was controlled and ensured in 2017, and that liquidity risk was well-managed.

Maturity breakdown of liabilities:

	Contractual cash flows						
in EUR	Carrying amount of liabilities	Total contractual obligations	0 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	
Non-current financial liabilities	111,392,771	113,679,441	_		112,806,910	872,531	
Other non-current operating liabilities	1,683,280	1,817,942				1,817,942	
Current financial liabilities	12,644,474	12,897,363		12,897,363			
Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances)	29,368,411	29,368,411	29,368,411				
Balance as at 31 December 2017	155,088,936	157,763,157	29,368,411	12,897,363	112,806,910	2,690,473	

	Contractual cash flows					
in EUR	Carrying amount of liabilities	Total contractual obligations	0 to 6 months	6 to 12 months	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

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.

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 2017, and there were no material credit-related events that had a significant impact on operations. A great deal of attention is being given to the development of 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 2017 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 2.6.1.11).

Maturity of trade receivables (gross amount):

Maturity									
As at		Past-due							
	 Non-past-due	up to 30 days	31 to 90 days	91 to 365 days	more than 365 days				
31 Dec. 2017	59,180,184	4,168,976	1,981,616	1,473,701	6,545,572	73,350,049			
31 Dec. 2016	71,573,286	4,614,308	1,796,449	823,254	6,824,658	85,631,955			

4 CAPITAL ADEQUACY MANAGEMENT

The main 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 owners, which is reflected in stable dividends for the owner.

in EUR	2017	2016
Non-current financial liabilities	111,392,771	125,178,455
Current financial liabilities	12,644,474	13,808,310
Total financial liabilities	124,037,245	138,986,765
Total equity	330,332,962	306,549,588
Debt/equity	0.38	0.45
Cash and cash equivalents	34,509,699	46,641,584
Net financial liabilities	89,527,546	92,345,181
Net debt/equity	0.27	0.30

5 CARRYING AMOUNT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

	31 Deceml	per 2017	31 December 2016		
in EUR	Carrying amount	Fair value	Carrying amount	Fair value	
Non-derivative financial assets at amortised cost					
Non-current and current financial receivables (excluding derivatives)	3,957,663	3,957,663	3,213,871	3,213,871	
Non-current and current trade receivables	71,447,240	71,447,240	82,456,639	82,456,639	
Cash and cash equivalents	34,509,698	34,509,698	46,641,584	46,641,584	
Total non-derivative financial assets	109,914,601	109,914,601	132,312,094	132,312,094	
Non-derivative financial liabilities at amortised cost					
Non-current and current financial liabilities (excluding derivatives)	-123,056,298	-123,056,298	-137,825,961	-137,825,961	
Non-current and current trade payables	-31,051,691	-31,051,691	-28,327,750	-28,327,750	
Total non-derivative financial liabilities	-154,107,989	-154,107,989	-166,153,711	-166,153,711	
Derivatives at fair value					
Derivatives (assets)			526,172	526,172	
Derivatives (liabilities)	-980,947	-980,947	-1,160,804	-1,160,804	
Total derivatives	-980,947	-980,947	-634,632	-634,632	

Presentation of financial assets and liabilities disclosed at fair value according to the hierarchy used to determine fair value.

Fair value sredstev

	31 December 2017						
in EUR	1 st level	2 nd level	3 rd level	Total			
Non-current financial receivables			3,133,327	3,133,327			
Current financial receivables			824,336	824,336			
Non-current operating receivables			5,047,642	5,047,642			
Current operating receivables (excluding receivables from the government)			66,399,598	66,399,598			
Cash and cash equivalents			34,509,698	34,509,698			
Total assets for which fair value is disclosed			109,914,601	109,914,601			
Total assets			109,914,601	109,914,601			

	31 December 2016				
in EUR	1 st level	2 nd level	3 rd 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	

Fair value of liabilities

	31 December 2017					
in EUR	1 st level	2 nd level	3 rd level	Total		
Financial liabilities at fair value through profit or loss	_		980,947	980,947		
Total liabilities measured at fair value			980,947	980,947		
Non-current financial liabilities			111,392,771	111,392,771		
Current financial liabilities (excluding liabilities measured at fair value)			11,663,527	11,663,527		
Non-current operating liabilities (excluding other liabilities)			1,683,280	1,683,280		
Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances)			29,368,411	29,368,411		
Total liabilities for which fair value is disclosed			154,107,989	154,107,989		
Total liabilities			155,088,936	155,088,936		

	31 December 2016						
in EUR	1 st level	2 nd level	3 rd 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			

AUDIT REPORT OF THE SLOVENSKE ŽELEZNICE GROUP FOR 2017

Deloitte.

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INDEPENDENT AUDITOR'S REPORT to the owners of SLOVENSKE ŽELEZNICE, d.o.o.

Opinion

We have audited the consolidated financial statements of the company SLOVENSKE ŽELEZNICE, d.o.o. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and consolidated cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Information

The other information comprises the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the Supervisory Board report, which will be made available subsequently. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

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V Sloveniji storitve zagotavljata Deloitte revizija d.o,o, in Deloitte svetovanje d.o.o. (pod skupnim imenom Deloitte Slovenija), ki sta članici Deloitte Central Europe Holdings Limited, Deloitte Slovenija sodi med vodilne družbe za strokovne storitve v Sloveniji, ki nudi storitve revizije, davčnega, poslovnega, finančnega in pravnega svetovanja ter svetovanja na področju tveganj, ki jih zagotavlja več kot 100 domačih in tujih strokovnjakov.

Deloitte revizija d.o.o. - Družba vpisana pri Okrožnem sodišču v Ljubljani - Matična številka: 1647105 - ID št., za DDV: SI62560085 - Osnovni kapital: 74,214,30 EUR.

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Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, Supervisory Board and Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Supervisory Board and Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial statements of group companies or their business activities in order to express an opinion on the d financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

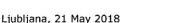
With Supervisory Board and Audit Committee, we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc

Certified Auditor

For signature please refer to the original Slovenian version.



Deloitte. Deloitte REVIZIJA D.O.O. Ljubljona, Stovenija 3

TRANSLATION ONLY - SLOVENIAN ORIGINAL PREVAILS

6 FINANCIAL STATEMENTS OF SLOVENSKE ŽELEZNICE, d. o. o.

6.1 STATEMENT OF FINANCIAL POSITION

		Balanc	e as at
in EUR	Note	31 Dec. 2017	31 Dec. 2016
ASSETS		516,020,097	530,043,603
A. Non-current assets		460,958,211	465,573,055
Intangible assets	6.6.1.1	840,192	907,274
Property, plant and equipment	6.6.1.2	13,423,568	11,172,286
Investment property	6.6.1.3	47,418,773	44,530,178
Investments in subsidiaries	6.6.1.4	272,554,833	270,866,958
Investments in associates	6.6.1.4	3,079,623	3,079,623
Other financial assets	6.6.1.4	4,117,175	4,117,175
Financial receivables	6.6.1.5	113,446,859	125,319,445
Operating receivables	6.6.1.6	3,940,398	3,868,605
Deferred tax assets	6.6.1.7	1,221,899	827,603
Other non-current assets		914,891	883,908
B. Current assets		55,061,886	64,470,548
Assets held for sale		33,435	19,804
Financial receivables	6.6.1.8	25,722,242	20,320,288
Trade receivables	6.6.1.9	6,308,712	2,724,110
Other operating receivables	6.6.1.10	1,336,069	1,929,478
Receivables for corporate income tax		464,108	1,195,618
Cash and cash equivalents	6.6.1.11	21,197,320	38,281,250
EQUITY AND LIABILITIES		516,020,097	530,043,603
A. Equity	6.6.1.12	289,420,112	286,650,240
Called-up capital		205,274,421	205,274,421
Share premium account		45,002,140	45,002,140
Legal reserves		1,869,355	1,573,711
Other profit reserves		28,315,958	6,701,431
Fair value reserves		-345,492	-203,250
Retained earnings		9,303,730	28,301,787
1. Retained earnings from previous years		6,347,289	20,855,752
2. Undistributed retained earnings from the financial year		2,956,441	7,446,035
B. Non-current liabilities		118,002,497	132,025,806
Provisions for jubilee benefits and termination benefits	6.6.1.13	2,067,765	1,667,232
Other provisions		19,000	19,000
Non-current deferred income		2,576	3,163
Financial liabilities	6.6.1.14	109,672,206	122,917,859
Operating liabilities	6.6.1.15	6,240,950	7,418,552
C. Current liabilities		108,597,488	111,367,557
Financial liabilities	6.6.1.14	99,039,683	101,256,658
Trade payables	6.6.1.16	6,019,096	6,288,215
Other operating liabilities	6.6.1.15	3,538,709	3,822,684

6.2 STATEMENT OF PROFIT OR LOSS

in EUR	Note	2017	2016
1. Net sales revenue	6.6.2.1	22,869,477	19,780,194
3. Capitalised own products and services		320,612	257,000
4. Other operating revenues (including revaluation operating revenues)	6.6.2.2	4,554,574	13,776,974
5. Costs of goods, materials and services	6.6.2.3	6,304,228	5,195,274
6. Labour costs	6.6.2.4	16,468,400	16,703,384
7. Write-downs	6.6.2.5	1,269,909	1,163,740
8. Other operating expenses	6.6.2.6	2,825,853	4,015,561
9. Operating profit or loss (1 ± 2 + 3 + 4 - 5 - 6 - 7 - 8)		876,273	6,736,209
11. Finance income	6.6.2.7	12,449,400	14,281,483
12. Finance costs	6.6.2.8	7,807,089	6,500,221
13. Net finance income/costs (11 – 12)		4,642,311	7,781,262
14. Pre-tax profit or loss (9 + 13)		5,518,584	14,517,471
15. Current tax		0	453,005
16. Deferred taxes	6.6.1.7	-394,297	-827,603
17. Corporate income tax	6.6.2.9	-394,297	-374,598
18. Net profit or loss for the accounting period		5,912,881	14,892,069

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

6.3 STATEMENT OF OTHER COMPREHENSIVE INCOME

in EUR	Note	2017	2016
Net profit or loss for the accounting period		5,912,881	14,892,069
Items that will not be reclassified subsequently to profit or loss		-143,009	-37,083
Actuarial gains/losses		-143,009	-37,083
Other comprehensive income for the financial year		-143,009	-37,083
Total comprehensive income for the reporting period		5,769,872	14,854,986

6.4 STATEMENT OF CASH FLOWS

in E	UR	Note	2017	2016
Α.	CASH FLOWS FROM OPERATING ACTIVITIES			
a)	Net profit or loss		5,912,881	14,892,069
	Pre-tax profit or loss		5,518,584	14,517,471
	Corporate income tax and other taxes not included in operating expenses		-394,297	-374,598
b)	Adjustments for		-8,054,476	-7,365,563
	amortisation and depreciation (+)	6.6.2.5	1,123,080	958,943
	revaluation operating revenues (-)		-1,431,228	-13,584,586
	revaluation operating expenses (+)		146,829	204,798
	finance income, excluding finance income from operating receivables (-)	6.6.2.7	-12,415,667	-14,210,318
	finance costs, excluding finance costs from operating liabilities (+)	6.6.2.8	7,708,921	6,274,055
	other adjustments to revenues and expenses		-2,033,459	-3,112,296
	other adjustments to balance sheet operating items		-1,152,952	16,103,841
c)	Changes in net working capital (and provisions and deferred tax assets and liabilities) from balance sheet operating items		-4,087,506	-19,634,185
	Opening less closing operating receivables		-2,362,459	-2,341,758
	Opening less closing deferred tax assets		-394,297	-827,602
	Opening less closing available-for-sale assets (disposal groups)		0	-19,804
	Opening less closing inventories		0	671
	Closing less opening operating liabilities		-1,730,696	-16,203,701
	Closing less opening provisions		399,946	-241,991
d)	Net cash flows from operating activities (a + b + c + d + e)		-6,229,101	-12,107,679
B.	CASH FLOWS FROM INVESTING ACTIVITIES			
a)	Inflows from investing activities		135,094,230	168,134,832
	Inflows from interest received, and shares in the profit of others		9,424,123	9,450,949
	Inflows from the disposal of property, plant and equipment	6.6.1.2	706,631	1,398,008
	Inflows from the disposal of investment property	6.6.1.3	1,001,841	1,231,242
	Inflows from the disposal of financial assets		123,961,635	156,054,633
b)	Outflows from investing activities		-125,799,942	-162,749,535
	Outflows for the acquisition of intangible assets	6.6.1.1	-201,608	-985,189
	Outflows for the acquisition of property, plant and equipment	6.6.1.2	-2,038,627	-2,308,942
	Outflows for the acquisition of investment property	6.6.1.3	-1,380,102	-999,687
	Outflows for the acquisition of financial assets	6.6.1.4	-122,179,605	-158,455,717
c)	Net cash flows from investing activities (a + b)		9,294,288	5,385,297
С.	CASH FLOWS FROM FINANCING ACTIVITIES			
a)	Inflows from financing activities		318,371,774	526,740,489
	Inflows from the increase in financial liabilities	6.6.1.14	318,371,774	526,740,489
b)	Outflows from financing activities		-336,251,457	-502,521,603
	Outflows for interest paid		-4,307,973	-2,349,959
	Outflows for the repayment of financial liabilities	6.6.1.14	-331,212,918	-499,521,603
	Outflows for the payment of dividends and other shares in profit		-3,000,000	-3,000,000
c)	Net cash flows from financing activities (a + b)		-20,149,117	21,868,927
D.	Closing balance of cash and cash equivalents	6.6.1.11	21,197,320	38,281,250
x)	Net cash flow in period (sum of Ac, Bc and Cc)		-17,083,930	15,146,545
	+/- Calculated exchange rate differences from foreign currency assets			-
y)	Opening balance of cash and cash equivalents	6.6.1.11	38,281,250	23,134,705

6.5 STATEMENT OF CHANGES IN EQUITY

in the period 1 January to 31 December 2017

						Retained	earnings	
in EUR	Share capital	Share premium Legal account reserves		Fair value reserves	Retained earnings from previous years	Undistrib. retained earnings from the fin. year		
Opening balance for 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
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	-142,242	-767	5,912,881	5,769,872
Entry of net profit or loss for the reporting period							5,912,881	5,912,881
Other items of comprehensive income in the reporting period					-142,242	-767		-143,009
Changes within equity	0	0	295,644	21,614,527	0	-11,507,696	-10,402,475	0
Allocation of remaining portion of net profit for the comparable reporting period to other components of equity						7,446,035	-7,446,035	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			295,644	21,614,527		-18,953,731	-2,956,440	0
Closing balance for reporting period	205,274,421	45,002,140	1,869,355	28,315,958	-345,492	6,347,289	2,956,441	289,420,112

in the period 1 January to 31 December 2016

						Retained	earnings	
in EUR	Share capital	Share premium account	Legal reserves	Other profit reserves	Fair value reserves	Retained earnings from previous years	Undistrib. retained earnings from the fin. year	Total
Opening balance for 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 or 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
Closing balance for reporting period						189,022		189,022
Closing balance for 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

	Slovenske žele	eznice, d. o. o.
in EUR	31 December 2017	31 December 2016
Mandatory use of net profit		
Net profit or loss	5,912,881	14,892,069
Creation of legal reserves	295,644	744,603
Net profit or loss following mandatory use	5,617,237	14,147,466
Creation of other profit reserves	2,660,796	6,701,431
Determination of distributable profit		
Net profit or loss	2,956,441	7,446,035
Retained earnings from previous years	6,347,289	20,855,752
Distributable profit	9,303,730	28,301,787

Pursuant to the resolution of Slovenske železnice, d. o. o.'s Management Board of 20 April 2018, a portion of the Company's net profit for 2017 in the amount of EUR 295,644 was used for the creation of legal reserves, while a portion in the amount of EUR 2,660,796 was used for the creation of other profit reserves. A portion of net profit in the amount of EUR 2,956,440 remains undistributed.

The Management Board of Slovenske železnice, d. o. o. adopted a resolution that distributable profit in the amount of EUR 9,303,729 as at 31 December 2017 be used for the following purposes:

- EUR 3,000,000 for the payment of shares in profit; and
- **EUR 6,303,729 to remain undistributed.**

6.6 NOTES TO THE FINANCIAL STATEMENTS

6.6.1 Notes to the statement of financial position

6.6.1.1 Intangible assets

Intangible assets comprise licences and software.

Changes in intangible assets

in EUR	Long-term property rights	Non-current deferred development costs	Total
Historical cost			
Balance as at 1 January 2016	3,708,920	129,683	3,838,603
Acquisitions	783,737	0	783,737
Write-downs	-1,668	0	-1,668
Balance as at 31 December 2016	4,490,989	129,683	4,620,672
Balance as at 1 January 2017	4,490,989	129,683	4,620,672
Acquisitions	272,361	0	272,361
Disposals	-153,480	0	-153,480
Balance as at 31 December 2017	4,609,870	129,683	4,739,553
Value adjustment			
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
Balance as at 1 January 2017	3,583,714	129,683	3,713,397
Write-downs	-149,193	0	-149,193
Amortisation	335,157	0	335,157
Balance as at 31 December 2017	3,769,678	129,683	3,899,361
Carrying amount			
Balance as at 1 January 2016	339,305	0	339,305
Balance as at 31 January 2016	907,274	0	907,274
Balance as at 1 January 2017	907,274	0	907,274
Balance as at 31 December 2017	840,192	0	840,192

The Company had no commitments for the acquisition of intangible assets as at 31 December 2016 and 31 December 2017, nor had the Company pledged intangible assets as collateral.

A total of 70.2% of all intangible assets in use as at 31 December 2017 have been depreciated in full (that proportion stood at 65.1% as at 31 December 2016). That proportion is calculated taking into account the historical cost of intangible assets.

6.6.1.2 Property, plant and equipment

in EUR	31 Dec. 2017	31 Dec. 2016
Land	1,920,711	1,095,402
Buildings	6,656,102	7,063,293
Equipment	1,912,545	1,220,590
Property, plant and equipment in acquisition	2,934,210	1,793,001
Total	13,423,568	11,172,286

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 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	0	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
Balance as at 1 January 2017	1,095,402	19,402,767	11,444,666	19,348	1,793,001	33,755,184
Acquisitions	833,146	0	1,054,390	0	1,141,209	3,028,744
Disposals	-7,837	-437,331	-3,140,936	0	0	-3,586,104
Balance as at 31 December 2017	1,920,711	18,965,436	9,358,120	19,348	2,934,210	33,197,825
Value adjustment						
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
Balance as at 1 January 2017	0	12,339,475	10,229,234	14,189	0	22,582,898
Increases	0	0	27,835	0	0	27,835
Decreases	0	-270,373	-3,136,339	0	0	-3,406,711
Depreciation	0	240,232	326,134	3,870	0	570,235
Balance as at 31 December 2017	0	12,309,334	7,446,865	18,058	0	19,774,256
Carrying amount						
Balance as at 1 January 2016	1,130,481	7,041,340	841,892	9,029	1,142,541	10,165,283
Balance as at 31 December 2016	1,095,402	7,063,292	1,215,431	5,159	1,793,001	11,172,286
Balance as at 1 January 2017	1,095,402	7,063,292	1,215,431	5,159	1,793,001	11,172,286
Balance as at 31 December 2017	1,920,711	6,656,102	1,911,256	1,290	2,934,210	13,423,568

The Company's moveable property and real estate were not pledged as guarantees for long-term loans as at 31 December 2017, nor at 31 December 2016.

The Company had commitments for the purchase of property, plant and equipment in the amount of EUR 19,611,868 as at 31 December 2017 (EUR 29,984,076 as at 31 December 2016).

A total of 39.7% of all items of property, plant and equipment in use as at 31 December 2017 have been depreciated in full (that proportion stood at 45.2% as at 31 December 2016). That proportion is calculated taking into account the historical cost of property, plant and equipment.

6.6.1.3 Investment property

in EUR	31 Dec. 2017	31 Dec. 2016
Investment property	47,418,773	44,530,178
Total	47,418,773	44,530,178

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 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
Balance as at 1 January 2017	37,689,303	16,423,558	54,112,861
Acquisitions	1,781,275	1,621,951	3,403,226
Disposals	-94,181	-615,014	-709,195
Transfers for sale	-17,825	-32,282	-50,107
Balance as at 31 December 2017	39,358,571	17,398,213	56,756,785
Value adjustment			
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
Balance as at 1 January 2017	0	9,582,683	9,582,683
Depreciation	0	217,688	217,688
Disposals	0	-462,360	-462,360
Balance as at 31 December 2017	0	9,338,012	9,338,012
Carrying amount			
Balance as at 1 January 2016	37,794,513	6,829,053	44,623,566
Balance as at 31 December 2016	37,689,303	6,840,874	44,530,178
Balance as at 1 January 2017	37,689,303	6,840,874	44,530,178
Balance as at 31 December 2017	39,358,571	8,060,201	47,418,773

The Company has not pledged investment property as collateral.

Slovenske železnice, d. o. o., generated rental income of EUR 1,692,428 in 2017 (EUR 1,628,821 in 2016). Depreciation costs associated with investment property totalled EUR 217,688 (EUR 234,731 in 2016).

A total of 25.1% of all investment property in use as at 31 December 2017 has been depreciated in full (that proportion stood at 26.9% as at 31 December 2016). 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 82,510,729 as at 31 December 2017 (EUR 80,252,244 as at 31 December 2016).

6.6.1.4 Non-current financial assets

in EUR	31 Dec. 2017	31 Dec. 2016
Investments in subsidiaries	272,554,833	270,866,958
Investments in associates	3,079,623	3,079,623
Available-for-sale financial assets	4,117,175	4,117,175
Total	279,751,631	278,063,756

The Company had no non-current financial assets pledged as guarantees for long-term loans as at 31 December 2017, nor at 31 December 2016.

Changes in non-current financial assets

in EUR	Investments in subsidiaries	Investments in associates	Other financial assets
Historical cost			
Balance as at 1 January 2016	260,517,377	5,609,252	3,479,800
Increase in share capital	10,549,527	0	656,853
Balance as at 31 December 2016	271,066,904	5,609,252	4,136,653
Balance as at 1 January 2017	271,066,904	5,609,252	4,136,653
Conversion of a portion of receivables into equity	1,687,875	0	0
Balance as at 31 December 2017	272,754,779	5,609,252	4,136,653
Value adjustment			
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
Balance as at 1 January 2017	199,946	2,529,629	19,478
Balance as at 31 December 2017	199,946	2,529,629	19,478
Carrying amount			
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
Balance as at 1 January 2017	270,866,958	3,079,623	4,117,175
Balance as at 31 December 2017	272,554,833	3,079,623	4,117,175

Participating interests in subsidiaries

Participating interest*	Share capital*	Carrying amount of participating interest		Profit or loss for the year	
31 Dec. 2017	31 Dec. 2017	31 Dec. 2017	31 Dec. 2016	2017	2016
100%	36,860,942	61,615,541	61,615,541	12,027,320	8,939,700
100%	131,684,161	133,832,158	133,832,158	16,876,524	3,920,880
100%	15,828,186	17,411,005	17,411,005	1,832,926	2,179,415
100%	26,068,145	41,718,205	41,718,205	433,997	35,511
100%	162,328	338,846	338,846	262,406	153,792
100%	6,072,597	4,782,426	3,094,551	145,995	-1,061,102
100%	3,138,557	8,940,000	8,940,000	450,681	484,325
79.82%	3,152,412	3,388,034	3,388,034	322,624	2,035,249
64.28%	265,160	528,618	528,618	-94,704	34,188
		272,554,833	270,866,958	32,257,769	16,721,958
	interest* 31 Dec. 2017 100% 100% 100% 100% 100% 100% 100% 79.82%	interest* capital* 31 Dec. 2017 31 Dec. 2017 100% 36,860,942 100% 131,684,161 100% 15,828,186 100% 26,068,145 100% 162,328 100% 6,072,597 100% 3,138,557 79.82% 3,152,412	interest* capital* participati 31 Dec. 2017 31 Dec. 2017 31 Dec. 2017 100% 36,860,942 61,615,541 100% 131,684,161 133,832,158 100% 15,828,186 17,411,005 100% 26,068,145 41,718,205 100% 162,328 338,846 100% 6,072,597 4,782,426 100% 3,138,557 8,940,000 79.82% 3,152,412 3,388,034 64.28% 265,160 528,618	interest* capital* participating interest 31 Dec. 2017 31 Dec. 2017 31 Dec. 2017 31 Dec. 2017 100% 36,860,942 61,615,541 61,615,541 100% 131,684,161 133,832,158 133,832,158 100% 15,828,186 17,411,005 17,411,005 100% 26,068,145 41,718,205 41,718,205 100% 162,328 338,846 338,846 100% 6,072,597 4,782,426 3,094,551 100% 3,138,557 8,940,000 8,940,000 79.82% 3,152,412 3,388,034 3,388,034 64.28% 265,160 528,618 528,618	interest* capital* participating interest interest 31 Dec. 2017 31 Dec. 2017 31 Dec. 2017 31 Dec. 2016 2017 100% 36,860,942 61,615,541 61,615,541 12,027,320 100% 131,684,161 133,832,158 133,832,158 16,876,524 100% 15,828,186 17,411,005 17,411,005 1,832,926 100% 26,068,145 41,718,205 41,718,205 433,997 100% 162,328 338,846 338,846 262,406 100% 6,072,597 4,782,426 3,094,551 145,995 100% 3,138,557 8,940,000 8,940,000 450,681 79.82% 3,152,412 3,388,034 3,388,034 322,624 64.28% 265,160 528,618 528,618 -94,704

Information regarding associates as at 31 December 2017

Business name of associate	Business address of associate	Activity	Ownership as at 31 December 2017	Ownership as at 31 December 2016
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., Ljubljana	Tivolska cesta 50, Ljubljana	Freight rail transport	33.72%	33.72%

	E	quity	Profit or loss for the year		
in EUR	31. Dec. 2017	31. Dec. 2016	2017	2016	
Terme Olimia, d. d.	33,409,463	32,663,032	756,569	1,500,131	
Adria Kombi, d. o. o., Ljubljana	10,811,876	10,896,921	1,378,954	2,089,467	
Total investments in associates	44,221,339	43,559,953	2,135,523	3,589,598	

Balance of investments in associates

in EUR	31 Dec. 2017	31 Dec. 2016
Terme Olimia, d. d.	3,064,172	3,064,172
Adria Kombi, d. o. o., Ljubljana	15,451	15,451
Total investments in associates	3,079,623	3,079,623

Available-for-sale financial assets

	Participating interest	Participating interest Value of	
in EUR	31 Dec. 2017	31. Dec. 2017	31. Dec. 2016
– Emonika NS, d. o. o.	3%	1,953,330	1,953,330
– EUROFIMA	0.42%	2,033,709	2,033,709
– Emonika PS, d. o. o.	3%	67,549	67,549
– HIT RAIL		54,439	54,439
- Other shares and participating interests		8,148	8,148
Total		4,117,175	4,117,175

6.6.1.5 Non-current financial receivables

in EUR	31 Dec. 2017	31 Dec. 2016
Non-current financial receivables from Group companies	111,043,576	122,915,993
Other non-current financial receivables	2,403,283	2,403,452
Total	113,446,859	125,319,445

The majority of non-current financial receivables relate to the receivables of Slovenske železnice, 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 Slovenske železnice, d. o. o. discloses non-current financial receivables from the aforementioned subsidiary (see note 6.6.1.14).

6.6.1.6 Non-current operating receivables

in EUR	31 Dec. 2017	31 Dec. 2016
Non-current operating receivables from Group companies	427,600	516,276
Non-current trade receivables	0	293
Other non-current operating receivables	3,512,798	3,352,036
Total	3,940,398	3,868,605

Other non-current operating receivables comprise loans granted for the purchase of housing and other real estate in the amount of EUR 3,432,798 (EUR 3,352,036 as at 31 December 2016).

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.

6.6.1.7 Deferred tax assets

in EUR		31 Dec. 2017	31 Dec. 2016
Deferred tax assets		1,221,899	827,603
in EUR	Tax loss	Tax allowances for investments	Total
Balance at 1 January 2016	0	0	0
Credited/debited to operating results	827,603	0	827,603
Balance at 31 December 2016	827,603	0	827,603
Balance as at 1 January 2017	827,603	0	827,603
Credited/debited to operating results	276,499	117,798	394,297
Balance at 31 December 2017	1,104,102	117,798	1,221,900

Deferred tax assets are recognised for non-deductible expenses from tax losses and unutilised allowances for investments. Taking into account planned operating results, the Company assesses that there is an increased probability of a reduction in tax bases as the result of non-deductible expenses. Deferred tax assets were therefore higher relative to 2016.

Total sources for the creation of deferred tax assets are as follows:

in EUR	Tax loss	Tax allowances for investments	Total
Balance at 31 December 2016	4,355,803	0	4,355,803
Balance at 31 December 2017	5,811,060	619,990	6,431,050

6.6.1.8 Current financial receivables

in EUR	31 Dec. 2017	31 Dec. 2016
Financial receivables from subsidiaries	24,905,451	19,794,014
Financial receivables from forward transactions	0	526,172
Financial receivables from others	816,791	102
Total	25,722,242	20,320,288

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 13,661,000 (EUR 8,745,473 as at 31 December 2016), and from the transfer of the current portion of long-term loans that mature in 2018 in the amount of EUR 10,769,231 (EUR 10,769,231 as at 31 December 2016).

The majority of other financial receivables (EUR 816,000) comprise receivables from banks for deposited funds.

Interest is charged between Group companies at the tax-deductible interest rate applicable for related parties

6.6.1.9 Trade receivables

in EUR	31 Dec. 2017	31 Dec. 2016
Current receivables from Group companies	5,643,834	2,082,134
Current trade receivables from domestic customers	655,729	633,880
Current trade receivables from foreign customers	9,149	8,096
Total	6,308,712	2,724,110

in EUR		Value adjustment as at 31 December 2017	Net value as at 31 December 2017	Net value as at 31 December 2016
Current receivables from Group companies	5,643,834	0	5,643,834	2,082,134
Current trade receivables from domestic customers	784,841	129,112	655,729	633,880
Current trade receivables from foreign customers	10,010	861	9,149	8,096
Total	6,438,685	129,973	6,308,712	2,724,110

Net adjustments to the value of current trade receivables were created as follows:

in EUR	2017	2016
Balance as at 1 January	145,203	203,142
Reduction for written-off receivables	0	-27,425
Reversal of value adjustments	-16,092	-30,514
Creation of value adjustments	862	0
Balance as at 31 December	129,973	145,203

Maturity breakdown of receivables

in EUR	31 Dec. 2017	31 Dec. 2016
Non-past-due receivables	5,976,646	2,396,775
Past-due receivables	462,039	472,538
- up to 30 days	183,478	164,327
- 31 to 90 days	99,306	76,910
- 91 to 365 days	56,574	51,285
- more than 365 days	122,681	180,016
Total	6,438,685	2,869,313

6.6.1.10 Other current operating receivables

in EUR	31 Dec. 2017	31 Dec. 2016
Receivables from government and other institutions	756,421	815,885
Receivables from employees	278,451	252,575
Other receivables associated with finance income	0	1,477
Current operating receivables from advances	1,647	27,150
Other current operating receivables	2,576	536,622
Deferred costs	283,316	148,509
Accrued income	13,658	147,260
Total	1,336,069	1,929,478

Write-offs and impairments of current operating receivables in 2017 are disclosed in operating expenses in the amount of EUR 34,702 (EUR 5,305 in 2016).

6.6.1.11 Cash and cash equivalents

in EUR	31 Dec. 2017	31 Dec. 2016
Cash in hand	1,474	2,910
Cash in bank accounts	21,195,846	38,278,340
Total	21,197,320	38,281,250

6.6.1.12 Equity

in EUR	31 Dec. 2017	31 Dec. 2016
Called-up capital	205,274,421	205,274,421
Share premium account	45,002,140	45,002,140
Legal reserves	1,869,355	1,573,711
Other profit reserves	28,315,958	6,701,431
Fair value reserves	-345,492	-203,250
Retained earnings from previous years	6,347,289	20,855,752
Undistributed retained earnings from the financial year	2,956,441	7,446,035
Total	289,420,112	286,650,240

Changes in equity	in EUR
Balance as at 1 January 2016	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
Net profit for the financial year	5,912,881
Payment of shares in profit	-3,000,000
Actuarial gains and losses	-143,009
Balance as at 31 December 2017	289,420,112

The structure of capital has changed:

- pursuant to the resolution of Slovenski državni holding d. d. of 25 July 2017, a portion of distributable profit from 2016 in the amount of EUR 18,953,730,81 was transferred to other profit reserves,
- **b** based on the resolution adopted by the Management Board of Slovenske železnice, d. o. o. (see note 6.5).

6.6.1.13 Provisions and non-current deferred income

in EUR	31 Dec. 2017	31 Dec. 2016
Provisions for jubilee benefits and termination benefits	2,067,765	1,667,232
Other provisions	19,000	19,000
Non-current deferred income	2,576	3,163
Total	2,089,341	1,689,395

Other provisions comprise provisions for a labour-related lawsuit.

A total of 18 legal proceedings in the total amount of EUR 1,193,903 (labour, civil and economic disputes) were in progress against Slovenske železnice, d. o. o. during 2017. On the day the annual report was compiled, six cases had been closed.

In accordance with assessments of the possible outcomes of specific disputes, drawn up on the bases of reports prepared by law firms, the provisions for one case were created as at 31 December 2017. In the remaining cases, it has been assessed that there is a more than 50% probability that rulings will not be handed down in favour of the plaintiffs, or that it is not yet possible to assess the outcome of disputes because the cases involved are in the initial phase. Provisions were recognised at subsidiaries for two legal disputes in accordance with the demerger plan from 2011. Changes in provisions for jubilee benefits and termination benefits

in EUR	Termination benefits	Jubilee benefits	Total
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
Balance as at 1 January 2017	1,509,226	158,006	1,667,232
Used in 2017	-5,869	-32,757	-38,627
Current employment costs	240,694	24,806	265,501
Interest (expenses)	29,523	2,776	32,299
Reversal of provisions - closure, rights, etc. (revenues)	0	-1,649	-1,649
Actuarial gains/losses	143,009	0	143,009
Balance as at 31 December 2017	1,916,583	151,182	2,067,765

The following material assumptions were taken into account in the calculation of provisions for termination benefits at retirement and jubilee benefits:

	2017	2016
Average monthly gross wage in Slovenia	EUR 1,630	EUR 1,580
Discount rate	1.96%	2.12%
Overall wage growth	2.0%	1.5%
Retirement conditions (age)		
- men (transitional period)	62	62
- women (transitional period)	60	60
- men	65	65
- women	65	65

6.6.1.14 Financial liabilities

in EUR	31 Dec. 2017	31 Dec. 2016
Non-current financial liabilities to domestic banks	8,076,923	18,846,154
Other non-current financial liabilities	101,595,283	104,071,705
Total non-current financial liabilities	109,672,206	122,917,859
Current financial liabilities to Group companies	87,068,877	89,133,070
Current financial liabilities to domestic banks	10,769,231	10,769,231
Current financial liabilities to foreign banks	0	0
Liabilities to banks arising from the fair value of derivatives	980,947	1,160,804
Other current financial liabilities to domestic entities	220,627	193,553
Other current financial liabilities to foreign entities	0	0
Total current financial liabilities	99,039,682	101,256,658
Total	208,711,888	224,174,517

Changes in financial liabilities

in EUR	2017
Balance as at 1 January 2017	224,174,517
Proceeds from loans raised	318,371,774
Outflows from loans raised	-331,212,918
Changes in liabilities from financial instruments	-179,857
Changes in liabilities for interest	33,812
Exchange rate differences	-2,474,556
Write-offs of liabilities	-883
Balance as at 31 December 2017	208,711,889

Non-current financial liabilities

in EUR	Date of agreement or annex	Date of maturity	Balance as at 31 Dec. 2017	Collateral
 Restructuring of liabilities 	27 July 2015	31 July 2019	8,076,923	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	27,595,283	Sureties
Total			109,672,206	

Slovenske železnice, d. o. o. discloses both liabilities to creditors 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 2017 for the transfer of a portion to current liabilities in the amount of EUR 10,769,231 (the same amount was transferred to current liabilities in 2016).

Other non-current financial liabilities were down by EUR 2,476,422 (EUR 262,596 in 2016) as the result of exchange rate differences in the amount of EUR 2,474,556 (EUR 266,424 in 2016), and were reduced by EUR 983 (EUR 3,813 in 2016) for the transfer of non-current liabilities for financing leasing to current liabilities. They were also down by EUR 883 as the result of write-offs (and by EUR 15 in 2016 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 87,005,000 (EUR 89,073,100 as at 31 December 2016) and accrued interest in the amount of EUR 63,878 (EUR 59,970 as at 31 December 2016);
- current financial liabilities to domestic banks in the amount of EUR 10,769,231 (EUR 10,769,231 as at 31 December 2016) as the result of a loan raised to reschedule EUROFIMA loans (liabilities mature on 31 December 2017);
- Iiabilities from derivatives in the amount of EUR 980,947 (EUR 1,160,804 as at 31 December 2016); and
- other current financial liabilities in the form of interest on derivatives transactions in the amount of EUR 219,644 (EUR 189,740 as at 31 December 2016), and the current portion of a non-current finance lease in the amount of EUR 983 (EUR 3,813 as at 31 December 2016).

6.6.1.15 Operating liabilities

in EUR	31 Dec. 2017	31 Dec. 2016
Non-current liabilities	6,240,950	7,418,552
Liabilities to Group companies	6,233,387	7,409,319
Other operating liabilities	7,563	9,233
Current liabilities	3,538,709	3,822,684
Liabilities for advances received	92,791	37,956
Liabilities to employees	1,293,813	1,922,183
Liabilities to the government and government institutions	1,166,752	583,119
Liabilities to others	299,605	353,098
Deferred income	91,536	14,297
Accrued costs and expenses	594,212	912,031
Total	9,779,659	11,241,236

Non-current operating liabilities

Non-current liabilities to Group companies in the amount of EUR 6,196,643 (EUR 7,345,995 in 2016) comprise the non-current liabilities of the transferring company Slovenske železnice, d. o. o. to SŽ–Tovorni promet, d. o. o. in the amount of EUR 5,477,561 (EUR 6,493,538 as at 31 December 2016) and to SŽ–Potniški promet, d. o. o. in the amount of EUR 719,082 (EUR 852,457 as at 31 December 2016). 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 Slovenske železnice, 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 2016. The Company used the consideration it received to settle a portion of its debt. Liabilities to both companies were increased in 2017 by accrued interest in the amount of EUR 74,980 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 2018.

Current operating liabilities

Accrued costs and expenses primarily comprise the accrued costs of unused annual leave in the amount of EUR 591,135 (EUR 448,590 as at 31 December 2016).

6.6.1.16 Trade payables

in EUR	31 Dec. 2017	31 Dec. 2016
Liabilities to Group companies	4,844,777	5,456,652
Domestic trade payables	1,140,720	805,157
Foreign trade payables	33,599	26,406
Total	6,019,096	6,288,215

in EUR	31 Dec. 2017	31 Dec. 2016
Non-past-due liabilities	6,011,061	6,234,574
Past-due liabilities	8,035	53,641
- up to 30 days	8,035	41,334
- 31 to 90 days	0	1,118
- more than 365 days	0	11,189
Total	6,019,096	6,288,215

Contingent receivables and liabilities

in EUR	31 Dec. 2017	31 Dec. 2016
Mortgages and liens received	4,308,976	2,816,112
Estimated value of superficies assigned to Emonika, d. o. o.	1,725,000	1,725,000
Receivables arising from interest rate swaps and FX forward transactions	120,631,389	133,685,224
Guarantees and bills of exchange received	39,262,609	55,914,097
Unused overdraft facilities and loans	30,000,000	25,000,000
Merchandise on consignment	365	484
Total contingent receivables	195,928,339	219,140,917
Liens on real estate and moveable property (contractual value)	892,964	42,964
Guarantees and bills of exchange issued	37,379,279	54,051,867
Liabilities arising from interest rate swaps and FX forward transactions	122,515,393	133,241,073
Liabilities for merchandise on consignment	366	484
Approved revolving loan	90,039,000	72,454,527
Total contingent liabilities	250,827,002	259,790,915

6.6.2 Notes to the statement of profit or loss

6.6.2.1 Sales revenues

in EUR	2017	2016
Revenues on the domestic market	22,779,147	19,686,973
Services and products	22,779,147	19,686,973
- services and products in connection with Group companies	21,340,848	18,280,291
- services and products in connection with others	1,438,299	1,406,682
Revenues on the foreign market	90,330	93,221
Services and products	90,330	93,221
- services and products in connection with Group companies	90,330	93,221
Total	22,869,477	19,780,194

Sales revenue primarily comprises revenues from transactions with Group companies. Three quarters of the aforementioned sales revenue comprises 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 16,189,049 (EUR 16,189,054 in 2016).

6.6.2.2 Other operating revenues

in EUR	2017	2016
Revenues from the reversal of provisions	1,649	79,689
Revenues from assigned contributions for the employment of disabled persons	55,782	67,192
Revenues from the sale of property, plant and equipment, and the revaluation of receivables and liabilities	4,064,647	13,593,358
Compensation	432,310	18,232
Other revenues	186	18,503
Total	4,554,574	13,776,974

6.6.2.3 Costs of goods, materials and services

in EUR	2017	2016
Costs of materials	106	230
Energy costs	175,340	181,364
Costs of replacement parts	8,928	6,817
Write-off of small inventory	11,913	8,808
Costs of office materials	95,743	77,306
Other material costs	32,305	42,316
Total cost of goods and materials sold and cost of materials used	324,335	316,841
Transport services	203,618	186,750
Maintenance services	1,261,611	1,170,131
Reimbursement of employee expenses	160,199	105,865
Payment transaction and banking services	252,414	293,914
Intellectual and personal services	1,313,545	800,493
Insurance premiums	119,915	78,761
Advertising, publicity and representation	759,756	415,619
Costs of other services	1,908,835	1,826,900
- Membership fees for international organisations and other associations	340,761	375,053
- Municipal services	174,987	175,960
- Services associated with contracted work	227,066	254,013
- Property surveillance services	225,812	231,887
- Cleaning of premises and outside areas	169,404	174,604
- Audit of the efficiency of rail transport, analysis and training	100,001	0
- Other	670,804	615,383
Total costs of services	5,979,893	4,878,433
Total costs of materials and services	6,304,228	5,195,274

Costs of auditor

in EUR	2017	2016
Auditing of the annual report	12,000	12,000
Other assurance services	500	500
Other non-audit services	3,300	0
Total	15,800	12,500

6.6.2.4 Labour costs

in EUR	2017	2016
Costs of wages and salaries	12,437,519	11,541,598
Pension insurance costs	1,281,107	1,231,340
Other social security costs	898,765	895,706
Other labour costs	1,851,009	3,034,740
- Reimbursements	1,013,033	1,017,045
- Annual leave allowance	492,697	496,917
- Actuarial calculation	265,501	83,430
- Redundant employees	4,312	1,410,907
- Other costs	75,466	26,441
Total	16,468,400	16,703,384

6.6.2.5 Write-downs

in EUR	2017	2016
Depreciation	1,123,080	958,943
Operating expenses for intangible assets and property, plant and equipment	110,063	199,493
Operating expenses for working capital	36,766	5,304
Total	1,269,909	1,163,740

6.6.2.6 Other operating expenses

in EUR	2017	2016
Expenses for the refund of performance bonuses	2,073,321	0
Donations (for sporting, cultural and humanitarian activities)	369,703	238,947
Fees for the use of building land, and other taxes and levies	161,614	162,054
Bonuses for pupils and students on compulsory job training	70,689	389,793
Reimbursement of the PDII for ensuring the rights of Slovenske železnice, d. o. o.'s workers who performed work in organisational units in the territory of the Republic of Croatia	78,254	77,462
Costs for implementation of a programme to resolve the issue of a subsidiary's redundant workers	0	3,043,137
Other expenses	72,272	104,168
Total	2,825,853	4,015,561

6.6.2.7 Finance income

in EUR	2017	2016	
Finance income from participating interests in Group companies	7,898,418	6,851,581	
Finance income from participating interests in associates	472,080	891,835	
Finance income from participating interests in other companies	4,047	1,130,218	
Finance income from other investments	19	526,172	
Total finance income from participating interests	8,374,564	9,399,806	
Finance income from loans to Group companies	1,256,825	3,213,614	
Finance income from loans to others	2,784,278	1,596,898	
Total finance income from loans granted	4,041,103	4,810,512	
Finance income from operating receivables from Group companies	1,650	8,146	
Finance income from other operating receivables	32,083	63,019	
Total finance income from operating receivables	33,733	71,165	
Total	12,449,400	14,281,483	

Nearly the full amount of **finance income from participating interests** is accounted for by participation in the profit of subsidiaries, associates and other companies.

Finance income from loans granted primarily comprises:

- revenues from the revaluation of financial liabilities: positive exchange rate differences in connection with EURO-FIMA in the amount of EUR 2,731,539 (EUR 1,540,863 in 2016) and in connection with SŽ–Tovorni promet, d. o. o. in the amount of EUR 256,983 (EUR 1,805,979 in 2016); and
- interest on bank loans re-invoiced to SŽ–Tovorni promet, d. o. o. in the amount of EUR 885,853 (EUR 1,246,963 in 2016).

6.6.2.8 Finance costs

in EUR	2017	2016
Finance costs from loans from Group companies	3,433,775	2,276,248
Finance costs from bank loans	521,718	744,510
Finance costs from other financial liabilities	3,753,428	3,253,297
Total finance costs from financial liabilities	7,708,921	6,274,055
Finance costs from operating liabilities to Group companies	77,524	220,047
Finance costs from trade payables and liabilities from bills of exchange	601	4,044
Finance costs from other operating liabilities	20,043	2,075
Total finance costs from operating liabilities	98,168	226,166
Total	7,807,089	6,500,221

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 702,236 (EUR 736,693 in 2016) and expenses from the conversion of a loan denominated in a foreign currency in the amount of EUR 2,731,539 (EUR 1,539,555 in 2016); and
- the majority of expenses vis-à-vis banks and others comprise expenses from the revaluation of financial liabilities (exchange rate differences) in the amount of EUR 257,631 (EUR 1,805,979 in 2016), interest on loans received from banks in the amount of EUR 521,718 (EUR 744,510 in 2016) and from EUROFIMA in the amount of EUR 364,135 (EUR 481,505 in 2016) and costs associated with derivatives in the amount of EUR 3,099,212 (EUR 931,333 in 2016).

6.6.2.9 Corporate income tax

in EUR	2017	2016	
Current tax	0	453,005	
Deferred tax	-394,297	-827,603	
Total taxes	-394,297	-374,598	
Pre-tax profit	5,518,584	14,517,471	
Tax calculated at effective tax rate	1,048,531	2,467,970	
Tax from decrease in revenues	-1,594,378	-1,330,616	
Tax from decrease in expenses	0	105,558	
Tax from increase in expenses	194,898	-9,134	
Tax from decrease in tax base	-5,108	-63	
Tax from increase in tax base	0	65,853	
Tax from tax allowances	79,558	-846,564	
Tax credits	276,499	0	
Total taxes	-394,297	-374,598	
Effective tax rate	-7.14	-2.58	

The valid corporate income tax rate was 19% in Slovenia in 2017 (17% in 2016).

6.6.3 Transactions with related parties

The table below presents transactions with Group companies and associates:

2017 in EUR	Sales	Purchases	Loans received	Loans granted
SŽ–Tovorni promet, d. o. o.	5,593,944	1,832,274	116,077,463	9,646,804
SŽ–Potniški promet, d. o. o.	5,382,782	185,746	71,258,540	0
SŽ-Infrastruktura, d. o. o.	9,127,487	372,506	87,425,971	30,796,896
SŽ-VIT Ljubljana, d. o. o.	4,074,375	91,541	0	62,218,433
SŽ-ŽIP, storitve, d. o. o.	826,333	4,001,747	1,544,436	14,007,846
SŽ-ŽGP Ljubljana, d. d.	762,474	0	8,609,898	8,708,628
Prometni institut Ljubljana, d. o. o.	135,242	461,227	764,120	27,001
SŽ-Železniška tiskarna Ljubljana, d. d.	10,406	37,545	103,685	0
Fersped, d. o. o.	102,504	20,480	5,289,898	2,295,622
Kamnolom Verd, d. o. o.	5,124	0	0	0
SŽ-ŽIP, d. o. o. Croatia	90,785	7,281	0	0
Group companies:	26,111,456	7,010,347	291,074,011	127,701,230
Terme Olimia, d. d.	0	3,606	0	0
Associates:	0	3,606	0	0
Total associates:	26,111,456	7,013,953	291,074,011	127,701,230

2016 in EUR	Sales	Purchases	Loans received	Loans granted
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
Kamnolom Verd, d. o. o.	352	0	0	0
SŽ-ŽIP, d. o. o., Croatia	93,746	19,323	0	0
Group companies:	22,090,777	6,948,997	324,276,389	138,390,977
Terme Olimia, d. d.	0	9,323	0	0
Associates:	0	9,323	0	0
Total 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.

Transactions with the owners of associates

in EUR	31 Dec. 2017	31 Dec. 2016
Balance of current trade and other operating receivables	10,659	2,203
Balance of current trade and other operating liabilities	17,336	25,298

in EUR	2017	2016
Transport – receivables	27,929	85,607
Transport – liabilities	210,742	193,846

The disclosure of transactions with the owners of associates includes companies in SDH's portfolio in which the participating interest of the Republic of Slovenia and SDH is greater than 20%.

Gross earnings of groups of persons

The earnings of members of the Management Board and supervisory bodies are presented in point 2.6.3 for Slovenske železnice, d. o. o.

6.6.4 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.

7 FINANCIAL RISKS AT SLOVENSKE ŽELEZNICE, d. o. o.

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

Slovenske železnice, d. o. o. manages interest rate risk in accordance with the Rules on the comprehensive management of risks within the Slovenske železnice Group. Slovenske železnice, d. o. o.'s credit portfolio vis-à-vis banks includes loans bearing a variable interest rate. However, 77.08% 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 Dec. 2017	Balance as at 31 Dec. 2016
Financial receivables	139,169,101	145,639,733
Financial liabilities	-208,711,888	-224,174,517
Net financial instruments bearing a variable interest rate	-69,542,787	-78,534,784

Financial receivables bearing a variable interest rate in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
Financial receivables from Group companies	135,949,027	142,710,007
Financial receivables from others	3,220,074	2,929,726
Total financial receivables	139,169,101	145,639,733

Financial liabilities in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
Financial liabilities to Group companies	87,068,877	89,133,070
Liabilities to banks from credit transactions (principal) interest rate	120,441,437	133,685,224
Liabilities arising from interest rate swaps	980,947	1,160,804
Other financial liabilities	220,627	195,419
Total financial liabilities	208,711,888	224,174,517

The following instruments are used to hedge exposure to interest rate risk:

- in part through current operations, by linking the interest rates on Slovenske železnice, d. o. o.'s operating receivables and financing within the Slovenske železnice 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 Dec. 2017	Balance as at 31 Dec. 2016
Total loans (principal)	120,441,437	133,685,224

Concluded interest rate swap (IRS) agreements:

in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
Total loans (principal)	92,846,154	103,615,385

Concluded IRS agreements by maturity:

Maturity in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
10 September 2019	74,000,000	74,000,000
31 July 2019	18,846,154	29,615,385
Total loans (principal)	92,846,154	103,615,385

Liabilities for IRS at fair value:

Kreditodajalec in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
Total liabilities	835,344	1,160,804

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 276,980, 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 Slovenske železnice Group likewise manages currency risk in accordance with the Rules on the comprehensive management of risks within the Slovenske železnice Group. The Slovenske železnice Group is less exposed to currency risk, as the majority of its transactions are in euros, while the number of transactions in other currencies is negligible.

A total of 77.08% of loans in Slovenske železnice, d. o. o.'s credit portfolio are denominated in euros, while 22.92% of loans are denominated in Swiss francs. The Company hedges against the currency risks associated with the latter using a FX forward transaction.

As at in EUR		Trade receivables	Loan liabilities (current and non-current – principal)	Trade payables
	EUR	6,431,460	92,846,154	5,999,588
31 Dec. 2017	CHF	0	27,595,283	2,422
	HRK	7,225	0	17,086
	EUR	2,862,393	103,615,385	6,288,150
31 Dec. 2016	CHF	0	30,069,839	0
	HRK	6,920	0	65

Concluded FX forward contracts:

in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
NLB, d. d.	27,595,283	30,069,839

Concluded FX forward contracts by maturity:

Maturity in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
25 September 2020	27,595,283	30,069,839

Concluded FX forward contracts by fair value:

Fair value FX Forward: in EUR	Balance as at 31 Dec. 2017	Balance as at 31 Dec. 2016
NLB, d. d.	145,602	526,172

Total effects of exchange differences on trade receivables and trade payables:

in EUR	2017	2016
Loan liabilities in CHF	2,473,908	-265,116
Other operating receivables and liabilities	-17,862	-2,965
Total revenues from changes in exchange rates	2,456,046	-268,081

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 Slovenske železnice Group managed the liquidity risk to which it was exposed in 2017, 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 Slovenske železnice 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 Slovenske železnice Group was secured and controlled in 2017, and that liquidity risk was well-managed. The same was true for Slovenske železnice, d. o. o.

	Contractual cash flows						
in EUR	amount of liabilities	Liabilities	0 to 6 months	6 to 12 months	1 to 3 years	More than 3 years	
Non-current financial liabilities	109,672,206	110,881,686			110,881,686		
Non-current liabilities within the Group	6,233,387	6,794,392				6,794,392	
Other non-current operating liabilities	7,563	7,941				7,941	
Current financial liabilities	11,970,805	12,449,637		12,449,637			
Current financial liabilities within the Group	87,068,877	88,636,117	88,636,117				
Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances)	6,019,096	6,019,096	6,019,096				
Balance as at 31 December 2017	220,971,934	224,788,869	94,655,213	12,449,637	110,881,686	6,802,333	

Maturity breakdown of liabilities:

	Carrying		lows			
in EUR	amount of liabilities	Liabilities	0 to 6 months	6 to 12 months	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	92,937,088	40,670,548

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 2017, and there were no material credit-related events that had a significant impact on operations. A great deal of attention is being given to the development of 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 2017 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 6.6.1.9).

in EUR	Maturity								
-									
As at	- Non-past-due	up to 30 days	31 to 90 days	91 to 365 days	more than 365 days	Total			
31 Dec. 2017	5,976,646	183,478	99,306	56,574	122,681	6,438,685			
31 Dec. 2016	2,396,775	164,327	76,910	51,285	180,016	2,869,313			

Maturity of trade receivables (gross amount):

8 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 owners, which is reflected in stable dividends for the owner.

in EUR	2017	2016
Non-current financial liabilities	109,672,206	122,917,859
Current financial liabilities	99,039,683	101,256,658
Total financial liabilities	208,711,889	224,174,517
Total equity	289,420,112	286,650,240
Debt/equity	0.72	0.78
Cash and cash equivalents	21,197,320	38,281,250
Net financial liabilities	187,514,569	185,893,267
Net debt/equity	0.65	0.65

9 CARRYING AMOUNT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

	31 Decemb	per 2017	31 Decemb	ecember 2016	
in EUR	Carrying amount	Fair value	Carrying amount	Fair value	
Non-derivative financial assets at amortised	cost				
Non-current and current financial receivables (excluding derivatives)	139,169,101	139,169,101	145,113,561	145,113,561	
Non-current and current trade receivables	10,249,110	10,249,110	6,592,715	6,592,715	
Cash and cash equivalents	21,197,320	21,197,320	38,281,250	38,281,250	
Total non-derivative financial assets	170,615,531	170,615,531	189,987,526	189,987,526	
Non-derivative financial liabilities at amortis	ed cost				
Non-current and current financial liabilities (excluding derivatives)	-207,730,942	-207,730,942	-223,013,713	-223,013,713	
Non-current and current trade payables	-12,260,046	-12,260,046	-13,706,767	-13,706,767	
Total non-derivative financial liabilities	-219,990,988	-219,990,988	-236,720,480	-236,720,480	
Derivatives are disclosed at fair value					
Derivatives (assets)			526,172	526,172	
Derivatives (liabilities)	-980,947	-980,947	-1,160,804	-1,160,804	
Skupaj izvedeni finančni inštrumenti	-980,947	-980,947	-634,632	-634,632	

Presentation of financial assets and liabilities disclosed at fair value according to the hierarchy used to determine fair value:

Fair value of assets

31 December 2017 in EUR	1 st level	2 nd level	3 rd level	Total
Non-current financial receivables	_		113,446,859	113,446,859
Current financial receivables			25,722,242	25,722,242
Non-current operating receivables			3,940,398	3,940,398
Current operating receivables (excluding receivables from the government)			6,308,712	6,308,712
Cash and cash equivalents			21,197,320	21,197,320
Total assets for which fair value is disclosed			170,615,531	170,615,531
Total assets			170,615,531	170,615,531

31 December 2016 in EUR	1 st level	2 nd level	3 rd 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

Fair value of liabilities

31 December 2017 in EUR	1 st level	2 nd level	3 rd level	Total
Financial liabilities at fair value through profit or loss		_	980,947	980,947
Total liabilities measured at fair value			980,947	980,947
Non-current financial liabilities			109,672,206	109,672,206
Current financial liabilities (excluding liabilities measured at fair value)			98,058,736	98,058,736
Non-current operating liabilities (excluding other liabilities)			6,240,950	6,240,950
Current operating liabilities (excluding liabilities to the government and employees, and liabilities from advances)			6,019,096	6,019,096
Total liabilities for which fair value is disclosed			219,990,988	219,990,988
Total liabilities			220,971,935	220,971,935

31 December 2016 in EUR	1 st level	2 nd level	3 rd 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

AUDIT REPORT OF SLOVENSKE ŽELEZNICE, d. o. o. FOR 2017

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INDEPENDENT AUDITOR'S REPORT to the owners of SLOVENSKE ŽELEZNICE, d.o.o.

Opinion

We have audited the financial statements of the SLOVENSKE ŽELEZNICE, d.o.o. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2017, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the Supervisory Board report, which will be made available subsequently. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

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In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management, Supervisory board and Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Supervisory board and audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with the supervisory board and audit committee the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc

Certified Auditor

For signature please refer to the original Slovenian version.

Ljubljana, 21 May 2018



Ljubljena, Slovenije 3

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